



Tasmanian
Audit Office

Client Information Session 2019

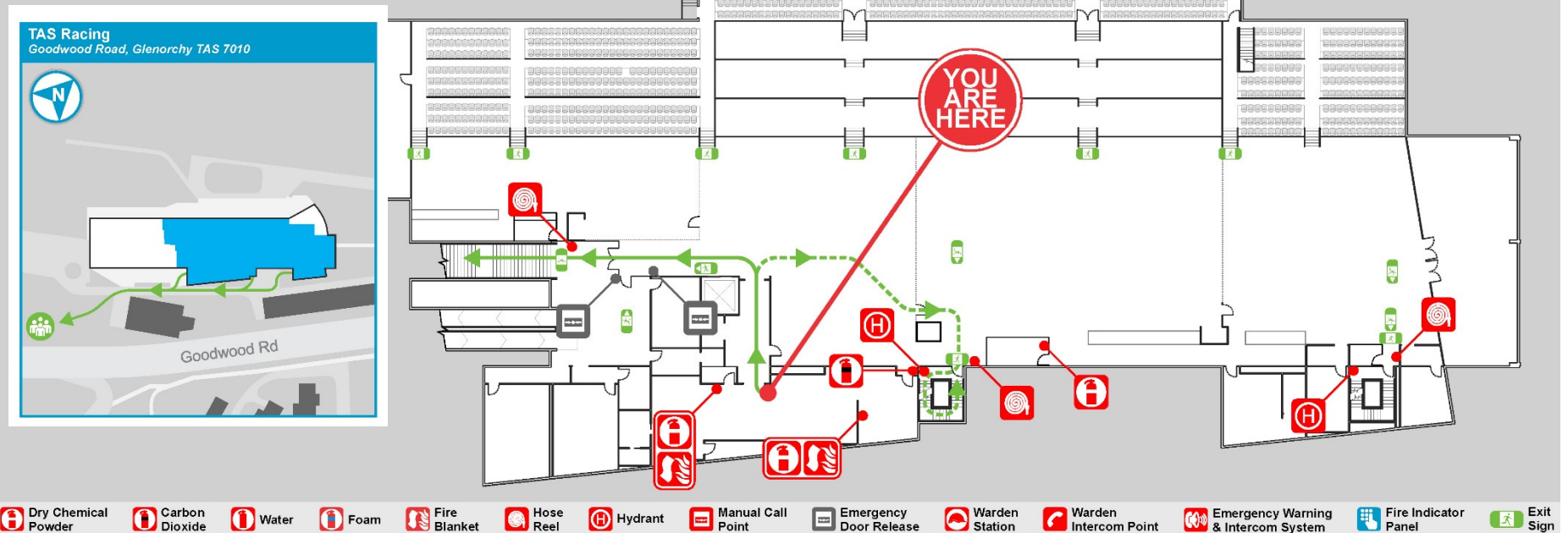
Welcome



Evacuation Procedure (South)

EVACUATION DIAGRAM - NOT TO SCALE

Elwick Racecourse (Grandstand) - Upper Level



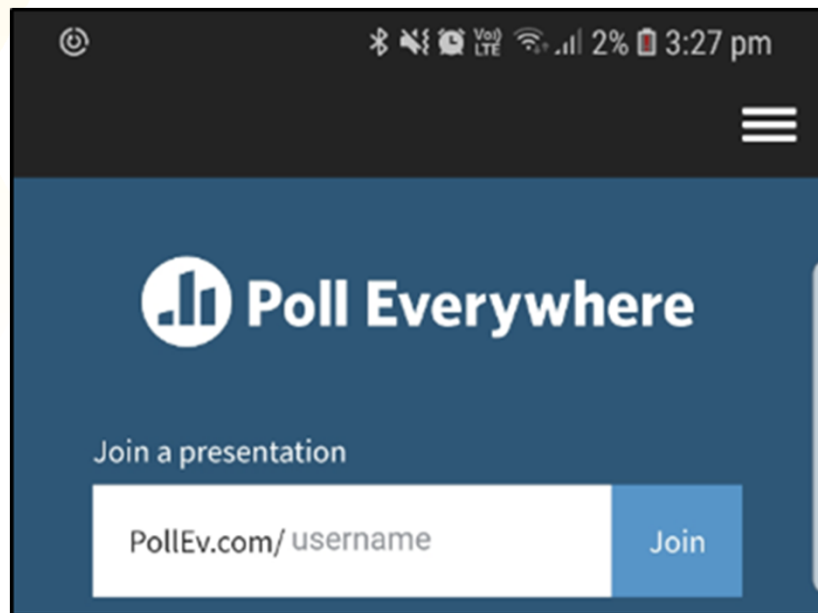
CSS Ref: CR - YAH - 13

Issue Date: 11/2016

Review Date: 11/2021

Overview (South)

Time	Presentation	Presenter
9.35 – 11.20	Accounting standards update	Jeff Tongs Amy Parker (TasNetworks) Jeff Tongs Megan Marion (TasWater) Stephen Morrison Adam Mucci (TasPorts)
11.20 – 11.50	Morning tea	
11.50 – 12.20	<i>Financial Management Act 2016</i>	Craig Jeffery (Department of Treasury and Finance)
12.20 – 12.40	Pilot Project - ED 01/18 Proposed Auditing Standard ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i>	Rod Whitehead
12.40 – 1.00	Audit update	Ric De Santi
1.00 – 1.25	Recent performance audits	Simon Andrews Janine McGuinness
1.25 – 1.30	Close	Rod Whitehead



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Accounting Standards Update

Hobart
May 2019

Jeff Tongs

Accounting Standards Update Agenda

- Are you ready for:

Australian Accounting Standard	Effective Date – Year beginning on or after	30 June Year-end
AASB 9 <i>Financial Instruments</i>	1 January 2018	30 June 2019
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*
AASB 1058 <i>Income of NFP Entities</i>	1 January 2019	30 June 2020
AASB 16 <i>Leases</i>	1 January 2019	30 June 2020



AASB 9 - *Financial Instruments*

- Applicable now
- Application is retrospective (comparatives required)
- Replaces AASB 139 *Financial Instruments: Recognition and Measurement*
- Associated amendments to AASB 7: *Financial Instruments: Disclosures*
- *Brings together classification, measurement, impairment and hedge accounting*
- *Moves from an “instrument” to a “principles” based approach*



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.

Recognition of Financial Assets

- Recognise when entity becomes party to the contractual provisions.
- De-recognise when contractual rights to cash flows expire or transfer.



Initial Measurement

- A financial asset (or liability) shall be measured at its fair value plus or minus transaction costs directly attributable
- If FV differs from transaction price:
 - Quoted price in an active market or a valuation technique that uses only observable market data
 - In all other cases defer the difference



Contractual cash flow characteristics (step 1)

- Financial assets with contractual cash flows that are **solely payments of principal and interest (SPPI)** are measured at amortised cost or FVOCI depending on the business model in which the asset is held.
- **Principal** = amount transferred by holder
(fair value at initial recognition)
- **Interest** is consideration or return on principal consistent with lending arrangements for:
 - time value of money and credit risk;
 - other lending risks (for example, liquidity risk);
 - other associated costs (for example, admin costs); and
 - a profit margin

AASB 9 – Financial Assets

The Business Model (step 2)

Classification Key Criteria:

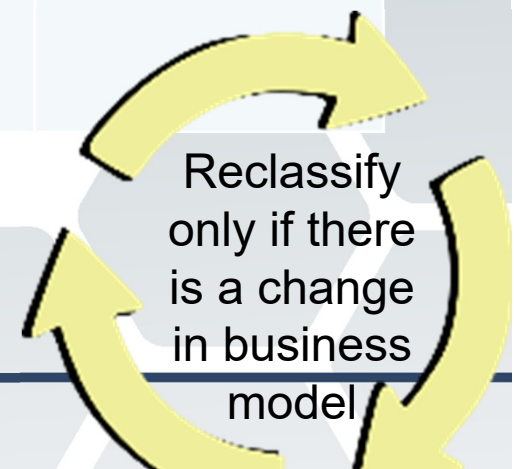
- a. The entity's business model for managing the financial assets and
- b. How does the entity intend to obtain the benefit from the financial asset
 - 1. Hold to collect cash flows? or
 - 2. Collect cash flows and sale ?



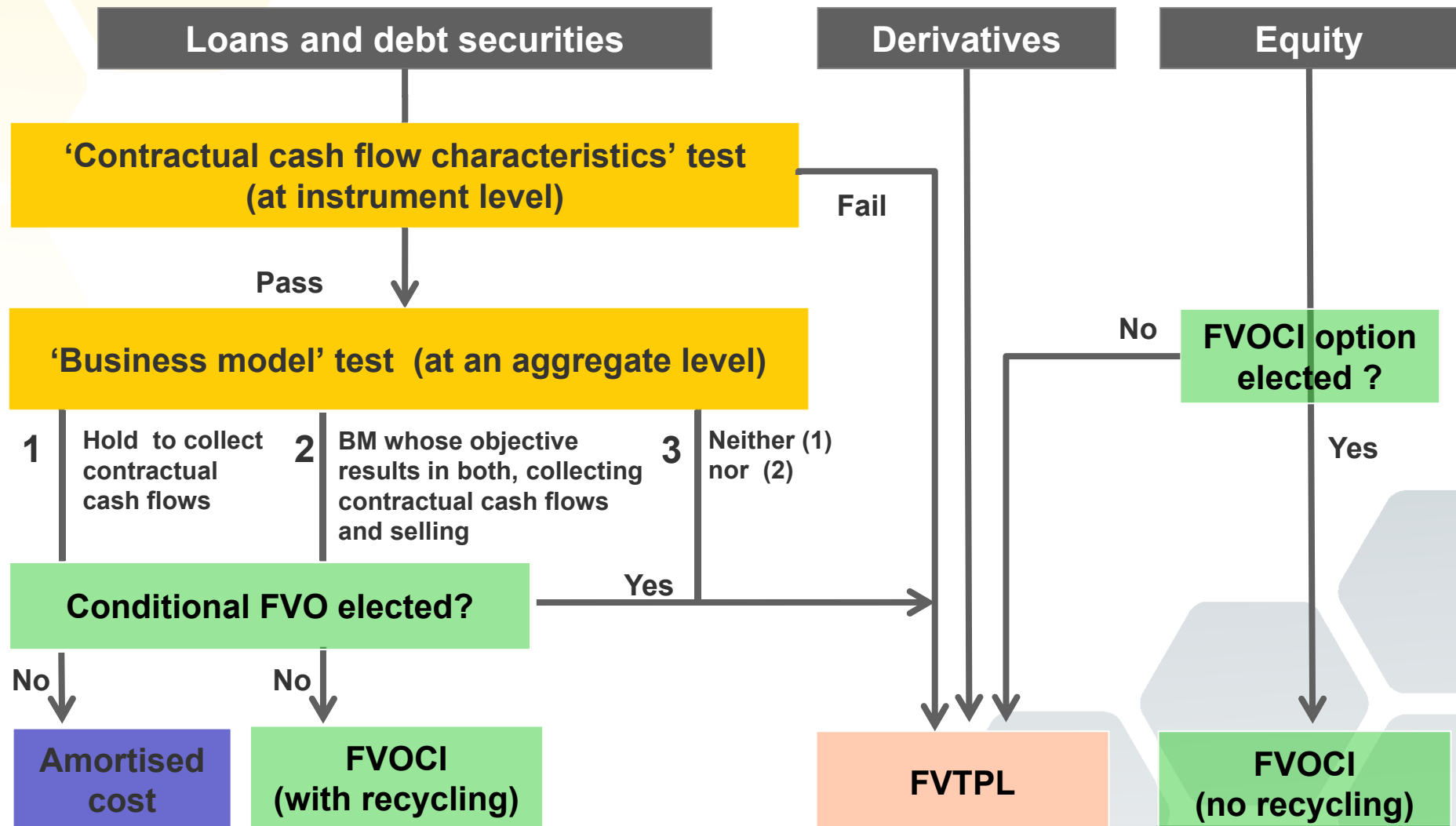
Types of Asset Business Models

An entity's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

Business Models	Key features	Measure at
Held-to-collect	<ul style="list-style-type: none">Entity holds assets to collect contractual cash flowsSales are incidental to the objective (e.g. Trade Receivables, loans..)	Amortised cost
Held both to collect and for sale	<ul style="list-style-type: none">Both collecting contractual cash flows and sales are integral to achieving the objective of the business model (e.g. Debt instruments)	FVOCI
Others	<ul style="list-style-type: none">Assets are neither held-to-collect nor held to collect and for sale (e.g. Shares held for trading)	FVTPL



Criteria for classification and measurement



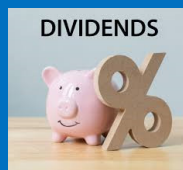
Subsequent measurement of *investments in equity instruments at Fair value through OCI*

Statement
of financial
position

Fair Value

Profit or
loss

Dividends



Other
Comprehensive
Income

Changes in fair value
and foreign exchange
component

Amounts
accumulated never
reclassified to P&L

Classification & Measurement – Debt Instrument Illustrative Example

An entity purchases a 5 year corporate bond with a fixed interest rate of 3%. The bond was purchased with funds set aside to finance the construction of a new road in 5 years. It intends to hold the instrument to maturity and collect on the cash flows.

The instrument was previously held as part of a held to maturity portfolio.

1. SPPI Test: 
2. Business Model: *Hold to Collect*

AASB 9 Classification = Amortised Cost



Classification & Measurement – Debt Instrument Illustrative Example

An entity purchases a 5 year corporate bond, with a variable interest rate based on market rates as part of a social fund. The entity intends to hold the instrument to maturity and collect on the cash flows, but may sell as part of periodic rebalancing of the portfolio to better match the estimated timing and amount of future social fund payments.

The instrument was previously classified as AFS.

1. SPPI Test: 

2. Business Model: *Hold to Collect and Sell*

AASB 9 Classification = FVOCI (Debt)



AASB 9 – Financial Liabilities

- All financial liabilities to be measured at amortised cost using the effective interest method

except for:

- Financial liabilities at fair value through profit of loss
 - Held for trading
 - designated

Only change for financial liabilities designated at FVTP&L

- fair value changes attributable to the entity's own credit risk are presented in OCI (unless mismatch)

AASB 9 - Impairment



At each reporting date assess:

- Whether credit risk has increased significantly since initial recognition
- Must consider reasonable and supportable information that is available without undue cost or effort.
- When information not available, entity may use past due information.
- Rebuttable presumption
 - There is a rebuttable presumption that credit risk has increased significantly if 30 days past due.

AASB 9 – Impairment

General rule

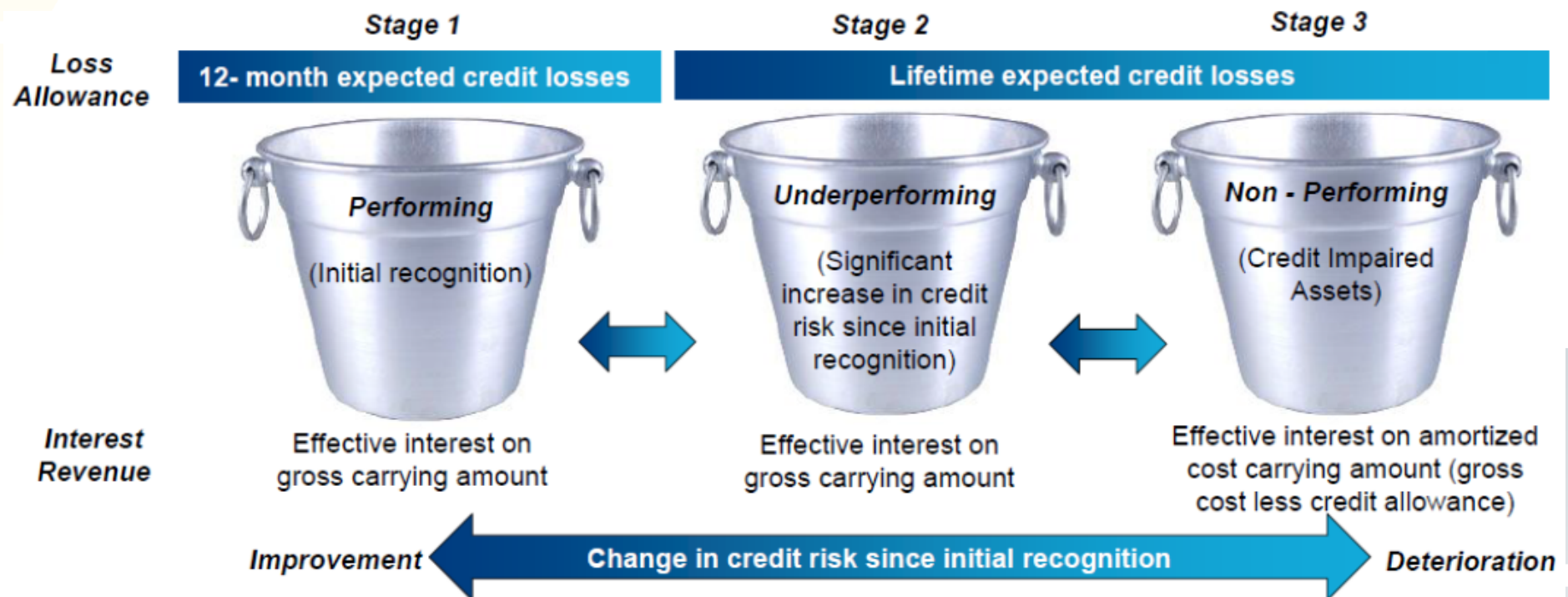


An entity shall recognise a **Loss Allowance** for **Expected Credit losses** on:

- Financial Assets at amortised cost
- Financial assets at FVOCI (meeting both the contractual CF test and business model test)
- Leases receivable
- Contract assets
- Loan commitments
- Financial guarantee contracts

} Debt securities,
Receivables,
Loans

Summary of Expected Credit Loss Model (General Approach)



AASB 9 – Simplified Impairment



- Simplified approach available for:
 - Trade receivables and contract assets that result from transactions within scope of AASB 15 *Revenue from Contracts with Customers*, and
 - Lease receivables within scope of AASB 117 *Leases*.
- Entity to measure expected credit loss allowance at an amount equal to lifetime expected credit losses
- Practical expedient – can use provision matrix to estimate expected lifetime expected credit losses

AASB 9 – Simplified Impairment



Example provision matrix:

	Current	1–30 days past due	31–60 days past due	61–90 days past due	More than 90 days past due
Historic default rate	0.2%	1.3%	3.0%	5.7%	9.6%
Forward-looking estimate	0.1%	0.3%	0.6%	0.9%	1.0%
Total default rate	0.3%	1.6%	3.6%	6.6%	10.6%

