



Tasmanian
Audit Office

Client Information Session

Government Business Enterprises

27 April 2023

Agenda

Time	Presenter	Topic
09:30 – 09:35	Rod Whitehead Jonathan Wassell	Introduction
09:35 – 10:05	Stephen Morrison	Findings and observations from 2022 audit cycle Recap on 2022 audit cycle focus areas Audit focus areas for 2023 audit cycle
10:05 – 10:30	Janine McGuinness	Your entity is subject to a performance audit - here's what to expect
10:30 – 10:40	Break	
10:40 – 11:05	David Bond	Data analytics and IT audit
11:05 – 11:30	Jeff Tongs	Overview of current reporting matters and other considerations
11:30 – 11:40	Rod Whitehead	Questions and close

Thank you for joining us

- Ensure you are on mute.
- Switch your camera off.
- Hold questions for the end of each section where possible.
- Use the chat function, which will be monitored.
- Remember to remove raise hand once your question has been answered.

Deputy Auditor-General

Jonathan Wassell

- Background.
- Deputy focus:
 - Performance Audit
 - Corporate Support and Strategy.

Chat Monitor

Please enter your question into the chat function and I will collate the questions for my colleagues at the end of each section.



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2022 findings and observations and 2023 focus areas

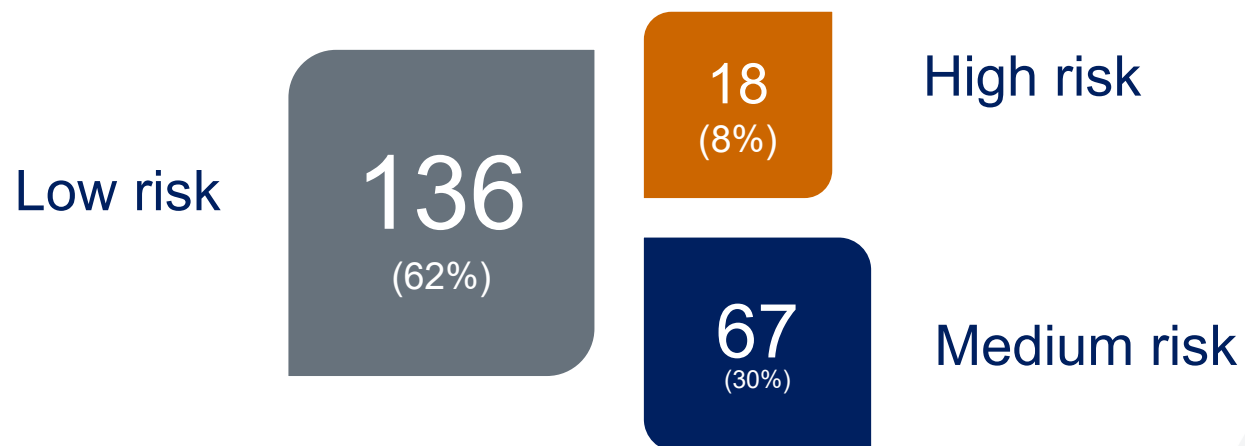
Stephen Morrison

Topics

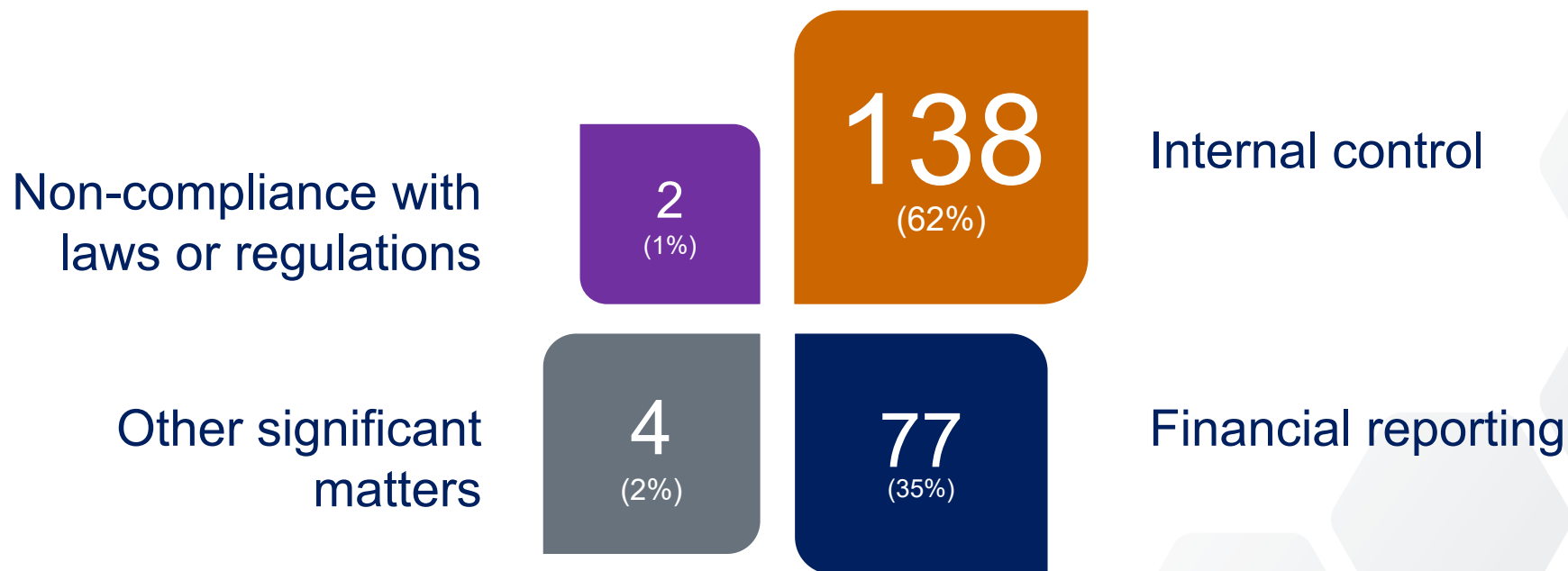
- Findings and observations from 2022 audit cycle:
 - audit findings
 - prior period errors.
- Recap on audit focus areas in 2022 audit cycle.
- Audit focus areas for 2023 audit cycle:
 - internal control focus areas for 2023
 - key management personnel disclosures
 - contractual arrangements with third parties

New 2022 findings (by risk rating)

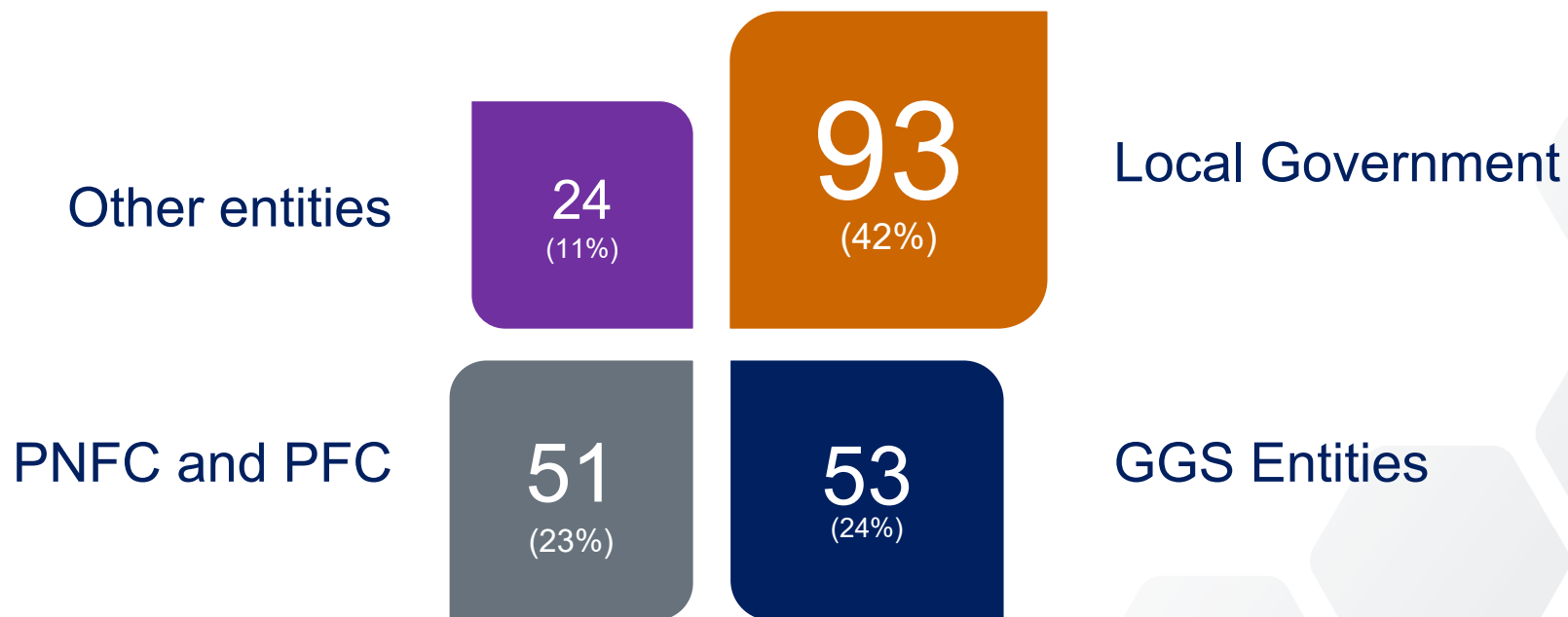
- 221 new findings in 31 December 2021 and 30 June 2022 financial statement audits.