Historical &
Forward -
looking

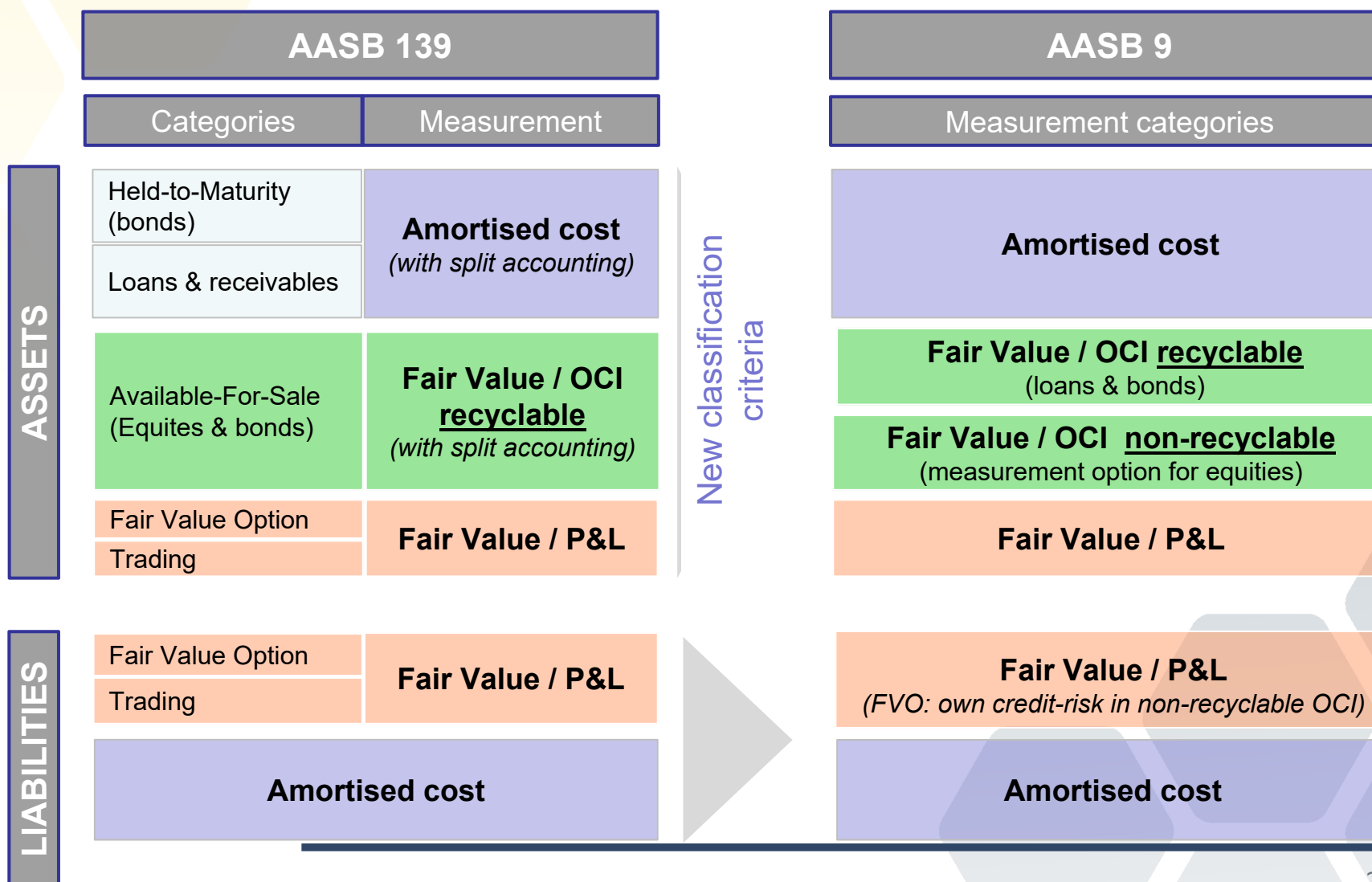
	Trade receivables A	Expected credit loss B	Impairment allowance AxB
Current	15,000	0.3%	45
1–30 days past due	7,500	1.6%	120
31–60 days past due	4,000	3.6%	144
61–90 days past due	2,500	6.6%	165
More than 90 days past due	1,000	10.6%	106
	30,000		580

AASB 9 – Write-offs

- Directly reduce carrying amount where no reasonable expectation of recovering a financial asset (entirety or proportion).
- There is a rebuttable presumption that entities should not set a default greater than 90 days without reasonable and supportable evidence for the alternative.



Classification & measurement: overview



AASB 9 – Transition

- Full retrospective classification – restatement of comparative periods
 - Not applied to items already de-recognised at the date of initial application
 - Must reclassify all financial instruments (retrospective)
 - Must revoke previous designations that don't meet designation provisions for AASB 9
 - May designate if meet provisions of AASB 9
- Pragmatic - comparatives not required to be restated (reconciliation required)

New disclosure requirements

- Ongoing
 - Classification and measurement policies (incl' Bus Model)
 - Impairment (Policies, quantitative info' on loss calc's and a reconciliation of the loss allowance)
 - Hedging (policies and narrative and quantitative info' about strategies, objectives, instruments, reserves and ineffectiveness)
- On adoption
 - Narrations (explaining choices, designations, reasons and how classifications applied for each instrument)
 - Reconciliations of quantitative information in a tabular form

Reconciliation of financial instruments on adoption of AASB 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were reclassified as follows:

	Notes	Measurement Category		Carrying Amount		
		Original AASB 139 category	New AASB 9 category	Closing balance 31 December 2017 (AASB 139)	Adoption of AASB 9	Opening balance 1 January 2018 (AASB 9)
		\$'000	\$'000	\$'000	\$'000	\$'000
Assets						
Current financial assets						
Trade and other receivables	12	Amortised cost	Amortised cost	23,441	(22)	23,419
Derivative instruments (not used for hedge accounting)	13.7	FVPL	FVPL	212	-	212
Derivatives - Hedge accounting applied	13.7	Fair value with effective movements included in cash flow hedge reserve	Fair value with effective movements included in cash flow hedge reserve	230	-	230

AASB 7.42I (a),(b)
AASB 108.8.28(f)

Reconciliation of the statement of financial position balances from AASB 139 to AASB 9 at 1 January 2018:

	AASB 139 carrying amount 2017 \$'000	Re- classification \$'000	Re- measurement \$'000	AASB 9 carrying amount 2018 \$'000
Held to maturity				
Closing balance 31 December 2017	1,189			
To amortised cost		(1,189)		
Opening balance 1 January 2018 - AASB 9	1,189	(1,189)	-	-
Amortised cost				
Closing balance 31 December 2017 - AASB 139	34,638			
From Available for sale (AFS) - government bonds		1,189		
Impairment - receivables			(22)	
Impairment - government bond			(30)	
Opening balance 1 January 2018 - AASB 9	34,638	1,189	(52)	35,775

Reconciliation of equity for the impact of AASB 9 at 1 January 2018:

Impacted area	AFS financial assets reserve	FVOCI reserve	Retained earnings
	\$'000	\$'000	\$'000
Closing balance 31 December 2017 - AASB 139	(22)	-	37,282
Reclassify listed equities from AFS to FVPL	22	-	(22)
Remeasurement - unlisted equities XY Ltd	-	-	27
Impairment - receivables	-	-	(22)
Impairment - government bonds	-	-	(30)
Opening balance 1 January 2018 - AASB 9	-	-	37,235



Policies for current year and comparative

E.g. Receivables recognition and Impairment...



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Recognition and Measurement

All 'regular way' purchases or sales of financial asset are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Receivables are initially recognised at fair value plus any directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price.

Subsequent measurement under AASB 9 (from 1 July 2018)

The entity holds receivables with the objective to collect the contractual cash flows and therefore measures them at amortised cost using the effective interest method, less any impairment. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

Subsequent measurement under AASB 139 (for comparative period ended 30 June 2018)

Subsequent measurement is at amortised cost using the effective interest method, less any impairment. Changes are recognised in the net result for the year when impaired, derecognised or through the amortisation process.

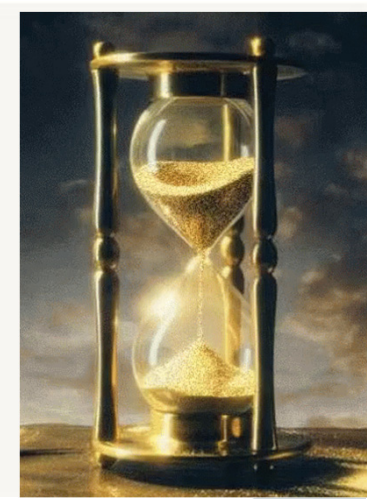
Impairment under AASB 9 (from 1 July 2018)

The entity recognises an allowance for expected credit losses (ECLs) for all debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows and the cash flows that the entity expects to receive, discounted at the original effective interest rate.

For trade receivables, the entity applies a simplified approach in calculating ECLs. The entity recognises a loss allowance based on lifetime ECLs at each reporting date. The entity has established a provision matrix based on its historical credit loss experience for trade receivables, adjusted for forward-looking factors specific to the receivable.

Impairment under AASB 139 (for comparative period ended 30 June 2018)

Receivables are subject to an annual review for impairment. These are considered to be impaired when there is objective evidence that, as a result of



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Guidelines for Tasmanian Government Businesses
**Director and Executive
 Remuneration**

Created: April 2019
 Revised: July 2018

Revised: May 2019

Disclosure Update

Template updated by Advisory Panel

2019 Executive Remuneration

Name	Position	Period	Base Salary ¹ \$'000	Short-Term Incentive Payments ² \$'000	Superannuation ³ \$'000	Vehicles ⁴ \$'000	Other Monetary Benefits ⁵ \$'000	Other Non-Monetary Benefits ⁶ \$'000	Total Remuneration Package ⁹ \$'000	Termination Benefits ⁷ \$'000	Other Long- Term Benefits ⁸ \$'000	Total \$'000
Mr J Napier	Chief Executive Officer	Full year	270	25	44	25	2	2	368	0	5	373
Mr O C Cobblepot	General Manager Safety	Full year	130	0	20	8	0	1	159	0	14	173
Prof. J Crane	General Manager Research	Full year	175	12	28	6	0	0	221	0	1	222
Mr H Dent	Director Project Delivery	Full year	165	0	25	16	0	0	206	0	(14)	192
Mr V Fries	General Manager Cold Storage	To 28/2/2019	145	0	34	5	0	0	184	81	(55)	210
Dr. P Isley	Director - Distribution	Full year	145	12	24	12	2	0	195	0	(11)	184

- “Other Non-Monetary Benefits” now part of “Total Remuneration Package”
- Only termination benefits & leave movements outside “Total Remuneration”
- Definition Updates - “Other Monetary Benefits” & “Other Non-Monetary Benefits”
- Applies this year
- Revised template available on TAO Website
- Comparatives to be presented into new layout.
 (\$ remain unchanged)

TasNetworks

AASB 15 Revenue from Contracts with Customers -

Amy Parker
Leader Finance
May 2019

Agenda

- AASB 15 Recap
- How we planned for new standards?
- What work we performed?
- Use of any experts?
- What issues/problems/barriers we identified?
- Key impacts - transitional elections
- Concessional/ Transitional Arrangements



AASB 15 Recap

Core Principle

The recognition of revenue for goods or services reflects the consideration to which they expect to be entitled, in return for meeting performance obligations.

Stipulates how and when revenue is recorded and will provide users of financial statements with more information and disclosures.

Replaces previous revenue standards

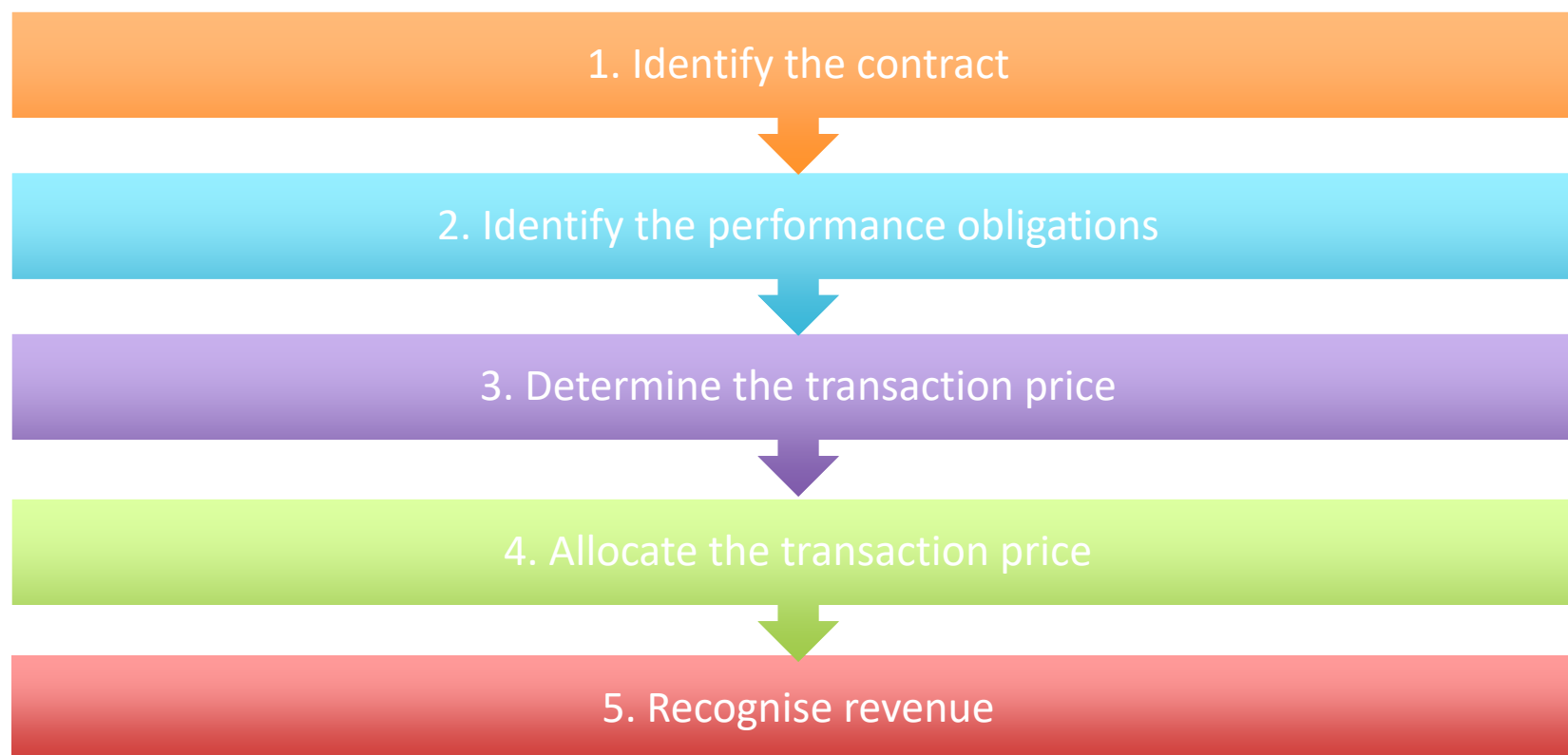
Effective Date:

Applies to annual reporting periods beginning on or after 1 January 2018 (For Profit). For TasNetworks this is 30 June 2019

Applies a 5 step approach to revenue recognition which may change the value and timing of revenue recognition

AASB 15 Recap

Applies a 5 step approach to revenue recognition focus on the performance obligation

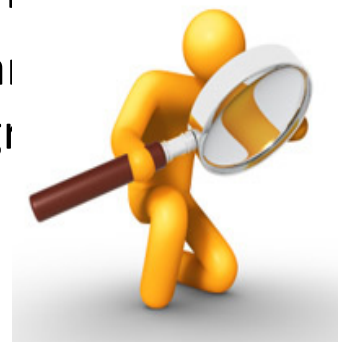


How did TasNetworks plan for the standard?

- Commenced planning early for introduction - Mid 2016
- Managed change like a small project – developed a project and change plan and allocated a Finance SME to the project
- Identified key stakeholders and engagement strategy
- Engaged with our external advisor to QA our conclusions and provide expert advice
- Early Analysis included:
 - Identification of types of revenue and which revenue streams would be impacted by the changes and degree of impacts (high, medium, low)
 - Identification of who were the key contract owners were in the Business
 - Identification of what/whether customers will be impacted.
 - Increasing our understanding of our customers and what we truly do for them.
- Understood that this was not just a finance change and impacted the broader business (people, process, data and systems)

Assessing and preparing for impact

- Review of our contracts and agreements
- Early engagement with Key Stakeholders and Contract owners
- Engaged with our advisors (Deloitte) primarily to build internal expertise and QA our findings
- Several workshops conducted with Deloitte, Business contract owners and Finance team to flesh out key issues and review contracts. Worked through examples to increase understanding
- Preparation of accounting position papers for each revenue type. These conclusions were QA'd by Deloitte
- Calculating inherent financing component of long term agreement
- Regular communication and updates to our Audit and Compliance Committee and Auditors on likely impact of standard and progress of our assessment



The key implementation issues

The Nature of our business is complex

Many different revenue sources (products and services offered)

- Regulated electricity services
- Unregulated non electricity services (42:24 new business)
- Other unregulated services - windfarms, private works, sundry income

Many different customers/customer needs and performance obligations within contracts

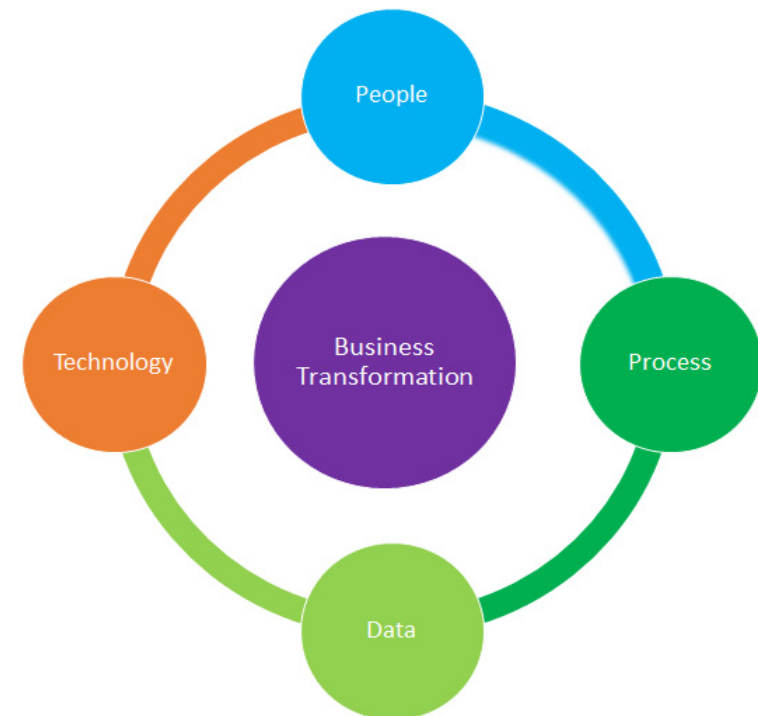
- Long term agreements (30+ years)
 - Short term agreements
 - Once off works, up front payments
 - Bundles - single v multiple performance obligations
 - point in time v over time
 - Regulated services- right to invoice/ implied obligations to customer
- Significant amount of Judgement required in making assessments

What changes were required

AASB 15 was not just a financial reporting issue, had broader impacts across the business.

We also needed to consider:

- Timing of revenue recognition and implications
- Impact on our financial projections and Budgets/KPI's – timing of revenue recognition
- Assess impact on tax calculations and deferred taxes
- Review for System, Data capture and Process/Policy changes across Business
- Business Education and Communication
- Ensure AASB15 is adequately considered a part of any new contracts





What were the Key impacts to TasNetworks?

Balance Sheet Impact on transition was a \$6.9m reduction to retained earnings and corresponding increase to income in advance (Liability)

Revenue Source	Impact on transition	
Regulated –Use of System Network Charges	Nil	
Customer Contributions (up front contribution for capital construction)	\$4.2M	Deferral of revenue recognition
Direct Transmission Connections (up front payments) long term contracts	\$2.7M	Notional interest
Other Income	Nil	
Total Impact	\$6.9M	

- Profit and loss impact of future years should not be minimal
- Need to review dividend treatment to ensure dividend is not paid twice on revenue deferred on transition (recognised previously)
- Going forward revenue will be recognised in accordance with performance obligations of the contract with the customer.

Concessional Transitional arrangements

- TasNetworks has chosen to apply the cumulative effect approach
- The modified approach to transmission means that we will not restate comparatives applying AASB15.
- Currently reviewing disclosures for 30 June 2019 year end

Any Questions?





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AASB 15 – Revenue

AASB 1058 – Revenue for Not-for-Profit

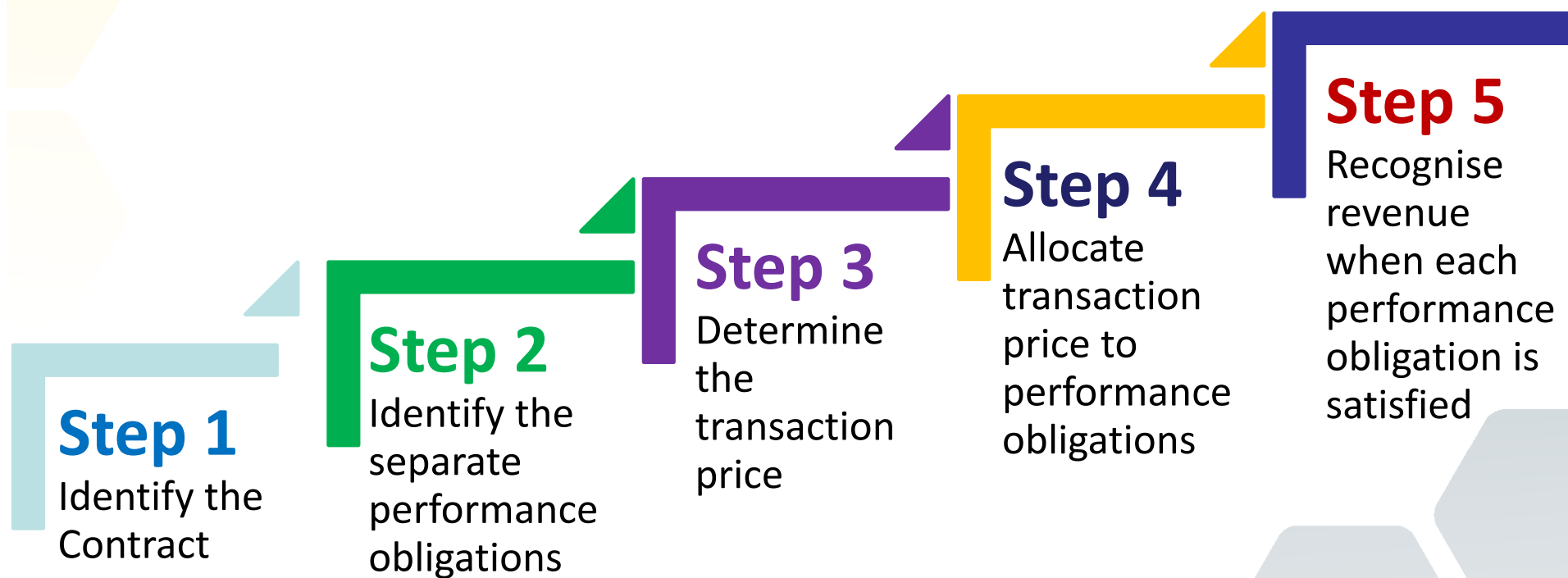
Jeff Tongs
Assistant Auditor-General Quality & Standards



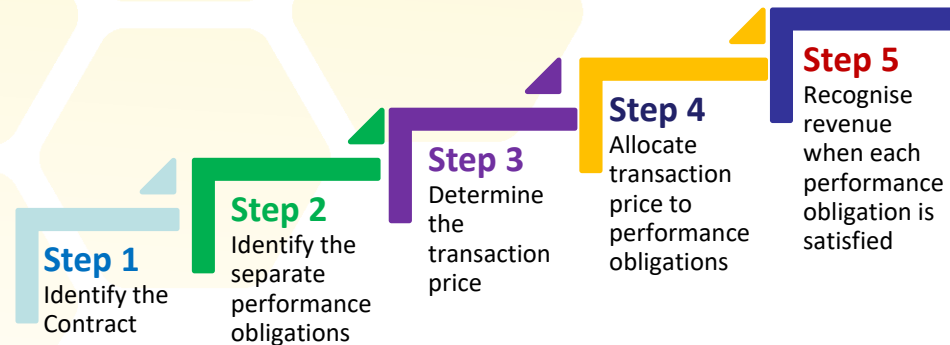
Core Principle:

Recognise revenue to
depict the transfer of promised goods or services
to customers in an amount that
reflects the consideration
to which the entity expects to be entitled
in exchange for those goods or services.

The 5 Revenue Steps



The 5 Revenue Steps



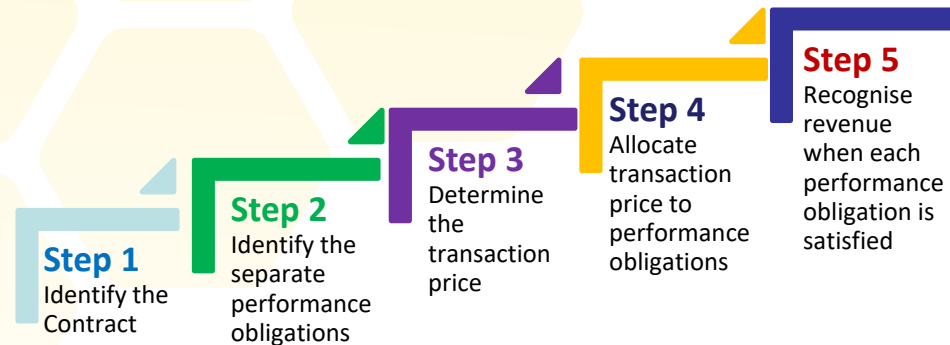
1. Identify the contract(s) with a customer

- Package with a single commercial objective
- Including contract modifications
- Principal vs. agent

2. Identify the performance obligations in the contract(s)

- What are you promising to deliver?
 - Distinct goods or services, or distinct bundle
- *Unit of account* determines when revenue is recognised

The 5 Revenue Steps



3. Determine the transaction price

- Variable consideration—bonuses, penalties, discounts, concessions
- Constraint—highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur'

4. Allocate the transaction price to the performance obligations

- Dealing with *bundles*

5. Recognise revenue as each performance obligation the is satisfied

- Over time (e.g. construction services) , or
 - Measuring progress
- At a point in time (e.g. sale of goods)

Revenue and Income Sources

- Appropriations
- Grants – Recurrent
- Grants – Special purpose
- Grants – Capital
- Fees
- Levies
- User charges
- Fees for service
- Sale of goods
- Licences
 - Right of Use
 - Right of access
- Royalties
- Performance management fees
- Contributed services
- Capital contributions / contributed assets
- Sponsorship
- Taxes
- Interest
- Dividends

Step 1

Identify the Contract

Step 2

Identify the separate performance obligations

Step 3

Determine the transaction price

Step 4

Allocate transaction price to performance obligations

Step 5

Recognise revenue when each performance obligation is satisfied



Allocation based on a stand-alone selling price

- An entity has a contract to sell equipment, provide training and operate a helpdesk.
- Each of these has been assessed to be separate performance obligations.
- The total transaction price is \$1,200,000.

The stand-alone selling price for each distinct good or service is:

Equipment	\$750,000	50%
Training	\$150,000	10%
Helpdesk	\$600,000	40%
Total of stand-alone prices	\$1,500,000	

Allocation based on a stand-alone selling price



- The total transaction price is allocated to each service performance obligation as follows:

Equipment	Point in time	600,000	1,200,000 x 50%
Training	Over time	120,000	1,200,000 x 10%
Helpdesk		480,000	1,200,000 x 40%
Total transaction price		\$1,200,000	

AASB 15 – Transition is Retrospective

Two approaches allowed:

1. Fully Retrospectively application, *with some relief*
 - Need not restate completed contracts that begin and end within the same period
 - Hindsight allowed for variable consideration of completed contracts
 - Prior to application, need not disclose information on remaining performance obligations in comparatives.
2. Retrospectively with cumulative effect at date of initial application:
 - Apply the Standard to all existing contracts as of effective date and to contracts entered into subsequently
 - Recognise the cumulative effect as an adjustment to the opening balance of retained earnings



AASB 15 – Disclosures

- Key qualitative and quantitative disclosures:
 - Contract balances
 - Disaggregation of revenue
 - Costs to obtain or fulfil contracts
 - Remaining performance obligations
 - Significant judgements and changes in judgements



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 – Key Areas



1. Assets received below fair value
2. Transfers received to acquire or construct non-financial assets
3. Grants
4. Non-contractual statutory income
5. Peppercorn leases
6. Volunteer services

Consideration for asset
significantly less than fair value
+ furthers NFP objectives



AASB 1058 – Grants

Example:

A NFP receives a Gov't grant of \$2.4m on 31 May 20X8, which is refundable if the money is not spent in the period 1 July 20X8 to 30 June 20X9.

- It's charter is to provide counselling to victims of violence and emergency accommodation to the homeless; and
- It has an agreement that specifies the grant must be spent providing crisis counselling services for a given number of hours per week for the entire year ending 30 June 20X9. The entity expects to fulfil its promise.

AASB 1058 – Grants



Example - journal entries:

Initial recognition - 31 May X8

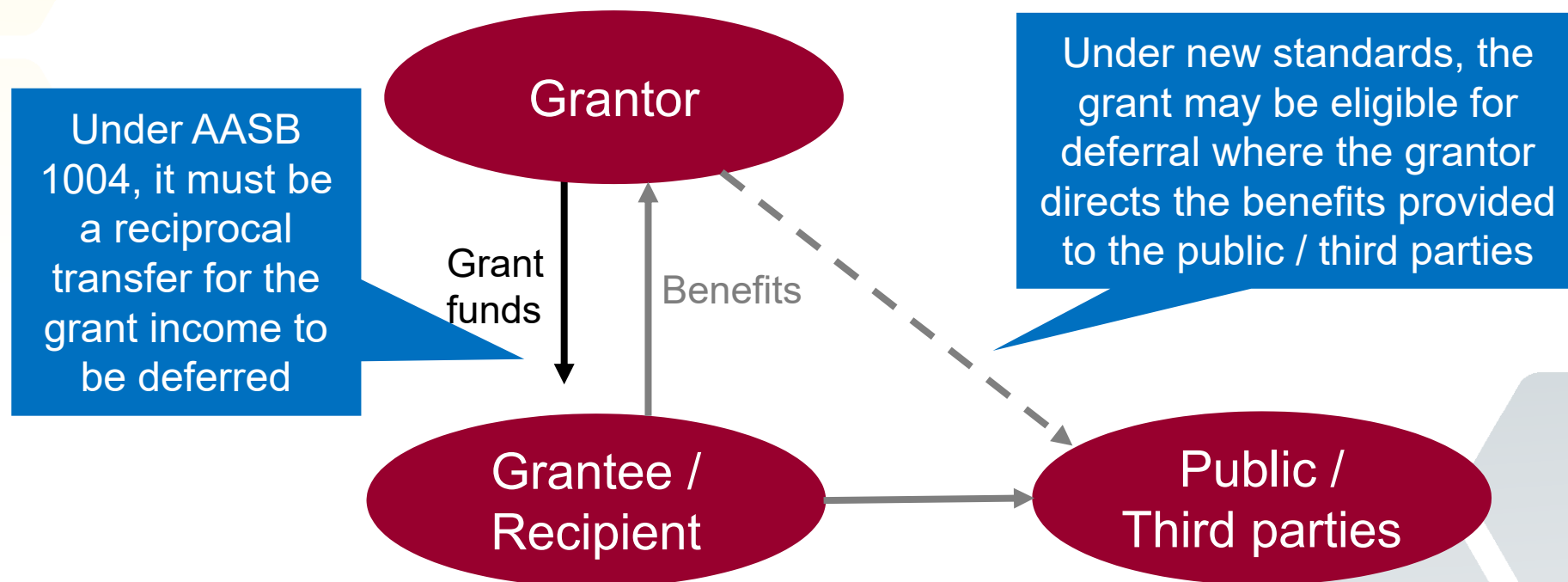
	Debit	Credit
Cash	2,400,000	
Contract Liability		2,400,000

Year 2 – 20X9

Contract Liability	2,400,000	
Expenses	2,400,000	
Cash		2,400,000
Income		2,400,000



Revenue Recognition Changes Accounting for Grant Income



AASB 1058 – Non-contractual Income arising from Statutory Requirements

- Disclose statutory income (rates, taxes & fines)
- Disaggregated into categories that reflect how the nature and amount of income are affected by economic factors
- Statutory receivables initial recognition to be part of AASB 9 (*AASB 2016-8*)
- Can be a receivable or a liability
- Example:
 - prepaid taxes or rates for which the *taxable event* has yet to occur



TAX INVOICE Rates & Valuation Notice
2018/2019

Rates and Charges for the 12 month period
1 July 2018 to 30 June 2019

Telephone enquiries to Council's Services Centre 8:30 am – 5:00 pm
Telephone 8290 1333 Monday – Friday

Payment Options
1. Total Amount Payable
\$1,034.55
By 31 March 2019

OR
2. Instalment Amount Payable
\$257.55
By 30 September 2018

Date of Notice/ Service 30 July 2018
Property 50000
Ward NORTH

AASB 1058 – Peppercorn Leases

- Where a NFP lessee has a lease that at inception had significantly below-market terms and conditions principally to enable the entity to further its objectives, the NFP entity shall :
 - Measure the right-of-use asset at fair value
 - Measure the lease liability at the present value of lease payments not paid at that date
 - Recognise any related items in accordance with AASB 1058 (i.e. the difference)

AASB 1058 – Peppercorn Leases

Example:

- An entity built on land leased to it for \$20pa for 99 years
- Present value of remaining lease payments is \$200
- Fair value of the right of use land is \$1m
- The entity had not previously recognised the right-of-use asset for land or a lease liability.

AASB 1058 – Peppercorn Leases

Example:

- The entity is reporting for the period ending 30 June 2020.

Treatment on transition:

<i>Journal entry 1 July 2019</i>	Debit	Credit
Right-of-use asset - land	1,000,000	
Lease Liability		200
Opening retained earnings		999,800

Amending Standard AASB 2018 – 8: *Right-of-use Assets of Not-for-Profit Entities*

- Temporary option not to measure ROU assets arising from leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives

NFPs lessees to elect:

- FV per *AASB 13 Fair Value Measurement*; **or**
- Cost in accordance with AASB 16
- option applies **both** on transition and new leases



[illegible]

- the entity's dependence on leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives; and
- the nature and terms of the leases, including:
 - the lease payments;
 - the lease term;
 - a description of the underlying assets; and
 - restrictions on the use of the underlying assets specific to the entity.

AASB 1058 – Volunteer Services

- Local governments, government departments, general government sectors and whole of governments must recognise an inflow of resources where:
 - they would have been purchased if they had not been donated; and
 - the fair value of those services can be measured reliably.
- Any other NFP can elect
- Disclosure of additional qualitative information is encouraged



Taswater AASB 16 Lease Standard Update

TAO Client Seminar

09 May 2019



TasWater approach to AASB 16

- How TasWater went about planning for the new accounting standard
- Work we have done in assessing and preparing for the impacts
- Issues and Barriers identified during the process
- System changes required
- Other key impacts
- Concessional transitional arrangements and adoption method
- Next steps

How TasWater went about planning for the new accounting standard

- Review commenced in May 2018
 - Commence review of lease register
 - Accounting standard update paper presented to the Audit and Risk Committee in May 2018
- Reading of material from leading accounting organisations to assist in practical application.
- Finance working group established to further review lease register against requirements of AASB 16.

Work undertaken in the assessment and preparation of AASB 16

Work undertaken to prepare for AASB 16

- Established a working group
- Engaged professional advise
- Clarified our understanding on the requirements under AASB 16, examples of this include:
 - Clarification of the meaning of an underlying asset of low value
 - Discussed the treatment of verbal contracts
 - Level of professional judgment required when determining the lease term.
- Entering the relevant leases into a workbook to calculate the expected impact on the Balance Sheet and Profit and Loss Statement.

Issues and Barriers identified during the process

Issues/Barriers encountered

- Treatment of verbal monthly agreements.
- Not all relevant information was available to Finance in a summary format, extensive review was required of lease documentation.

System changes required

- Working with Procurement and Legal Services to identify and forward contracts with potential leases for review by Finance Team
- Creation of a workbook to record the assessment of all contracts with potential lease components.
- Modifying a workbook to calculate the Right of Use asset, lease liability and corresponding depreciation and interest expense for each lease.
- No changes are currently proposed to our Finance ERP system.

Other key impacts

Key impacts

- Changes how we classify or lease payments in our cash flow statement from operating (lease payments expensed in general ledger) to split between operating and investing.

Concessional transitional arrangements and adoption method

Concessional transitional arrangements

- We will be applying the recognition exemption for short-term leases and leases of a low-value items.

Adoption method

- TasWater will apply the modified retrospective (simplified) approach #1. Under this approach the right-of-use asset is recognised at the date of initial application (1 July 2019) at an amount equal to the lease liability, using the entity's current incremental borrowing rate.
- Comparative figures are not restated.
- No impact on equity at the 1 July 2019

Next steps

Where to from here

- Update the expected impact of AASB 16 to the Audit and Risk Committee in May 2019.
- Continue to work through practical implementation on how the transactions will be recorded.
- Create guidelines and assumption documentation.