New 2022 findings (by classification)



New 2022 findings (by sector)



New 2022 findings (focus area)

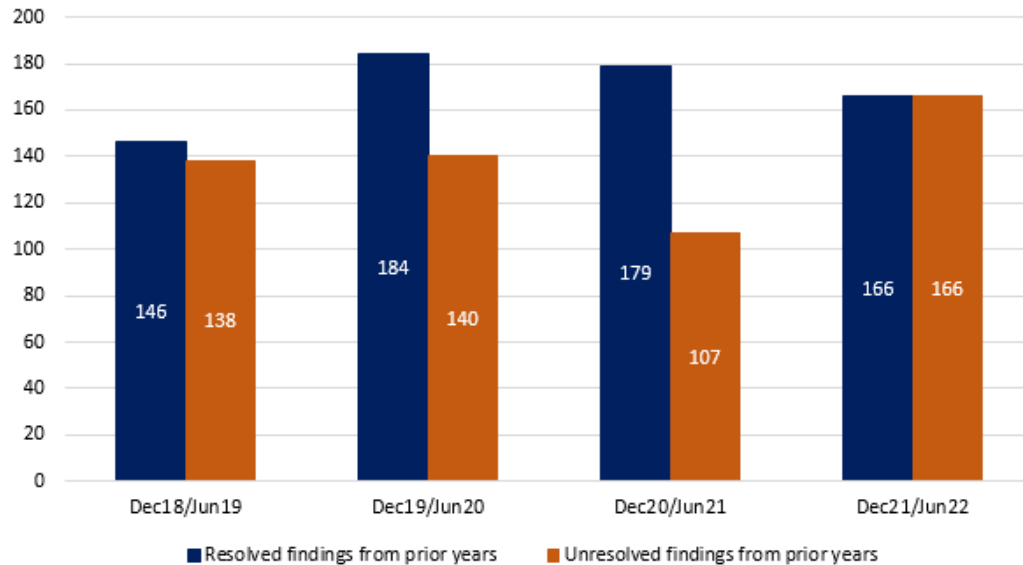
- Payroll control findings:
 - timesheet approvals not being documented
 - employees approving their own timesheets
 - employees able to change their own pay details
 - lack of oversight arising from key payroll system reports not being prepared, or reviewed
 - payroll services were provided by a third party with no service level agreement in place.