Tasmanian
Audit Office

AASB 16 Leases

Stephen Morrison
Assistant Auditor-General Financial Audit

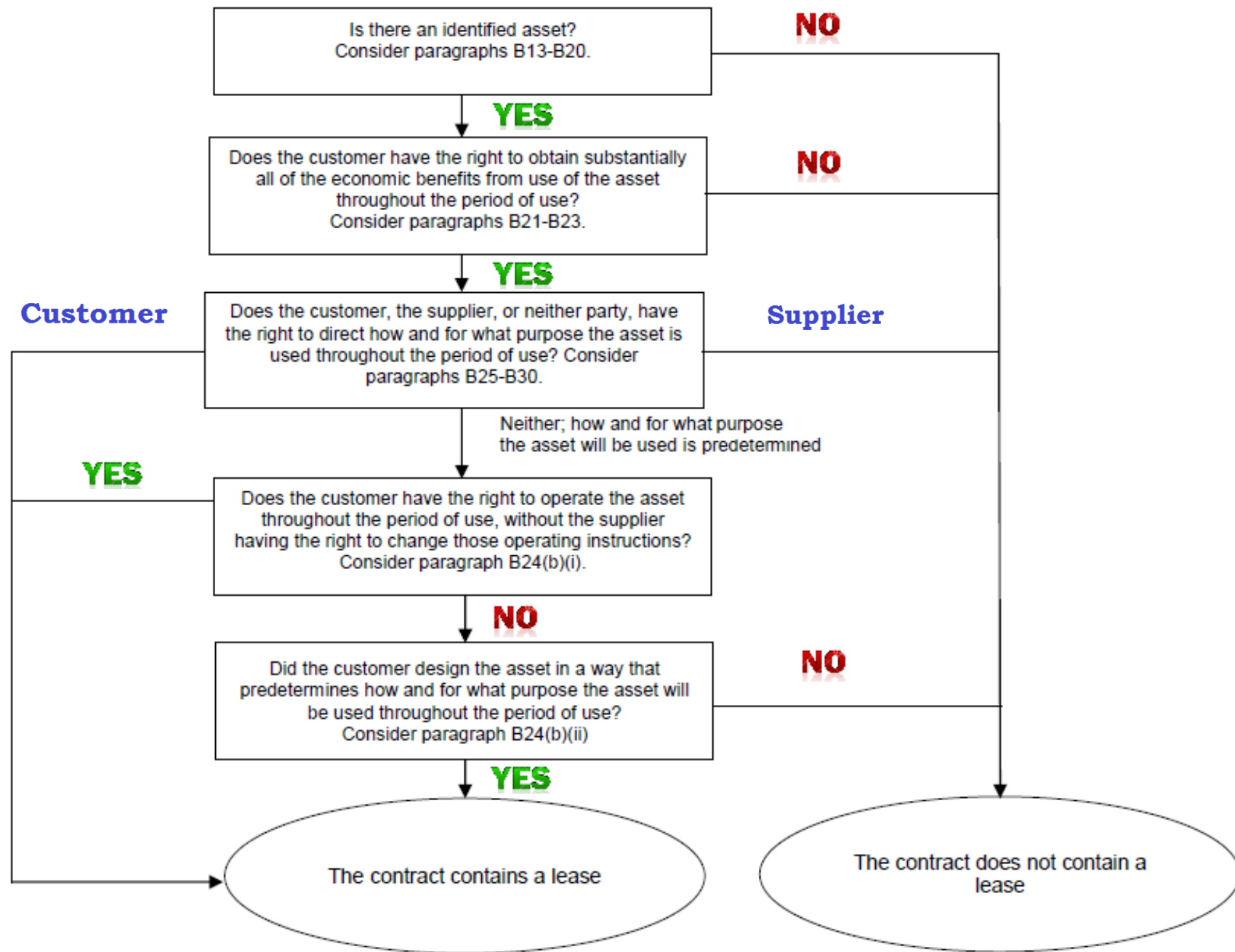


Definition

A Lease - is a 'contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'

All contracts create rights and obligations





Exclusions

Not required to be included
in lease liabilities

- Leases of low-value assets (approx. \$10,000)
- Short-term assets (<12 months)

Excluded from
lease liabilities

- Variable lease payments
- Optional payments (not reasonably certain)

- Disclosure requirements apply (p53)

Presentation Impacts

Statement of Financial Position

- | | | |
|--|------------|--|
| <ul style="list-style-type: none">• Right-of-use asset• Lease liability | Either by: | <ul style="list-style-type: none">➤ Separate line items, or➤ In the relevant Notes and link |
|--|------------|--|

Income Statement

- Interest expense on the lease liability
- Depreciation charge on right-of-use assets

Statement of Cash Flows

- | | |
|---|---|
| <ul style="list-style-type: none">• Cash payment on the principal | ➤ Financing Activity |
| <ul style="list-style-type: none">• Short-term, low-value and variable lease payments not included in liability measurement | ➤ Operating Activity |
| <ul style="list-style-type: none">• Interest portion | ➤ Apply AASB 107 <i>St' of Cash Flows</i> |

Recognition – Lease Liability

- Initial recognition at commencement date:

Present value of:

the lease payments not paid

+

Residual value guarantees

-

Lease incentives receivable

+

Exercisable Options (reasonably certain)

Recognition – Right to Use Asset

- Initial recognition:

Lease liability as calculated previously

+

Lease payments made before commencement date

-

Lease incentives received

+

Initial direct costs of Lessee

+

PV Cost of removal and make-good at end of the lease



Example 1 - Recognition

- Information available
 - Office accommodation – Commencing 1 July 2020
 - Term 5 years with a 5 year option expected to be exercised
 - Rent \$48,000 per annum
 - Outgoings \$12,000 per annum
 - Financing rate 6%
 - Lease incentive (fit-out) \$20,000
 - Received \$15,000
 - Receivable \$5,000
 - Legal costs for lease \$2,000
 - Lease payment made 1 June 2020 - \$4,000
 - Residual value guarantee \$Nil
 - Make Good \$20,000

Example 1 - Recognition

- **Liability**

- + Rent \$236,000 ($\$48,000 \times 5$ years less \$4,000 paid)

- + Option \$240,000 ($\$48,000 \times 5$ years)

- + Residual value \$0

- Lease Incentive Receivable (\$5,000)

- Total \$471,000** (to be discounted to Present Value)

- **Asset**

- + Lease liability \$471,000 (to be discounted to Present Value)

- + Lease paid before commencement \$4,000

- Lease Incentive Received (\$15,000)

- + Legal Fees \$2,000

- + Make Good \$20,000 (to be calculated and discounted under AASB 137)

- Total \$482,000**



Example 2

- Assumptions:
 - 3 year lease.
 - Lease payments \$50,000 p.a.
 - Effective interest rate 6%.
 - Lease payments made at end of period.



Example 2

- At start - RoUA and lease liability \$133,651.
- At the end of each period - RoUA amortisation \$44,550
- For each lease payment - cash \$50,000 and:
 - Year 1; Interest expense \$8,019 & principal repayment \$41,981
 - Year 2; Interest expense \$5,500 & principal repayment \$44,500
 - Year 3; Interest expense \$2,830 & principal repayment \$47,170

Totals **\$16,349** **\$150,000** **\$133,651**

Example 2

Opening Journal

DR Right-of-use-asset
CR Lease Liability

Yearly Journal

DR Interest Expense
DR Lease Liability
CR Bank

Dr Amortisation Expense
Cr Accumulated Amortisation

Statement of Financial Position

DR Right-of-Use-Asset
Cr Accumulated Amortisation
($\$133,651 / 3 \text{ years} = \$44,550$)

CR Lease Liability
DR Lease Liability

Year 1		Year 2		Year 3	
133,651					
	133,651				
8,019		5,500		2,830	
41,981		44,500		47,170	
	- 50,000	- 50,000		- 50,000	
44,550		44,550		44,550	
	- 44,550	- 44,550		- 44,550	
133,651		133,651		133,651	
- 44,550		- 89,101		- 133,651	
89,101		44,550		-	
	- 133,651	- 91,670		- 47,170	
41,981		44,500		47,170	
- 91,670		- 47,170		-	

Example 2

Statement of Comprehensive Income

Interest Expense
Amortisation Expense

Year 1
8,019
44,550
52,569

Year 2
5,500
44,550
50,050

Year 3
2,830
44,550
47,380

Statement of Cash Flows

Interest Expense
Financing Cash Flow *(Principal Repayment)*

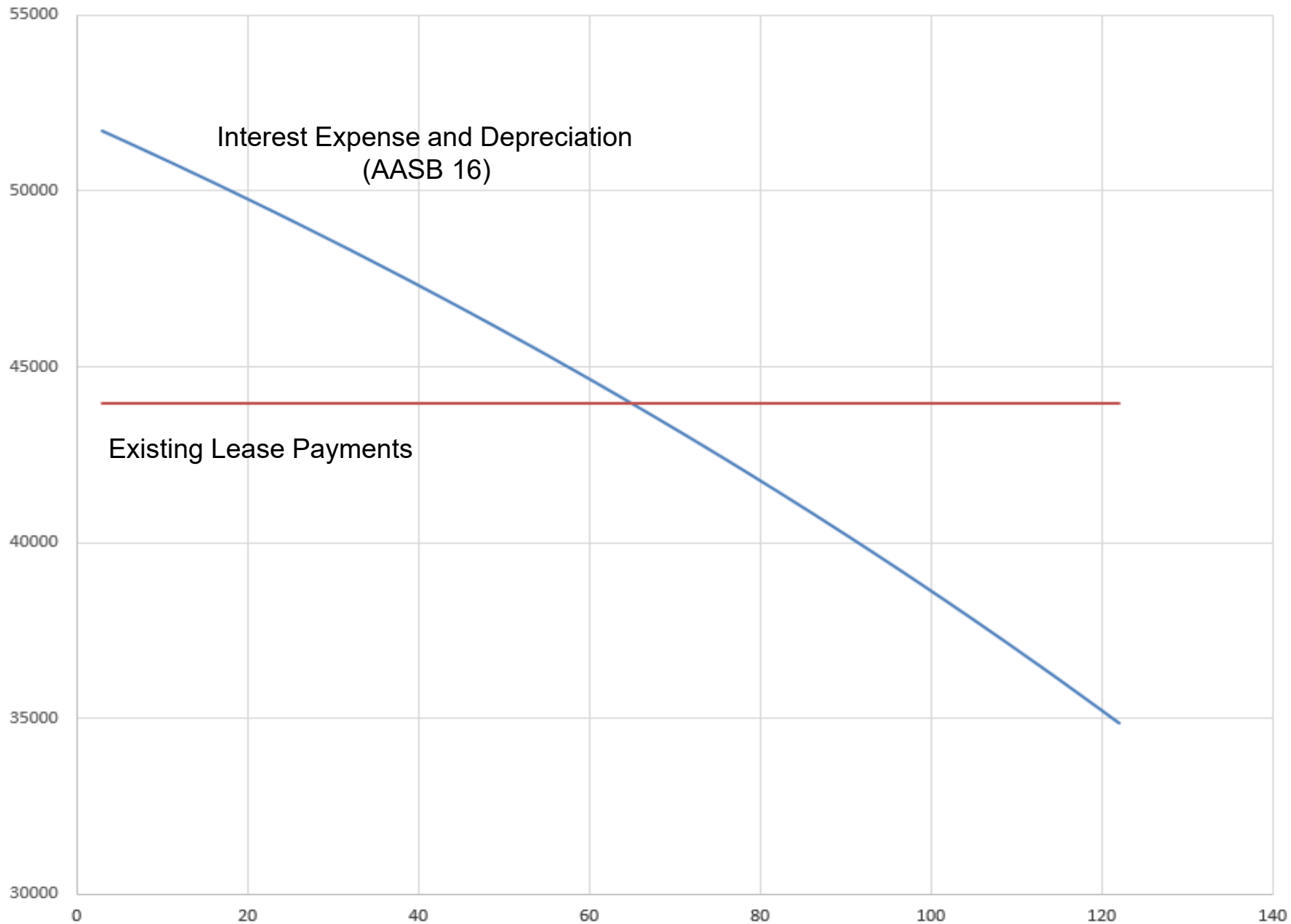
8,019
41,981
50,000

5,550
44,500
50,000

2,830
47,170
50,000



Lease Expenses



Other Considerations

- CPI and other rate increases
- Changes to leases during lease period (modifications)
- Present value calculations - determine effective interest rate (may differ between leases for similar or like assets)
- Review disclosure requirements

Example 3 Lease re-measurement

(for example, CPI rent increase)

	1-Jul-10		1-Jul-11	
1-Jul-10	1,000,000			
1-Jul-11	1,000,000	1-Jul-11	1,020,000	Changed rent
1-Jul-12	1,000,000	1-Jul-12	1,020,000	
1-Jul-13	1,000,000	1-Jul-13	1,020,000	
1-Jul-14	1,000,000	1-Jul-14	1,020,000	
1-Jul-15	1,000,000	1-Jul-15	1,020,000	
1-Jul-16	1,000,000	1-Jul-16	1,020,000	
1-Jul-17	1,000,000	1-Jul-17	1,020,000	
1-Jul-18	1,000,000	1-Jul-18	1,020,000	
1-Jul-19	1,000,000	1-Jul-19	1,020,000	

NPV 5% 1-Jul-10 7,848,186

NPV 5% 30-Jun-11 7,231,114

\$144,623

7,375,737



Example 3 Lease re-measurement

(for example, CPI rent increase)

		Asset	Liability			Asset	Liability
Opening balance	1-Jul-10	0	0		1-Jul-11	7,063,797	7,231,114
Adjustment		7,848,186	7,848,186			144,623	144,623
Adjusted opening balance	1-Jul-10	7,848,186	7,848,186			7,208,419	7,375,737
Interest			382,928				357,619
Repayments			-1,000,000				-1,020,000
Depreciation		-784,389				-802,641	
Closing balance	30-Jun-11	7,063,797	7,231,114		30-Jun-12	6,405,778	6,713,355

Disclosures



- a) **amortisation** charge for right-of-use assets by class of underlying asset
- b) **interest expense** on lease liabilities
- c) the expense relating to **short-term** leases accounted for applying exemption. (This expense need not include the expense relating to leases with a lease term of one month or less)
- d) the expense relating to leases of **low-value** assets accounted for applying exemption. (excluding short-term leases of low-value assets included in (c))

(Para 53)



Disclosures (Cont.)

- e) the expense relating to **variable lease payments** not included in the measurement of lease liabilities
- f) income from **subleasing** right-of-use assets
- g) **total cash outflow** for leases
- h) **additions** to right-of-use assets
- i) gains or losses arising from **sale and leaseback** transactions
- j) the **carrying amount** of right-of-use assets at the end of the reporting period by class of underlying asset.

AASB 16 – *Transition*

Full Retrospective

OR

Cumulative Catch-up



how?

Apply AASB 8

- Prepare statements as if AASB 16 had always been applied
- Restate comparative information
- Disclose effect on each line item



Benefits?

Better quality of reported information in transition year



how?

- Recognise cumulative effect on initial application in opening balance of retained earnings
- Do not restate comparative information
- Consider additional reliefs
- Disclose effect of applying cumulative catch-up approach



Benefits?

Significant cost relief on transition



Tasmanian
Audit Office

Draft Treasurer's Instruction FC 19 Leases

- Outlines approval, accounting and reporting
- Provides for delegated approvals
- Requires compliance with AASB 16
- Provides for Secretary of Treasury and Finance to determine accounting and reporting treatment in certain circumstances
 - Short term leases > \$1 million

Draft Treasurer's Instruction FC 19 Leases

- Sets \$10,000 as the low value threshold
- Determines accounting requirements for lease of:
 - Fleet vehicles
 - Office accommodation
 - Other individual assets
 - Group of underlying assets

Draft Treasurer's Instruction FC 19 Leases

- Transitional provisions
 - Low value and leases with remaining term <12 months to continue to be expensed
 - Lease with remaining term >12 months to be recognised on the balance sheet using partial retrospective recognition (cumulative catch-up)
 - Deemed approval for existing leases



Implementing New Accounting Standards

Adam Mucci

9 May 2019

New Accounting Standards

- AASB 15 - Revenue from Contracts with Customers
- AASB 16 - Leases

Planning

- Initially sought high level advice
- Identified key stakeholders

What did we do?

- Starting point - Leasing commitments note
- Consulted with key stakeholders

Use of Experts

KPMG

- Reviewed contacts
- Determined leases
- Prepared lease calculations
- Reviewed revenue in advance methodologies
- Provided detailed advice

Issues

- Obtaining and reviewing contracts
- Identifying leases
- Identifying revenue in advance obligations
- Detailed analysis of service obligations
- Developing a lease model
- ARMCo engagement
- Determine effect on debt covenants
- Time

Possible System Impacts

- Integrating lease model into finance system
- Update budget model
- Processes to identify future leases/revenue contract obligations

Revenue from Contracts with Customers – AASB 15

Revenue for woodchips at Burnie Chip Export Terminal (BCET) is based on the volume of tonnes delivered multiplied by the contracted price per tonne.

Invoiced at the end of the month, with the revenue recognised at that point.

Services included in the contract price per tonne:

- Chip delivery - delivery of the chips by the truck onto the tipper
- Stockpiling - grooming of stockpiled chips and segregating customer stockpiles
- Reclaiming - grooming and transfer of the chips onto the conveyor from the stockpile for loading into a vessel
- Ship loading – the movement of the chips through the conveyor onto the vessel

BCET Facility

Revenue from Contracts with Customers – AASB 15

- Only chip delivery and stockpiling will have occurred in the month
- Approximately 57% of the services are yet to be performed at month end

Activity	%
Chip delivery	20
Stockpiling	23
Reclaiming	27
Ship Loading	30
Total	<u>100%</u>

Revenue from Contracts with Customers – AASB 15

Initial Application

Elected to adopt the Cumulative effect method:

- Comparative information is not restated
- Initial application is 1 July 2018

Leases – AASB 16

- Minimal Leases
- Main types of leases - rental of office premises and land

Accounting Standards Update

Initial Application

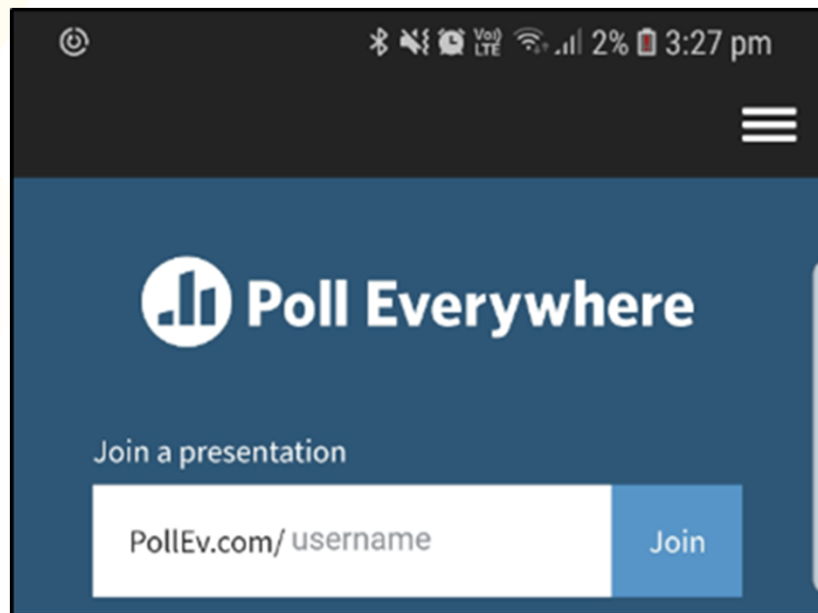
TasPorts has elected adopt the Modified Retrospective approach:

- Comparative information is not restated
- Initial application is 1 July 2019

Questions

Time for a break





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App username: TAO144

Financial Management Act 2016

FMA Overview Presentation

May 2019

Department of Treasury and Finance

FMA
Financial Management Act 2016



At a glance



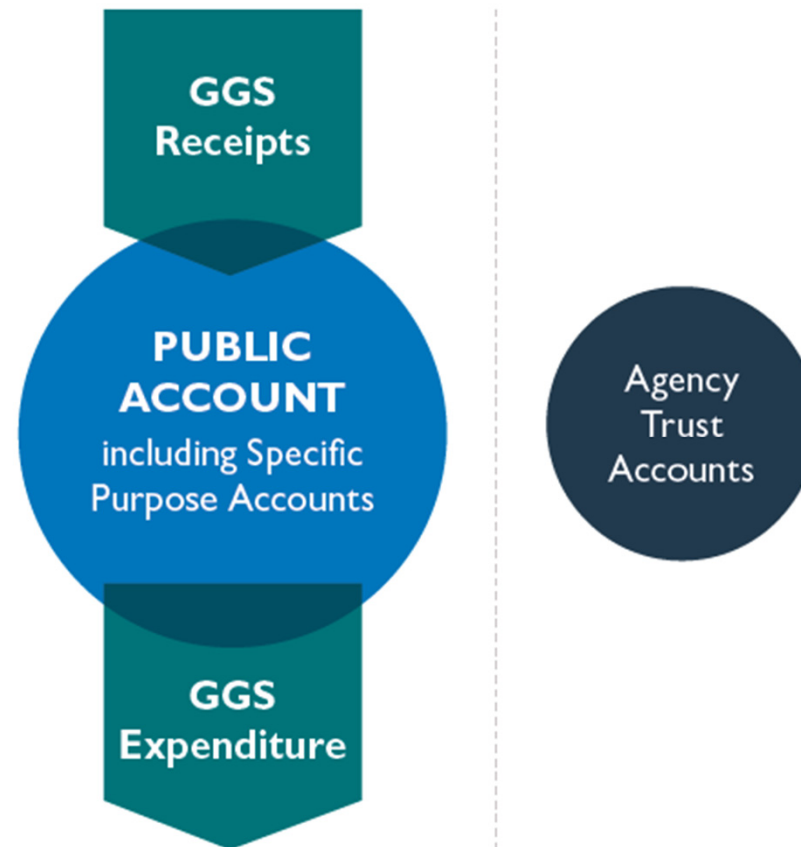
Important changes to the Financial Management Framework for Tasmania's General Government Sector will take effect on 1 July 2019.

The FMA will:

- replace existing legislation
- introduce a new structure for the Public Account
- introduce a new suite of Treasurer's Instructions
- provide clear roles and responsibilities for managing the State's finances.

The FMA will improve financial and budget management processes, and strengthen the quality of information provided to Parliament and other stakeholders.

Public Account under FMA



Application of the FMA



The FMA applies to all General Government Sector entities listed in Schedule I of the Act.

This includes all Government Agencies (including statutory authorities and integrity entities) and Legislative Agencies.

This broadens the scope of Tasmania's financial management framework.

2019-20 Budget Papers



The Financial Management Act imposes **two** new requirements regarding the information that must be presented in the Budget Papers:

I. Receipts and Expenditure of Specific Purpose Accounts

The Treasurer must approve the estimated receipts and expenditure of each SPA and report these to Parliament in the Budget Papers.

2019-20 Budget Papers (example)



Specific Purpose Accounts Estimated Receipts and Expenditure for 2019-20

	Estimated Balance 30 June 2019 \$m	2019-20 Budget Estimates Receipts Expenditure \$m \$m		Estimated Balance 30 June 2020 \$m
Communities Tasmania				
Agency Financial Management Account				
Education				
Agency Financial Management Account				
Schools Banking Account				
Finance-General				
Agency Financial Management Account				
Australian Government Funding Management Account				
Government Car Fleet Account				
Payroll Provision Account				
Rosetta Landslip Account				
Tasmanian State Service Risk Management Account				
TT-Line Vessel Replacement Fund				
Unclaimed Moneys Account				
Health				
Agency Financial Management Account				
Private Patient Scheme and Non-Trust Activities Account				
Tasmanian Health Service Financial Management Account				
House of Assembly				
Agency Financial Management Account				

2019-20 Budget Papers



2. Supporting Statements for Appropriation Bills

Budget Papers must also include:

- the estimated receipts of the Public Account;
- the estimated expenditure from the Public Account; and
- major General Government Sector financial statements to be prepared in accordance with the Australian Accounting Standards.

A Public Account Receipt and Expenditure Estimates Table will be included in Budget Paper No. 1 to meet this requirement.

GGs Financial Statements are already included in BPI in Chapter 4 and Appendix 1.

2019-20 Budget Papers (example)



Public Account Budget and Forward Estimates

	2019-20	2020-21	2021-22	2022-23
		Forward	Forward	Forward
	Budget	Estimate	Estimate	Estimate
	\$m	\$m	\$m	\$m
Receipts				
General Receipts				
Australian Government Sources				
State Sources				
Specific Purpose Account Receipts				
Statutory Authorities				
Total Receipts				
Less Expenditure by Authority				
Annual Appropriation				
Operating Services				
Capital Services				
Reserved by Law				
Specific Purpose Accounts				
Statutory Authorities				
Investment of Funds				
Other Provisions				
Total Expenditure				
Public Account Surplus/(Deficit)				

Reporting and Supplementary Estimates



A Supplementary Estimates Statement will be included in the Preliminary Outcomes Report and Treasurer's Annual Financial Report to meet the requirements of Section 24 of the FMA.

The Statement will include:

- transfers of appropriations in the Public Account (section 20);
- Funding approved through the Treasurer's Reserve (section 21);
- variations of appropriations for Commonwealth Grants (section 22);
- emergency expenditure authorised by the Governor (section 30); and
- rollovers of unexpended appropriations (section 23(1)).

A Detailed Supplementary Estimates Statement will be tabled with the Preliminary Outcomes Report each year.

External Financial Reporting to Parliament will remain otherwise unchanged.

Supplementary Estimates Statement (example)



Table 1: Supplementary Estimates Statement Summary (Published in POR & TAFR)

Authority	2019-20
	\$'000
Section 20 - Transfers of appropriations	
Communities Tasmania	
Health	
Section 21 - Treasurer's Reserve	
Communities Tasmania	
Education	
Finance-General	
Health	
Section 22 - Variations of Australian Government Grants	
Communities Tasmania	
Education	
Finance-General	
Health	
Section 30 - Emergency expenditure	
Nil	
Section 23(1) - Rollovers of unexpended appropriation	
Communities Tasmania	
Education	
Finance-General	
Health	
Premier and Cabinet	
Primary Industries, Parks, Water and Environment	
State Growth	
Treasury and Finance	
Net Change in Appropriation authorised under the Financial Management Act	

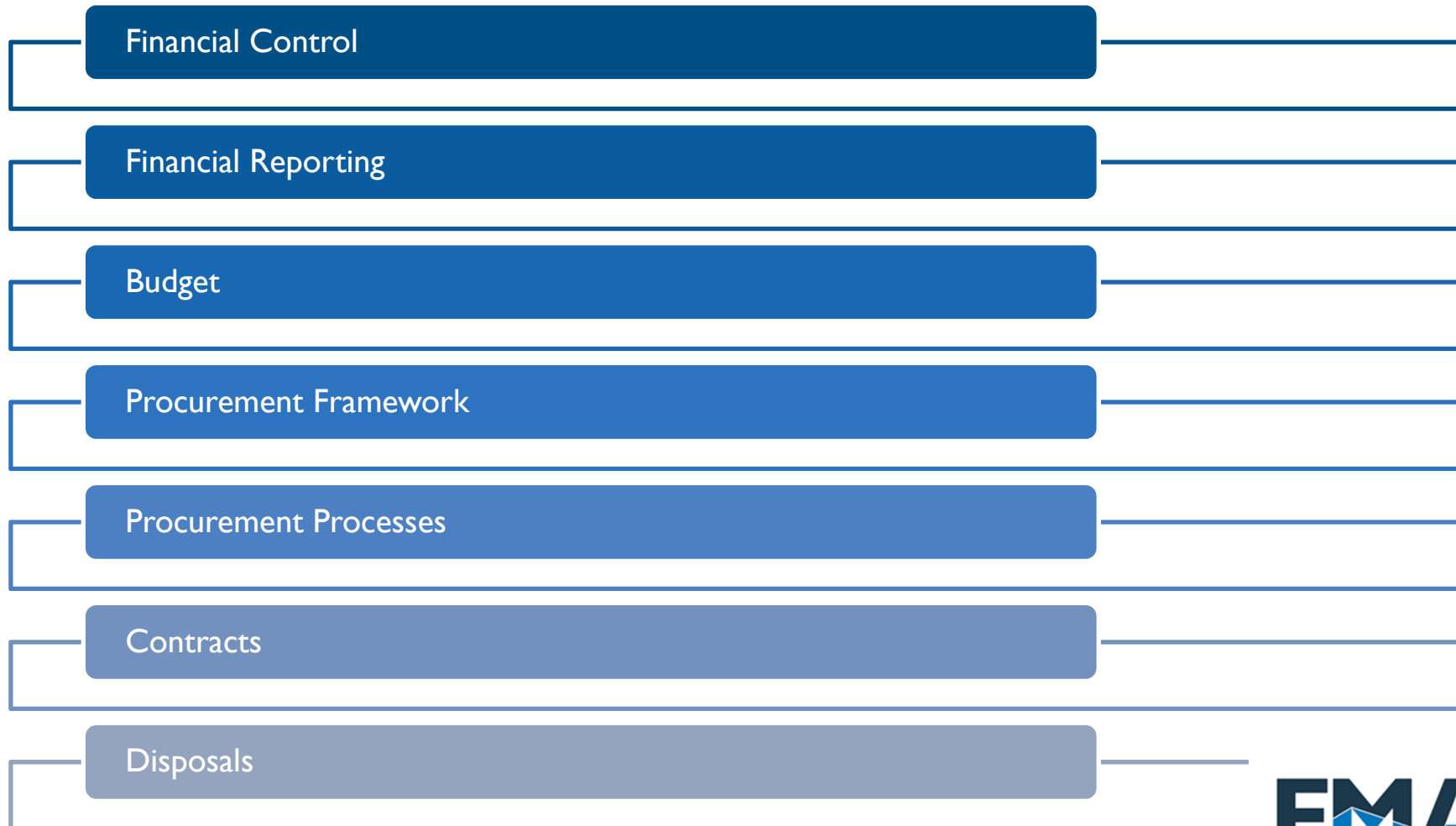
Detailed Supplementary Estimates Statement (example)



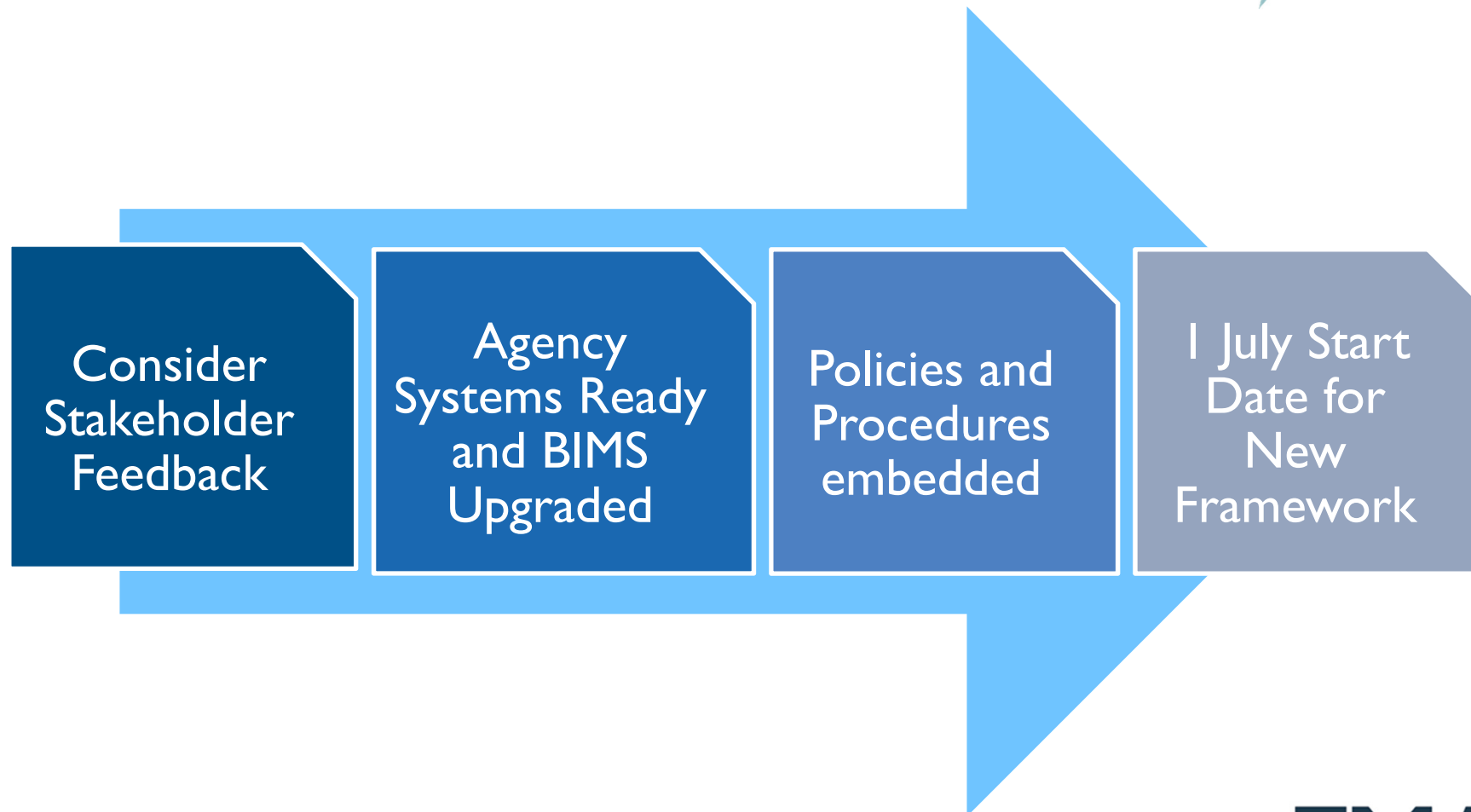
Table 2 - Detailed Supplementary Estimates Statement proposed as an additional disclosure to accompany the Preliminary Outcomes Report

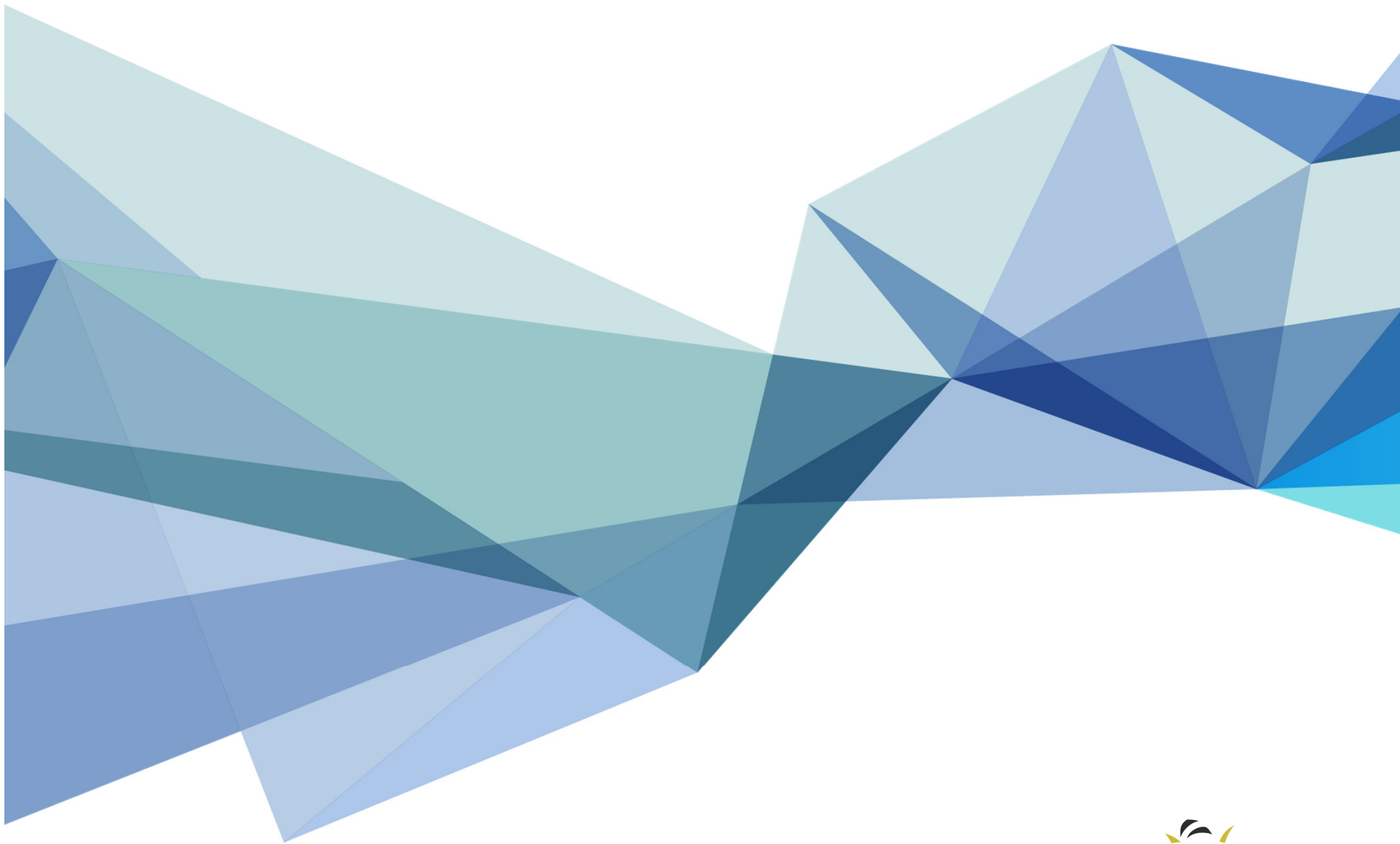
Agency	2019 Appropriation	Prior Year Rollover of	2019-20 Supplementary	2019-20 Estimated expenditure from the Public Account authorised by the Treasurer in accordance with the <i>Financial Management Act 2016</i>					2019-20 Appropriation	2019-20 Est. Annual
	Act	Appropriation	Appropriation	Section 20	Section 21	Section 22	Section 30	Section 23(1)	Savings	Appropriation
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Communities Tasmania										
Operating Services										
Capital Services										
Education										
Operating Services										
Capital Services										
Finance-General										
Operating Services										
Capital Services										
Health										
Operating Services										
Capital Services										
House of Assembly										
Operating Services										
Capital Services										
Integrity Commission										
Operating Services										
Capital Services										

The new Treasurer's Instructions



Next Steps







Tasmanian Audit Office

Pilot Project - ED 01/18 Proposed Auditing
Standard ASA 315 *Identifying and Assessing
the Risks of Material Misstatement*

Rod Whitehead
Auditor-General



Outline

- Proposed auditing standard ASA 315 future changes
- ASA 315 pilot project objectives
- Pilot participants
- Materiality
- Risks of material misstatement
- Controls to mitigate the risks