New 2022 findings (focus area)

- Non-financial (physical) asset control findings:
 - lack of documented assessment and oversight of valuations by management or those charged with governance
 - absence of controls to reconcile the asset register with the general ledger.

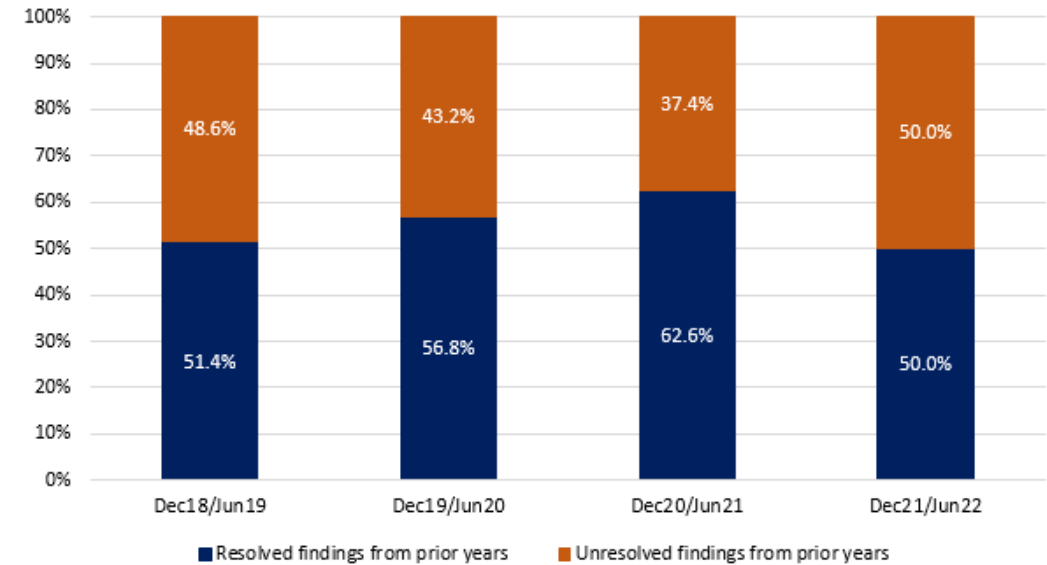
Prior year findings

Number of prior years' audit findings resolved or unresolved each year



166 unresolved prior year findings

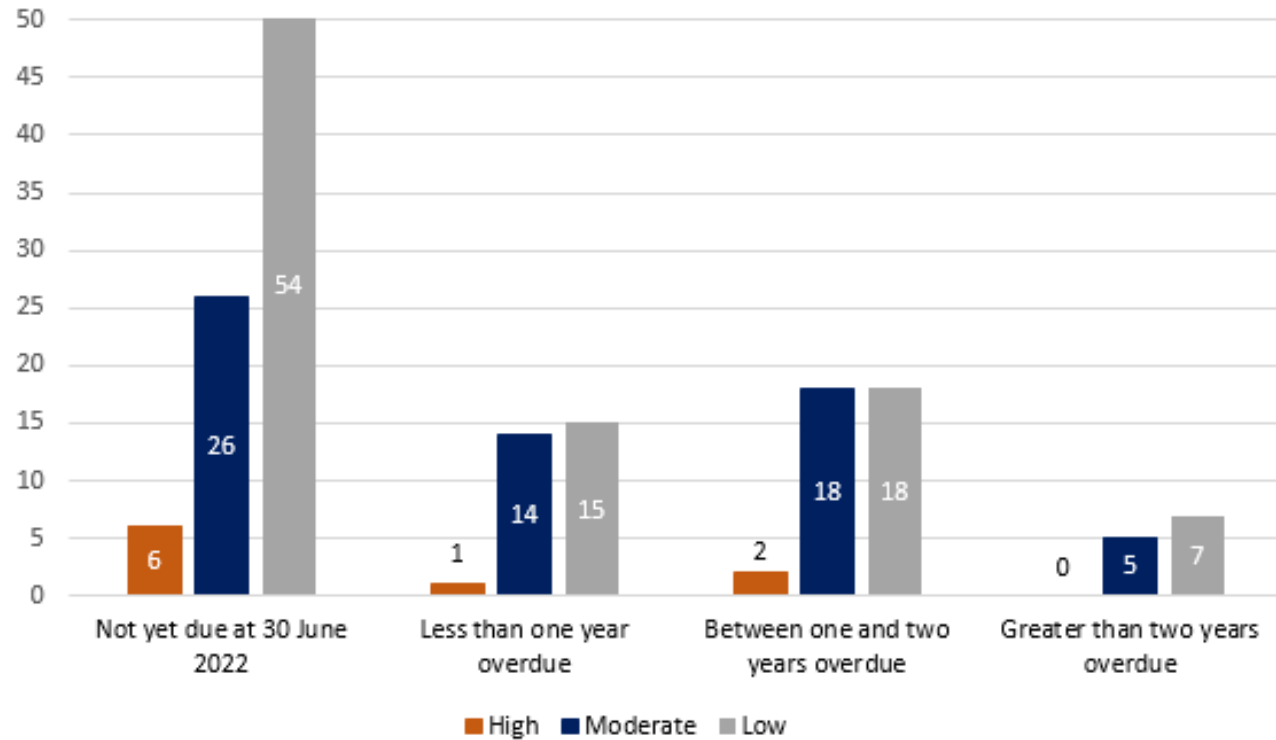
Resolution of prior years' audit findings