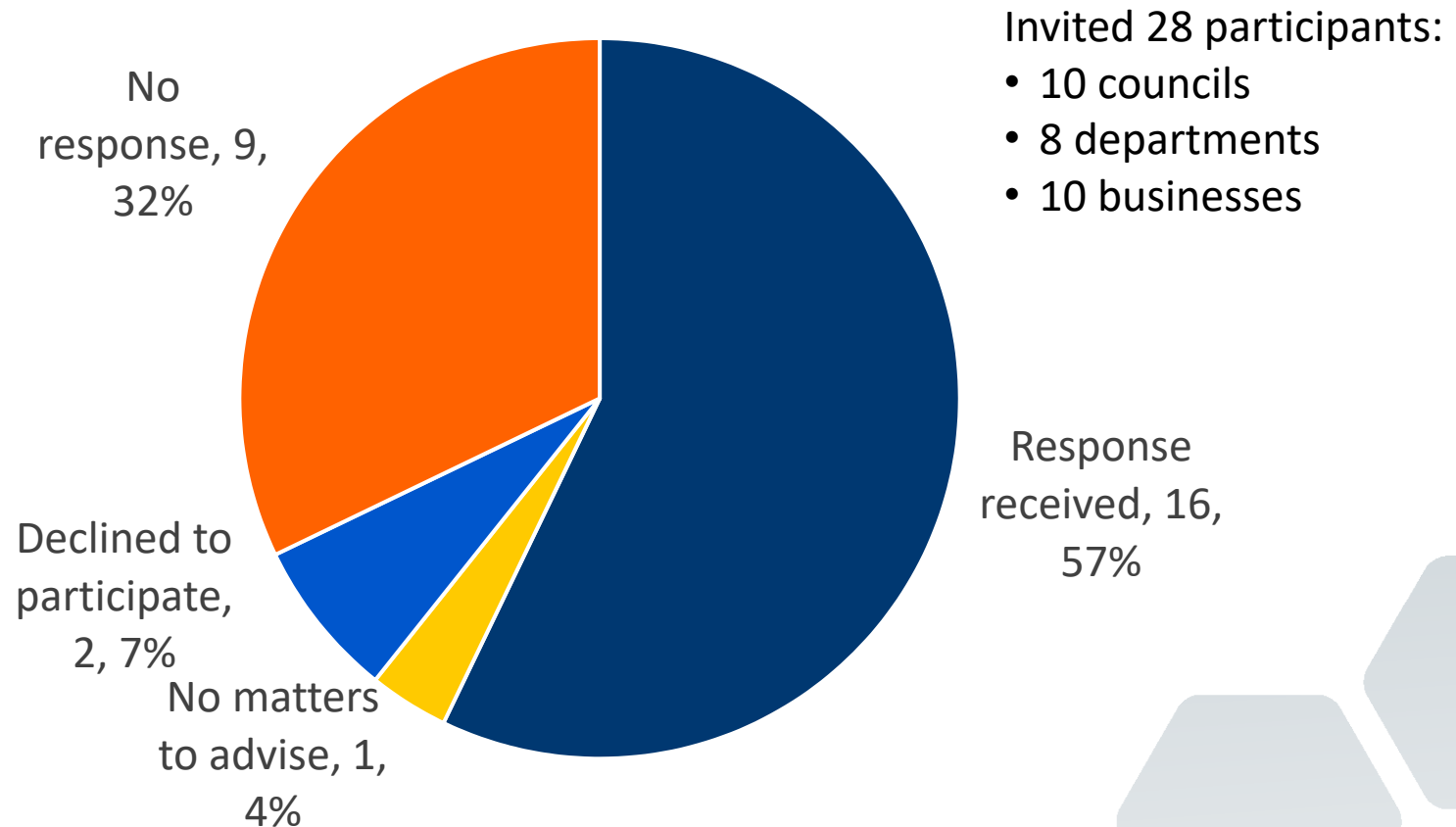
Proposed ASA 315 future changes

- Exposure draft released August 2018
- Proposed to be operative for financial reporting periods commencing on or after 15 December 2020
- Improved understanding of the risk identification process
- Promote a more robust process for the identification and assessments of the risks of material misstatements
- Revised definition of “significant risk”
- Enhanced and clarified identification of relevant controls
- Paragraphs 29 – 31 – auditor evaluation of identified risks and risk assessment process

ASA 315 pilot project objectives

- Objective - to understand entities' assessment of:
 - what is material in the context of the financial report
 - risks that could result in material misstatements the financial report
 - controls relied upon to address those risks
- Expected outcomes:
 - comparison of views around the determination of materiality
 - 'gaps' in the identification of risks relevant to financial reporting
 - potential deficiencies in entity risk assessment processes

Pilot participants



Who is responsible for establishing thresholds for materiality for financial statement reporting?

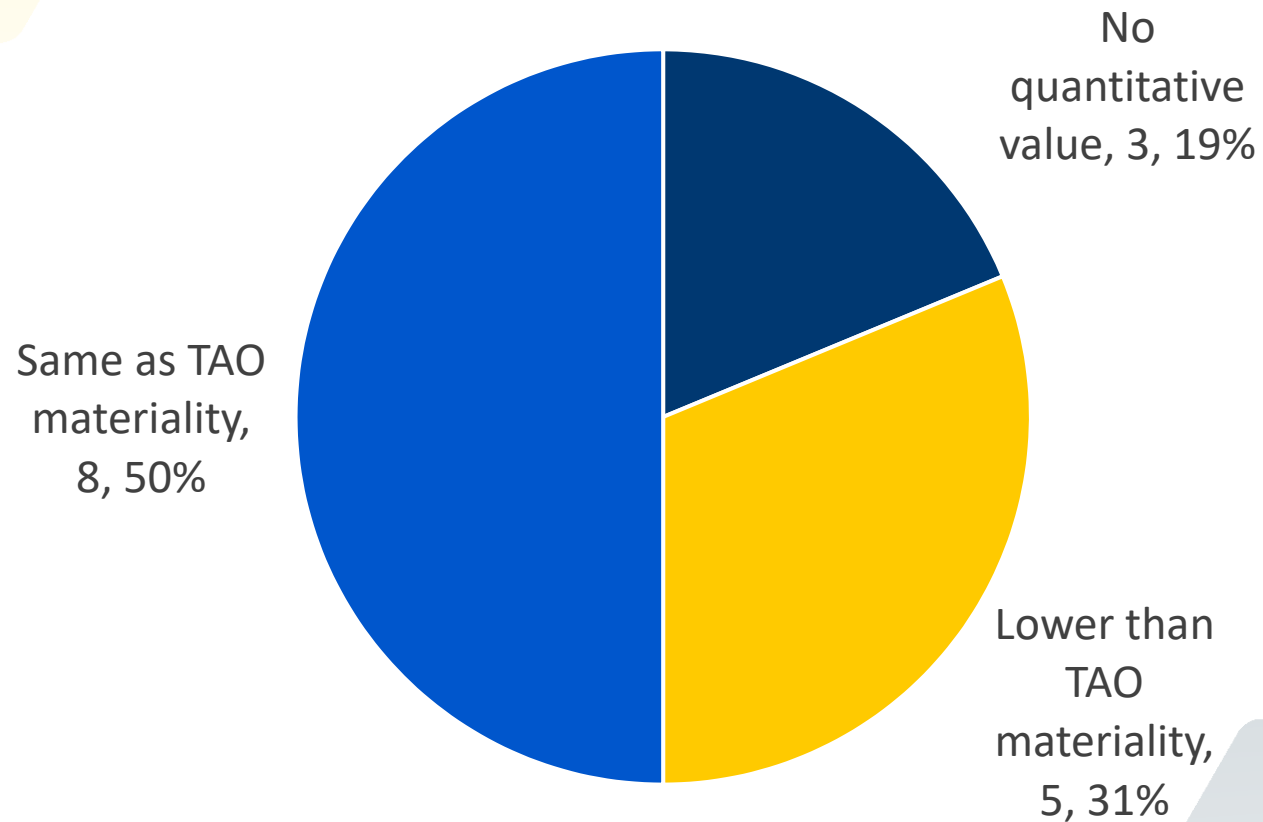
a) Management

b) Internal audit

Audit Committee/Panel,
TCWG

External auditor

Materiality



Materiality

- Should materiality be quantified?

“Materiality assessed on both the nature and/or magnitude of information that could misstate or obscure information”

- Should different materiality amounts be used?

“We look at each financial item and determine what we think is an appropriate materiality given its size and nature and resulting impact on the financial statements. Therefore we don't have just one dollar amount we use to determine materiality as it will be different for every type of financial item.”

Materiality

- Should materiality be based on prior year information or using current year budget or forecast information?

‘Materiality 1% of 2017-18 actual expenditure adjusted for activities transferred as part of machinery of government changes’

- Are other non-financial reporting indicators appropriate for assessing misstatements in the financial statements?

‘Materiality based on the amount used for Major Risk in the risk management policy rating table’

- Does your entity have a stated position on assessing the impact of misstatements in the financial report?

Who is responsible for identifying risks of misstatement (errors or non-disclosures) in the financial statements?

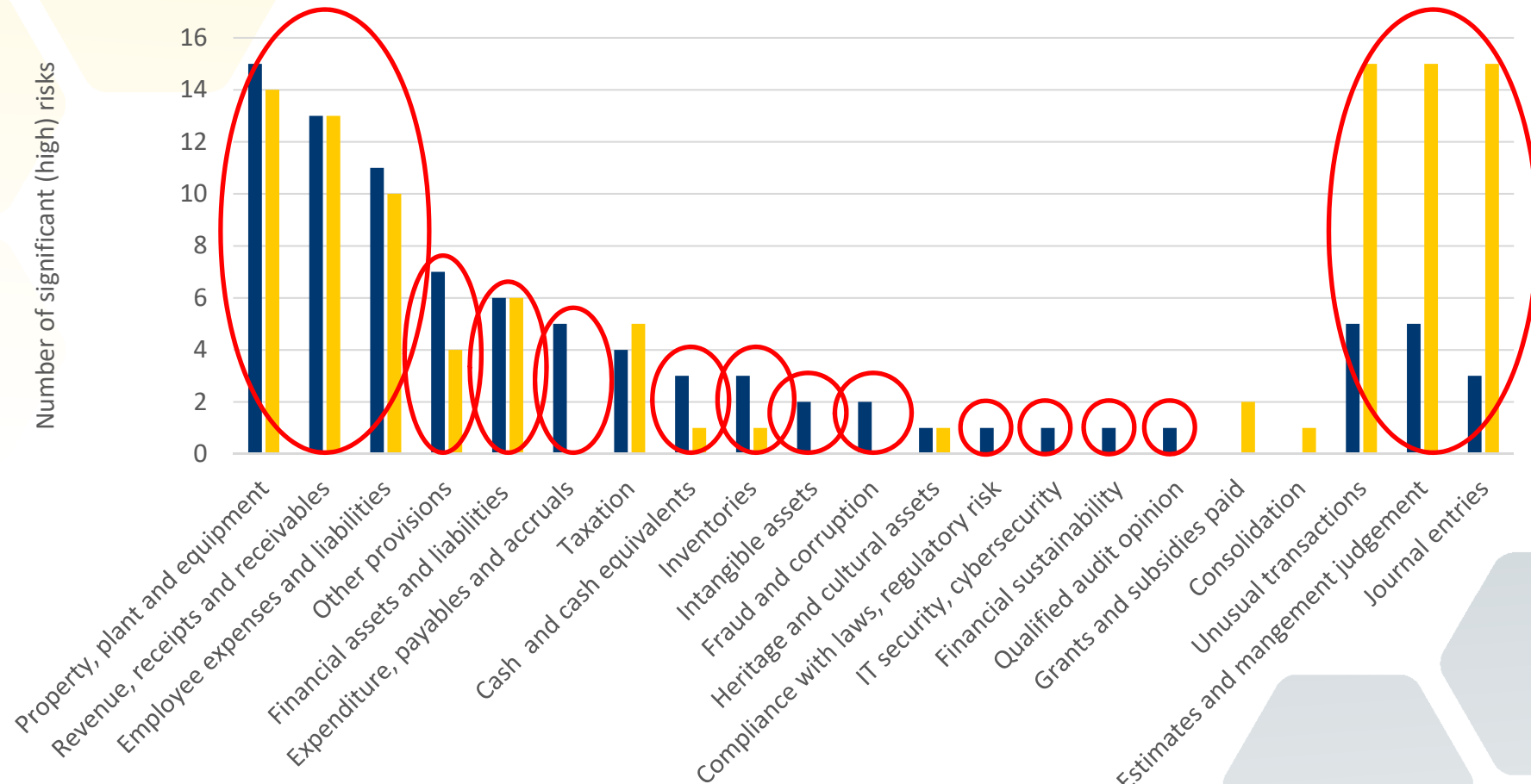
a) Management

b) Internal audit

Audit Committee/Panel,
TCWG

External auditor

Risks of material misstatement



Risks of material misstatement

Significant risks:

- possibility of, or exposure to, fraud
- recent significant economic, accounting or other developments
- complex transactions
- significant transactions with related parties
- subjectivity in the measurement of financial information related to the risk, e.g. valuations
- significant transactions that are outside the normal course of business for the entity, or appear to be unusual
- risks arising from IT

Risks of material misstatement

Routine, non-complex transactions that are subject to systematic processing are less likely to give rise to significant risks.

Possibly not significant risks:

- risks relating to miscoding of transactions, incorrect recognition of transactions in correct financial year, incomplete transactions
- cash and cash equivalents (unless fraud risks are evident)
- 'Accuracy of financial reporting'

Who is responsible for ensuring controls to prevent risks of misstatement (errors or non-disclosures) in the financial statements are working effectively?

a) Management

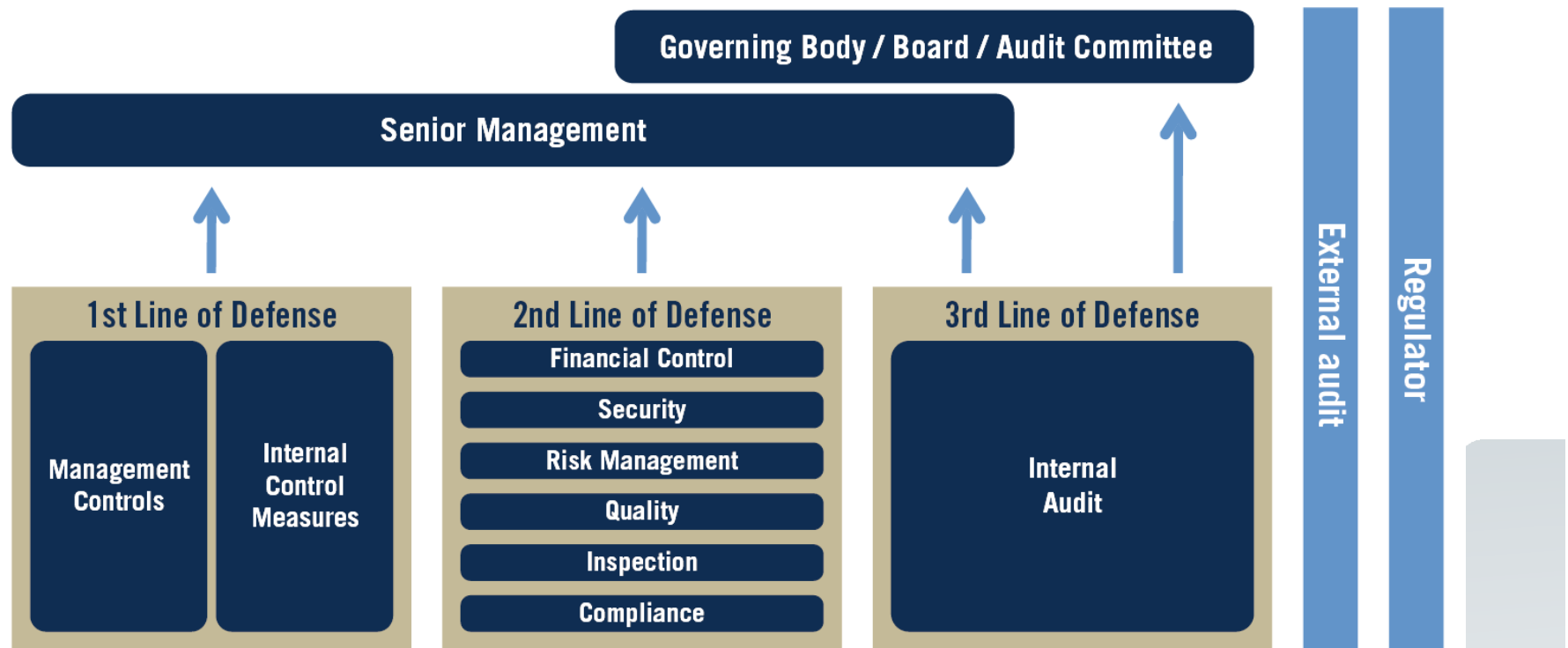
b) Internal audit

Audit Committee/Panel,
TCWG

External auditor

Controls

The Three Lines of Defense Model



Controls – ‘good’

- Segregation of duties
- Delegations
- Periodic reconciliations
- Review and approval of journals
- Management review
- Critical accounting estimates and judgements are reviewed and approved by Managers, Audit Committee, TCWG
- Reliance on internal audit
- Reliance on experts

Controls – ‘better’

- System access controls and role security controls that govern access to (electronic) information
- System managed delegations
- Dual authorisation controls
- Staff training and acknowledgements/representations
- Calls to vendors to confirm vendor bank account changes
- Bank files uploaded by person with no access to financial system
- IT service continuity and incident management processes are in place and tested regularly
- Dedicated cybersecurity team established



Controls – ‘hmm...’

- Descriptions of processes rather than controls
- Controls are not clearly defined, e.g. ‘monitoring of transactions’, ‘monitoring of Standards for compliance’, ‘financial statements are reviewed and approved’
- Controls do not appear to mitigate the risk, e.g. ‘revaluations and annual escalations are designed to provide an asset valuation that is as accurate as possible’
- Very high level of reliance on management review – any assurance this is happening?
- Reliance on experts – is the work of the expert assessed?
- Reliance on the TAO – beyond the three lines of defense!



Tasmanian Audit Office

Audit Update

Ric De Santi
Deputy Auditor-General



Outline

- Audit findings and key and significant risk areas
- Audit focus and changes 2019
- Are subsidiaries State entities?
- Do you have internal controls in place to protect against fraudulent email/communication attempts?
- Some resources



Outcomes of audits



2018 Audit Findings by area

	High Risk	Moderate Risk	Low Risk	Total
Assets	3	14	7	24
IT Security	0	6	8	14
Expenditure	1	4	3	8
Payroll	0	3	15	18
Revenue/Debtors	0	2	3	5
Other	7	37	23	67
Total	11	66	59	136

2018 Audit Findings by sector

	High Risk	Moderate Risk	Low Risk	Total
General Government Sector	1	13	14	28
Government businesses	3	16	14	33
Local government	7	35	27	69
Other	0	2	4	6
Total	11	66	59	136



PPE valuation – Common challenges

1. Determining the valuation approach with consideration for highest and best use
2. Identifying the significant parts of an infrastructure asset
3. Deciding whether to use greenfield or brownfield costs
4. Reviewing useful lives and residual values
5. Utilising condition ratings appropriately
6. Reviewing and documenting valuation assumptions and inputs



Other matters

Asset recognition/de-recognition or valuation

Found assets	➤ Prior period error
Land transfers	➤ Asset recognised at fair value in income statement
Scrapped or demolished assets	➤ Derecognised
Damaged assets	➤ Reduced useful life or derecognised
Assets held for sale	➤ Reclassify, market valuation
Impairment (NFP)	➤ Replaced by obsolescence

Audit focus 2018-19

- Inclusion of key audit matters in opinions for all councils
- Greater focus on IT controls
- Bringing work forward, especially asset revaluations
- Focus on:
 - Asset WIP capitalisation policy – overhead allocations
 - Valuations
 - Asset lives – determination and consistency
 - Prior period errors
- Report to Parliament -
 - Capital expenditure – explanations for not achieving capital expenditure plans

Further future changes

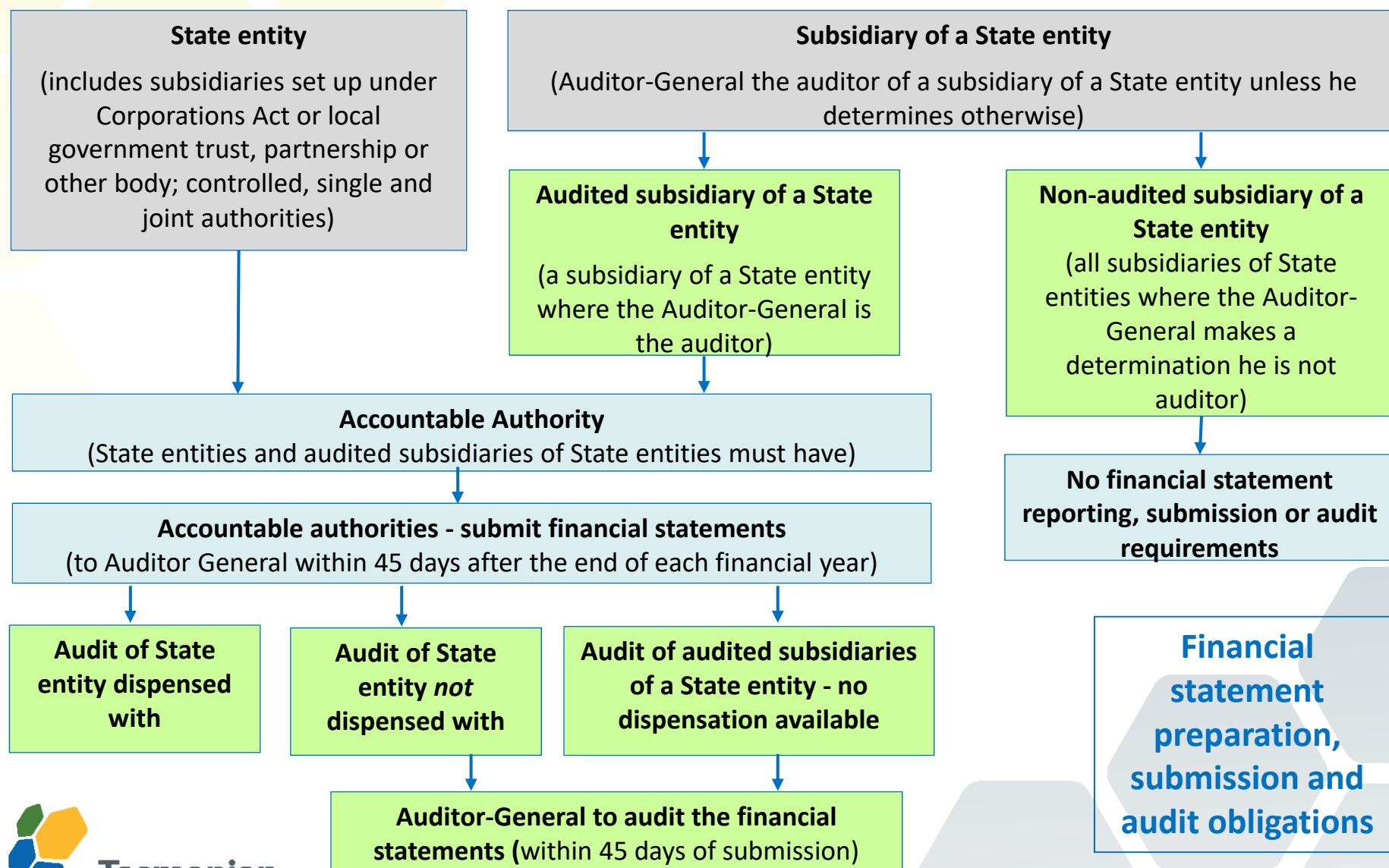
- New audit methodology and technology platform.
- One Drive

Are subsidiaries State entities?

- If an entity is a State entity in its own right, it will not be a subsidiary of a State entity, regardless of the relationship it has with another State entity.
- Subsidiary incorporated under Corporations Act that is controlled by a State authority falls into the meaning of a State owned company = State entity
- Body or authority established under section 21 (corporation, trust, partnership or other body), section 29 (controlling authorities) or 30 (single or joint authorities) of LGA 1993 = State entity

So what does this all mean?

Are subsidiaries State entities?





Do you have internal controls in place to protect against fraudulent email/communication attempts?

Public sector entities have recently received emails or other communications where fraud was attempted by requesting changes to the bank account details of employees or suppliers.

Do you have internal controls in place to protect your organisation against fraudulent email/communication attempts?

Here's what you can do to help prevent frauds

- Conduct a risk assessment and verify legitimacy of any changes in employee or supplier bank account details recently processed.
- Take the following steps for change requests:
 - treat with suspicion
 - have effective verification controls (in place and tested)
 - authenticate directly with the employee or supplier
 - segregate access privileges
 - introduce controls immediately.

Useful resources

Tasmanian Audit Office:

Guide to Using our Reports

- [Guide to the Auditor-General's Report on the Financial Statements of State Entities](#)

Client Reference Information:

Change to Submission of Financial Statement Requirements 2018

- [Management Certification To Be Provided by Those Responsible for Financial Reporting At The Time of Submission Of Financial Statements.pdf](#)
- [Management Certification To Be Provided by Those Responsible for Financial Reporting At The Time of Submission Of Financial Statements.docx](#)
- [Financial Statements Submissions Checklist \(Updated July 2018\)](#)

Other Client Information

- [AASB119 Employee Entitlements 30 June 2018 – \(Updated to June\)](#)
- [AASB 124 Related Parties for Councils February 2017](#)
- [AASB 124 Related Party Disclosures – Your Questions Answered](#)
- [Guidance to Local Government Councils on calculating Underlying Result \(revised June 2017\)](#)
- [Guidelines for Tas Gov Businesses – Director & Executive Remuneration – Disclosure Template \(Updated July 2018\)](#)
- [TAO Local Gov Model Accounts 30 June 2018 \(Excel\)](#)



Useful resources

Presentations, Seminars and Information Sessions

Client Seminar 2018

- [Accounting Issues – Slides](#)
- [Accounting for Property, Plant and Equipment – Slides](#)
- [New Standards \(AASB 16 Leases\) – Slides](#)
- [Changes for 30 June 2018 and New Standards – Slides](#)
- [Client Seminar Presentation 2018 – Handout](#)

Information Session for Senior Management and Members of Audit Committees 2018

- [Managing Conflicts of Interest – Richard Bingham, Integrity Commission](#)
- [Standards Update and Audit Findings – Jeff Tongs and Stephen Morrison](#)
- [Case studies about public sector corruption – Mark Eady, Derwent Valley Council](#)
- [Contentious Accounting Issues and Tasmanian Audit Office Matters – Rod Whitehead](#)
- [2018 Information Session for Senior Management and Members of Audit Committees – Handout](#)
- [2018 Information Session for Senior Management and Members of Audit Committees – Program](#)

Useful resources



<https://www.audit.tas.gov.au/publication/local-government-authorities-2017-18/>



Tasmanian
Audit Office

LOCAL GOVERNMENT COMPARATIVE ANALYSIS Comprehensive Income Statements - 2016-17								
Council	Operating Revenue * \$'000s	Non-Operating Revenue * \$'000s	Total Revenue \$'000s	Operating Expenditure \$'000s	Non-Operating Expenditure ** \$'000s	Total Expenditure \$'000s	Underlying Surplus/(Deficit) \$'000s	Net Surplus/(Deficit) \$'000s
Urban medium								
Clarence	63 015	11 980	74 995	58 212	0	58 212	4 803	16 783
Glenorchy	54 002	4 378	58 380	53 399	5 656	59 055	603	(675)
Hobart	126 006	7 381	133 387	124 869	0	124 869	1 137	8 518
Kingborough	38 510	5 613	44 123	38 896	231	39 117	(376)	5 006
Launceston	103 102	135 536	238 638	101 841	5 612	107 453	1 261	131 185
UM Total 2016-17	384 635	164 888	549 523	377 207	11 499	388 706	7 428	160 817
UM Average per Council 2016-17	76 927	32 978	109 905	75 441	2 300	77 741	1486	32 163
Urban small								
Brighton	14 359	3 416	17 775	14 349	0	14 349	10	3 426
Burnie	35 541	4 851	40 392	36 485	5 333	41 818	(944)	(1 426)
Central Coast	26 416	6 163	32 579	24 988	233	25 221	1428	7358
Devonport	39 773	7 600	47 373	38 548	737	39 285	1 225	8 088
West Tamar	24 433	34 469	58 902	22 331	826	23 157	2 102	35 745
US Total 2016-17	140 522	56 499	197 021	136 701	7 129	143 830	3 821	53 191
US Average per Council 2016-17	28 104	11 300	39 404	27 340	1426	28 766	764	10 638
Rural agricultural, very large								
Derwent Valley	12 951	1 709	14 660	11 858	0	11 858	1093	2802
Huon Valley	24 136	2 691	26 827	23 129	0	23 129	1007	3 698
Meander Valley	19 325	5 748	25 073	17 836	708	18 544	1489	6 529
Northern Midlands	17 096	4 608	21 704	17 774	793	18 567	(678)	3 137
Sorell	17 177	3 579	20 756	17 128	0	17 128	49	3 628
Waratah-Wynyard	17 615	3 737	21 352	17 481	443	17 924	134	3428
RAVL Total 2016-17	108 300	22 072	130 372	105 206	1 944	107 150	3 094	23 222
RAVL Average per Council 2016-17	18 050	3 679	21 729	17 534	324	17 858	516	3 870
Rural agricultural, large								
Break O'Day	13 757	2 742	16 499	13 145	458	13 603	612	2 896
Circular Head	14 122	3 627	17 749	13 837	163	14 000	285	3 749
Dorset	12 609	3 768	16 377	10 964	293	11 257	1 645	5 120
George Town	10 622	1 620	12 242	11 735	(128)	11 607	(1 113)	635
Kentish	9 436	7 317	16 753	9 336	2 701	12 037	100	4716
Lalor	12 418	3 813	16 231	11 902	139	12 041	516	4190
Southern Midlands	10 233	3 460	13 693	10 211	0	10 211	22	3482
RAL Total 2016-17	83 197	26 347	109 544	81 130	3 626	84 756	2067	24 788
RAL Average per Council 2016-17	11 885	3 764	15 649	11 590	518	12 108	295	3541
Rural agricultural, small and medium								
Central Highlands	6 550	2 693	9 243	6 430	62	6 492	120	2 751
Flinders	4 331	1 411	5 742	5 456	0	5 456	(1 125)	286
Glamorgan Spring Bay	12 495	5 574	18 069	12 109	0	12 109	386	5960
King Island	6 387	1 552	7 939	7 214	0	7 214	(827)	725
Tasman	6 386	975	7 361	5 482	0	5 482	904	1 879
West Coast	10 764	1 548	12 312	10 211	253	10 464	553	1 848
RASM Total 2016-17	46 913	13 753	60 666	46 902	315	47 217	11	13 449
RASM Average per Council 2016-17	7 819	2 292	10 111	7 817	53	7 870	2	2 242
Total 2016-17								
Average per Council 2016-17	763 567	283 559	1 047 126	747 146	24 513	771 659	16 421	275 467
	26 330	9 778	36 108	25 764	845	26 609	566	9 499



Tasmanian Audit Office

Student attendance and engagement:

Years 7 to 10

Report of the Auditor-General

No.8 of 2018-19

Simon Andrews

Senior Manager PAS

Objective and scope of the audit

Objective: To form an opinion on the effectiveness of the Department of Education's (DoE) management of student attendance and engagement in Years 7 to 10

Scope: Full-time and part-time students in Years 7 to 10 at Tasmanian Government high schools - 1 January 2014 to 31 December 2017

Together with evidence obtained during visits to seven high schools during 2018

The audit covered:

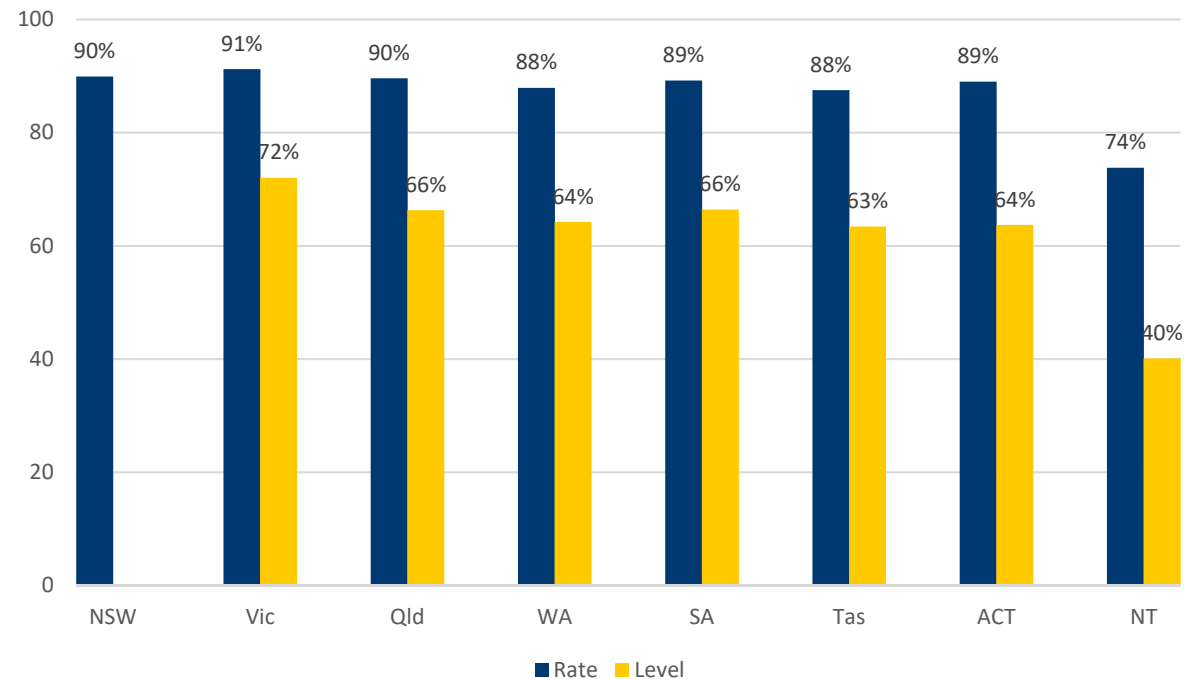
- What does the attendance and engagement data show?
- Is student attendance managed effectively?
- Is student engagement managed effectively?

1.



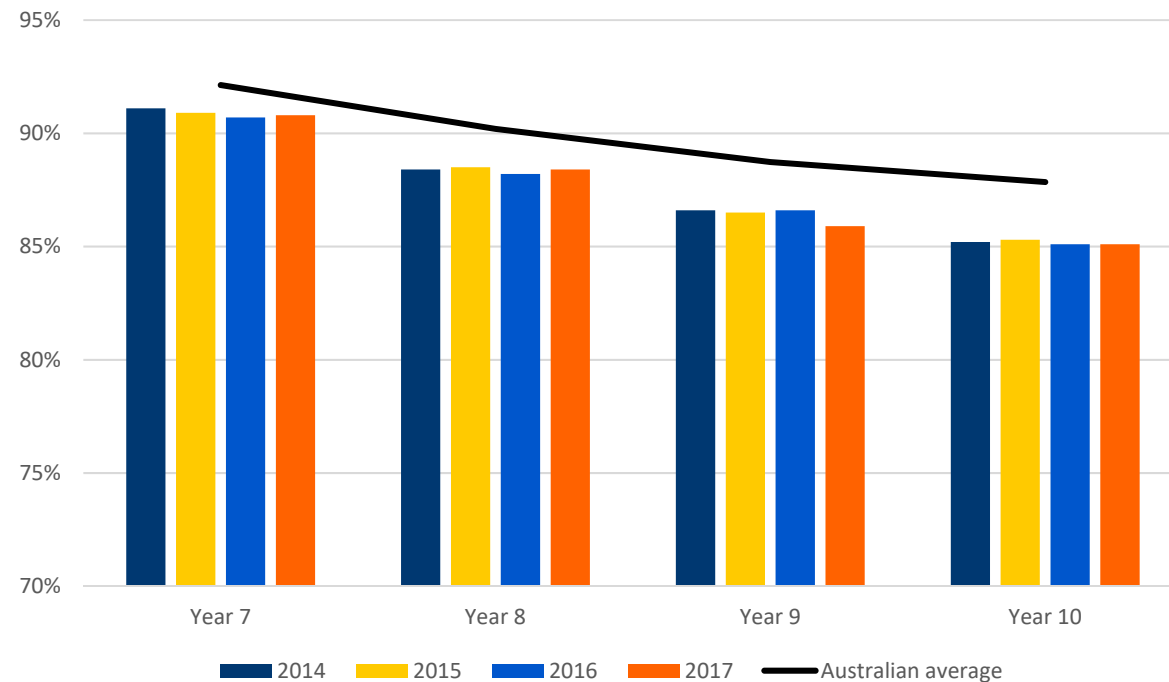
What does the attendance data show?

National Average attendance rates and levels – Years 7 to 10 – Government schools 2017



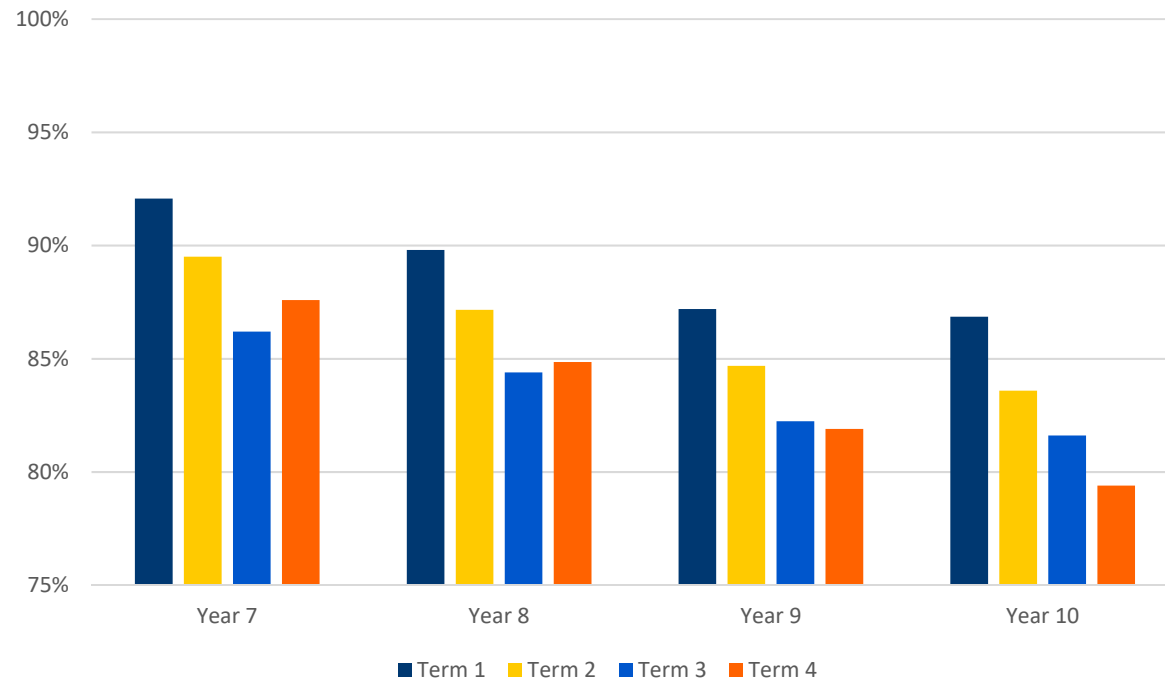
What does the attendance data show?