50% prior year findings resolved

Prior year findings

Previously reported findings (yet to be resolved from date corrective action was due) aging analysis



Misstatements

Misstatements identified for 31 December 2021 and 30 June 2022 audits

Item	Assets \$'000s	Liabilities \$'000s	Equity \$'000s	Revenue \$'000s	Expenses \$'000s
Corrected misstatements	44,597	(27,153)	25,757	18,609	(61,809)
Uncorrected misstatements	26,656	(10,863)	(29,919)	9,301	4,825
Total	71,253	(38,016)	(4,162)	27,910	(56,984)

Positive numbers are debits and negative balances are credits.

Prior period errors

- Seven prior period errors were reported in the completed audits for 31 December 2021 and 30 June 2022, compared to 24 for the preceding year.



Recap on focus areas 2022 audit cycle

- Risk assessment for financial reporting obligations.
- Documentation of key controls.
- Variety of approaches:
 - broader risks versus financial statement line item risks
 - flow charts versus narrative style.
- Examples from the field.

Recap focus areas 2022





Broader risks with risk ratings

Financial reporting risk	Description and impact of the financial reporting risk	Inherent Risk rating	Mitigating control for financial reporting risk	Other assurance activities	Residual risk rating
Inaccurate Provisioning for Bad and Doubtful Debts	provisioning for bad and doubtful debts is inaccurate resulting in higher than provisioned write-offs that impact profitability.	Medium	<ul style="list-style-type: none"> Bad and doubtful debts model established that is updated and reviewed monthly based on rolling 12 month roll-rates. Management consider broader economic impacts for incorporation as part of valuation considerations of Accounting & Finance Matters Papers. Treasury Committee meetings incorporating operational credit risk reporting and discussion. 	• TAO External Audit	Medium
is incorrectly deemed a going concern	is incorrectly assessed as a going concern and its financial statements are incorrectly prepared on this basis.	Medium	<ul style="list-style-type: none"> undertakes an assessment of its going concern each quarter as part of its Accounting & Finance Matters Paper to (which is also reviewed by TAO). This assessment is informed by its most recent approved financial reforecasts and annual four year Corporate Plan. 		Low
Inadequate financial team capability	finance team is inadequately skilled leading to errors in financial reporting.	Medium	<ul style="list-style-type: none"> All senior members of the team are qualified Chartered Accountants (CA) and Certified Practising Accountants (CPA) and must undertake Continuing Professional Development (CPD) training hours to maintain qualification. 		Low