Average attendance rates Years 7 to 10 –
Tasmania and Australia - 2014 to 2017



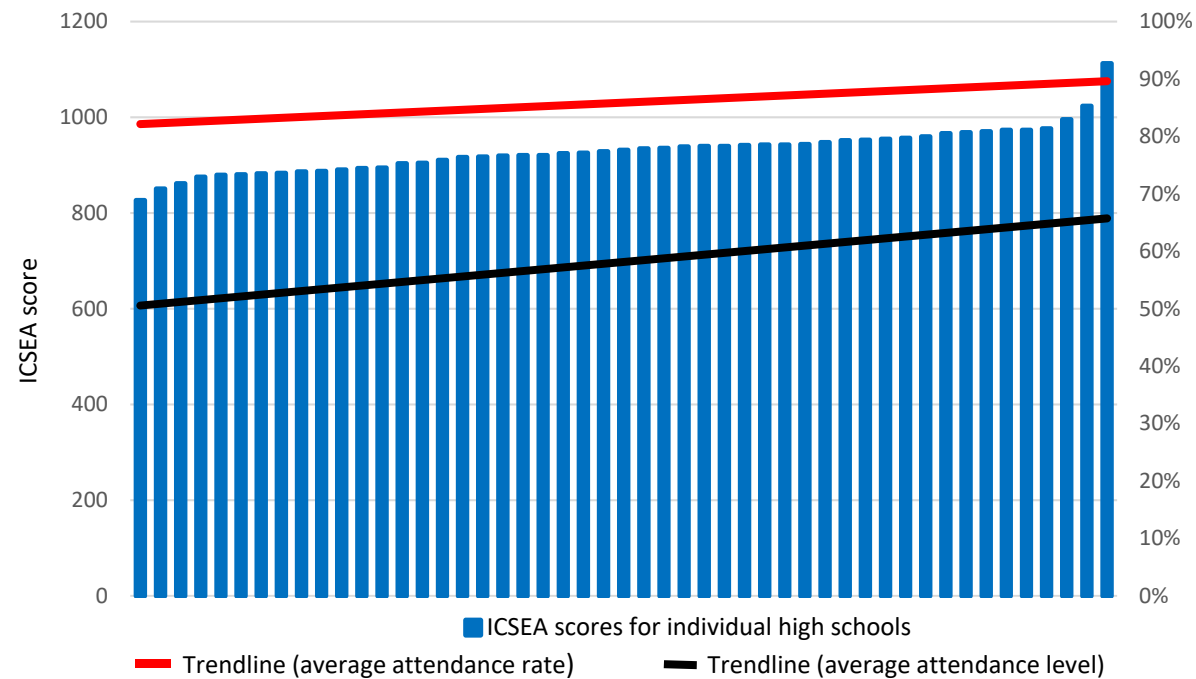
What does the attendance data show?

Tasmanian average daily attendance rate by Year group Years 7 to 10 - 2017



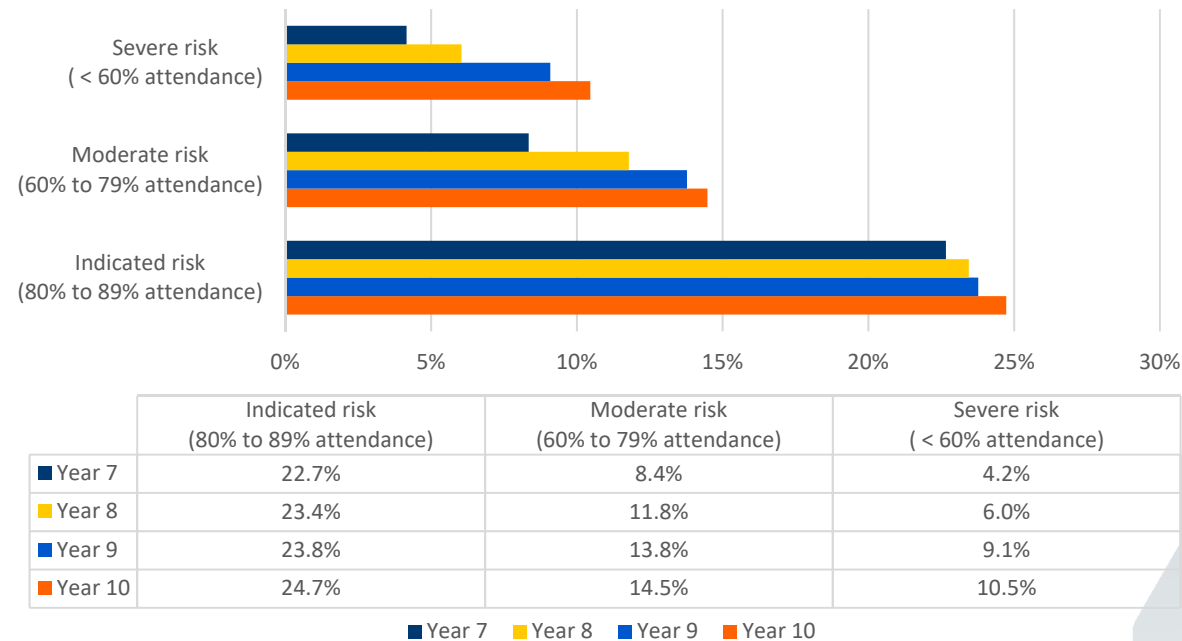
What does the attendance data show?

Tasmanian schools attendance rates, levels and ICSEA scores - 2017



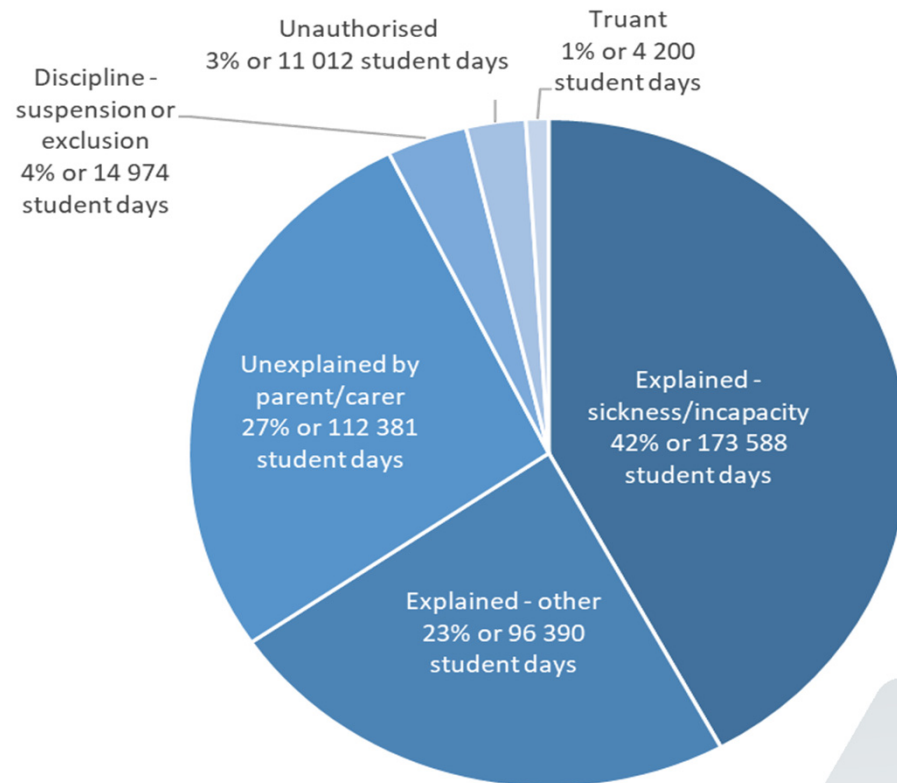
What does the attendance data show?

Percentage of students in Year 7 to 10 by category of educational risk - 2017



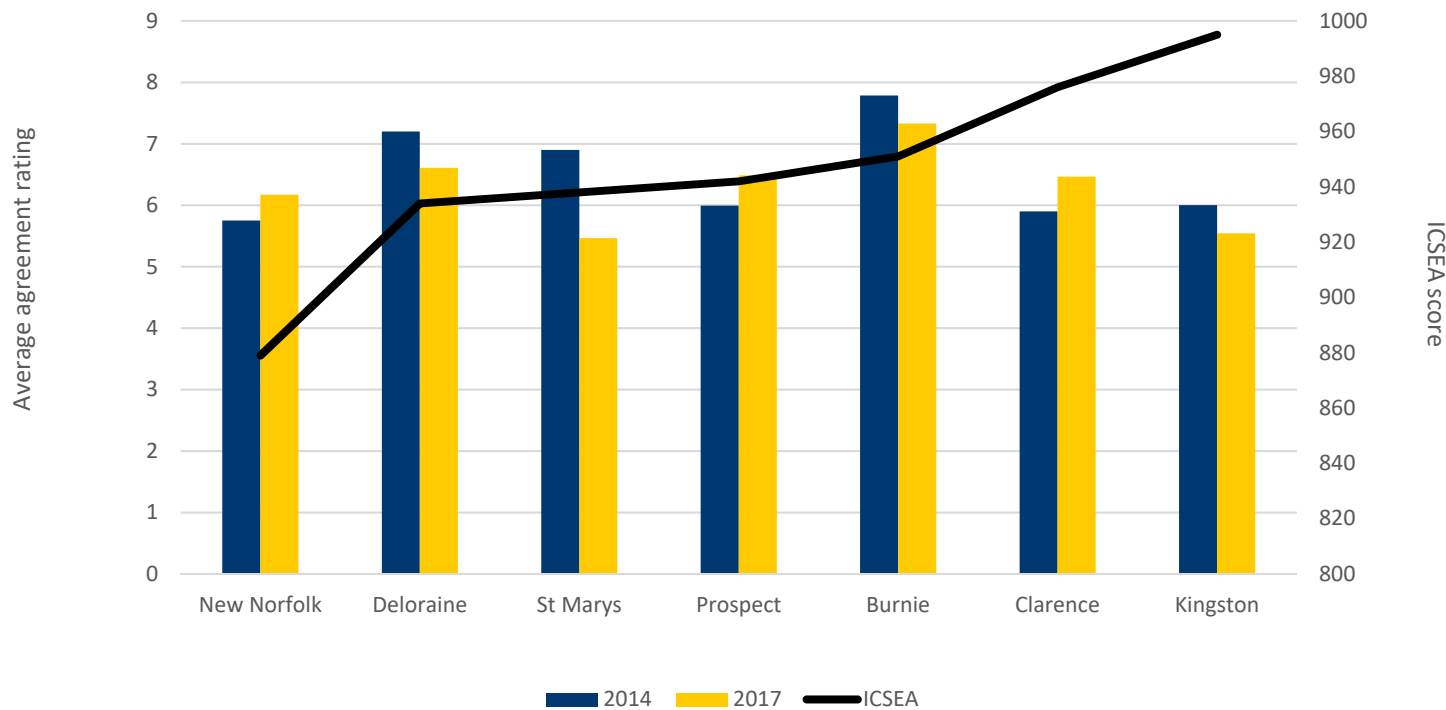
Is student attendance recorded, monitored, reported and analysed?

Percentage of absences by reason in schools for the 2017 school year



Does DoE support and measure improvement in student engagement?

Responses to DoE surveys in 2014 and 2017
sorted by ICSEA score



Main findings

- Average attendance rate of 88% for high schools had not substantially changed between 2014 and 2017
- Attendance lower than the Australian average – Tasmanian students attending fewer days
- 2017, 91% Year 7 students with an acceptable attendance rate but dropped to 85% for Year 10
- DoE has attendance policies and procedures and had established appropriate systems and processes to record and monitor student attendance
- No evidence student data used to effectively monitor trends or establish improvement targets for students at educational risk

Main findings

- Student engagement data held by DoE was student centric
- Annual satisfaction surveys provide broad indicators of changes in student engagement but no targets specific to student engagement
- DoE had a structure of interventions to minimise student disengagement but we could not find information detailing the benefits of these programs over time

Auditor-General conclusion

- Key elements are in place within policies, processes and systems to support DoE's effective management of student attendance and engagement for Years 7 to 10
- Whilst the framework is effective, it could be enhanced by further investment in:
 - improving student attendance data quality
 - better defining and capturing student engagement data
 - enhancing monitoring and reporting systems
 - establishing and monitoring performance targets for acceptable attendance and engagement

Recommendations

We made 23 recommendations aimed at improving DoE's management of government high school attendance and engagement. In summary we recommended DoE:

- Provide additional training to teachers to improve documentation and teacher performance
- Better define, use and report performance measures and targets
- Continue to improve its internal reporting mechanisms
- Improve its analysis of attendance and engagement information



Tasmanian Audit Office

Performance Management in
the Tasmanian State Service:
A focus on quality conversations

Report of the Auditor-General
No. 7 of 2018-19

Janine McGuinness
Director - Quality and Review





Objective

To evaluate the effectiveness of the performance management in the Tasmanian State Service with a specific focus on the ***effectiveness of performance and development conversations between managers*** (including supervisors) ***and employees*** that form the basis for providing and receiving feedback.



Scope

- Selected agencies:
 - Communities Tasmania
 - Education
 - Health
 - Justice
 - Premier and Cabinet
- About half of State Service employees.



Framework

- Existing model – Employment Direction 26 - *Managing Performance in the State Service* (ED 26).
- **Not** a compliance audit against ED 26 (which is currently under review).
- We formed an opinion through seeking feedback on quality of conversations, as well as the broader framework through a staged approach.

Audit Approach



Mix of agencies, business units, managers/supervisors, regions. In-depth discussion on issues raised in survey.

Based on audit sub-criteria.
21% response rate.

Initial assessment from experts on the ground.



Audit Criteria

Is there a shared understanding between managers and employees on the purpose of performance and development conversations?

Are managers and employees equipped to engage in performance and development conversations?

Is there shared ownership and accountability for the performance management process?

Do employees and managers engage in quality performance and development conversations?

Are the principles and foundational elements of the broader performance management framework effective?





Findings

- Managing performance and managing development seen as distinct exercises.
- Perception by employees that performance management means managing underperformance.
- Disconnect between managers and employees over the emphasis on either **how** outcomes are achieved, or **what** outcomes are achieved.

Findings

- Employees' motivations:

What motivates you to go the 'extra mile'?

Least motivating:

- Public recognition
- Private recognition
- Monetary reward

Most motivating:

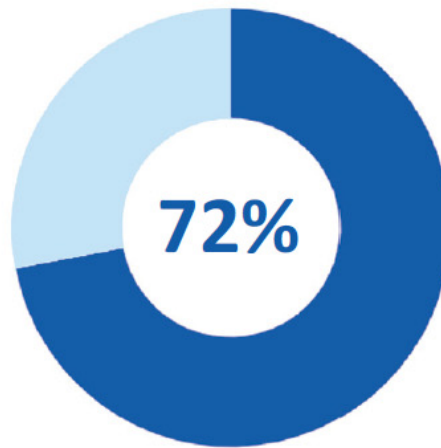
- Ownership of tasks
- Help my team
- Serving my community
- Learning something new

- Agencies generally not assessing the effectiveness of conversations - focus is on whether they took place.

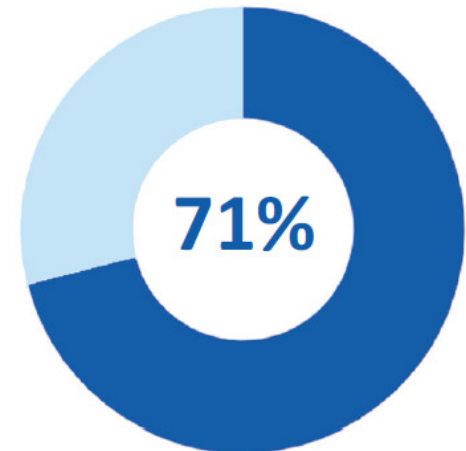
Findings

- Two key foundational elements are in place:

Percentage of employees who agree:
'I am responsible for my performance management'



Percentage of employees who agree:
'I consider my performance objectives in my day to day work'



Percentage of **employees** that agree:
'I feel comfortable asking for feedback'

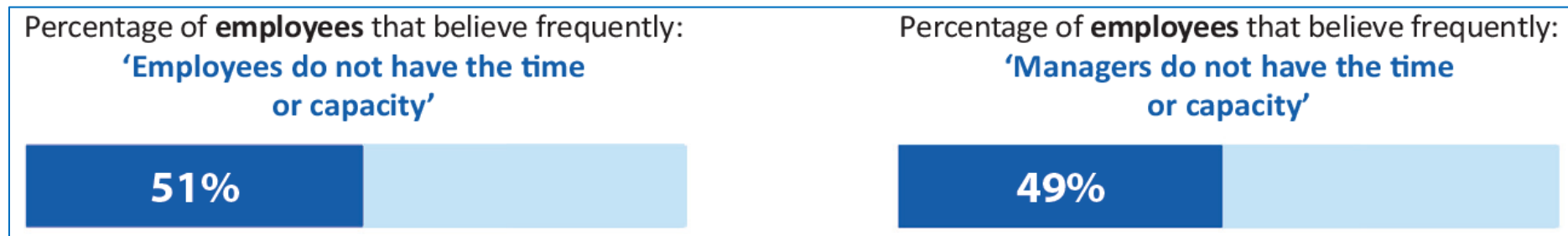


Percentage of **managers** that agree:
'My team feels comfortable asking for feedback'



Findings

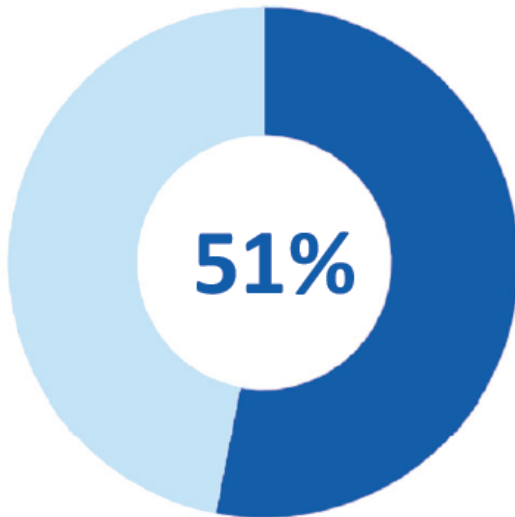
- Generally found conversations do result in agreed actions but follow up of actions not considered effective.
- Time and capacity also impact on conversation effectiveness:



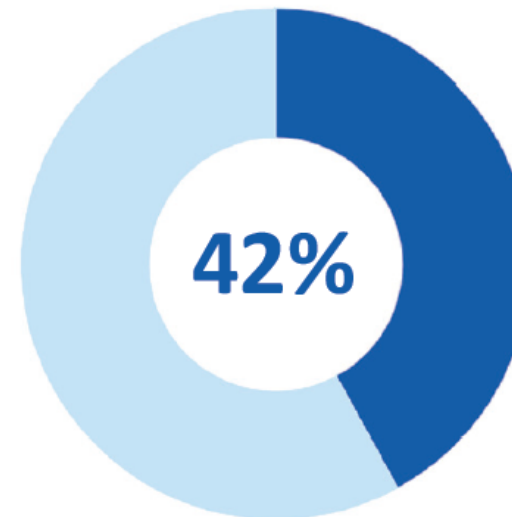
Findings

- Focus on compliance rather than employee development:

When asked to best describe performance management at their agency the percentage of employees who chose the phrase:
'A compliance exercise'



When asked to describe the biggest barrier to performance management the percentage of employees who chose the phrase:
'The focus is on compliance rather than employee development'





Findings

- Managers believe performance and development conversations are occurring more frequently than employees do.
- Difference in perception between managers and employees in what constitutes a performance and development conversation.



Audit Conclusion

Foundational elements in place for agencies to conduct effective conversations.

Framework **partially effective** - need greater investment in policies, training, technology and quality review to remove current barriers to achieving more effective conversations.



Recommendation

Each agency:

- undertake a **self-assessment** against possible agency responses listed in Report
- agencies develop a **plan for implementation.**



THANK YOU



Tasmanian
Audit Office