Financial reporting risk	Description and impact of the financial reporting risk	Inherent Risk rating	Mitigating control for financial reporting risk	Other assurance activities	Residual risk rating
			monthly as part of Board reporting. <ul style="list-style-type: none"> Data Engineer/Analyst engaged to support enhancement of existing processes and implementation of analytics, reporting and reconciliation. 		
Commitment of Fraud	With the exception of its billing systems, the input of financial information to financial accounting system is undertaken through journal entries and as such there is a risk of material misstatement due to fraud.	Medium	<ul style="list-style-type: none"> System delegations restrict the ability to process journals to finance team members. General ledger reconciliations to source information. 	<ul style="list-style-type: none"> Fraud and Corruption Internal Compliance Audit 	Low
Non-compliance with Australian Accounting Standards	does not comply with existing or new Australian Accounting Standards in the preparation of its financial statements.	Low	<ul style="list-style-type: none"> Management undertakes a review of new and amended accounting standards quarterly as part of its Accounting & Finance Matters Paper to (which is also reviewed by TAO). This is informed by via its ongoing tax and technical accounting service from 		Low

Recap focus areas 2022





Line item risks with detailed risk cards

Category	Value \$'000	Inherent Risk Rating	Residual Risk Rating	Control Evaluation	Limitations / Gaps
Statement of Profit and Loss					
<p>sales, fees, and changes</p> <ul style="list-style-type: none"> - related sales - Fees and Charges 		 <p>HIGH</p>	 <p>MEDIUM</p>	<p>Controls are effective.</p> <p>These P&L lines relate to product / Current methods of raising invoices / fee waivers / refunds / concessions and the limitations of the system have meant that proof in totals to provide confidence that all revenue has been billed in the period can not be achieved. There are some limitations in tracking budgets due to concessions and payment methods.</p>	<ul style="list-style-type: none"> - Limitation in controls that can be put in place due to data quality. - Limitation in budget tracking, data analysis and analytical procedures to provide confidence on revenue completeness.
Government contracts		 <p>HIGH</p>	 <p>MEDIUM</p>	<p>Controls are effective.</p> <p>There are timing issues at the end of the financial year that may require estimations of final grant amounts based on activity data. There have been data quality issues in the past that may warrant adjustment if it is materially different from the estimate.</p>	<ul style="list-style-type: none"> - Timing issues of annual statements in relation to preparation of financial statements lend to the use of estimates and the need for subsequent events to be required. - As low-quality activity-based data is being used for some government payments, there is a risk of the year end values are incorrect or that amounts have been placed in the wrong cut-off period. - Reliance is placed on the acquittal process.

Recap focus areas 2022

Line item risks with detailed risk cards

Profit and Loss Statement Items

Grant Revenue			
Items included (\$'000)	Grants/Deed of purchasing		Capital grants
Inherent risk rating:	 HIGH		 HIGH
Post-mitigation risk rating:	 LOW		 LOW
Related policies (obtained from accounts):	<ul style="list-style-type: none">Grant revenue, where there is a sufficiently specific performance obligation attached, is recognised then/ satisfies the performance obligation and transfers the promised goods or services.Grant revenue without a sufficiently specific performance obligation is recognised when gains control of the asset.		
Associated Key processes/Accounts	Controls/ Mitigation procedures:		
<ul style="list-style-type: none">ReceivablesCashContract LiabilitiesPPEPayments	Daily/Weekly controls	Monthly Controls	Yearly controls
Technology used:	<ul style="list-style-type: none">A WIP balance is maintained through the use of project codes.Segregation of duties for invoicing, cash collection, and cash deposits.	<ul style="list-style-type: none">Invoice for monthly spending (listed in contract).Invoice sent to process.Mid-month reconciliation completed.Grant tracking for smaller/non-major Grants.Track capital grant amounts which are required to be acquitted through project codes.Project codes also used to track how much is left in the different grant projects.Project managers review budget codes with Finance One reports in place to enable review to be completed.Cashflow reporting and tracking.Project committee in place	<ul style="list-style-type: none">Reviewed against Deed of Purchasing Arrangement.Yearly Budget allocations agreed to Year-end accounts figure.Review of grant income againstYearly Budget allocations agreed to Year-end accounts figureDelegations' policy for approving/signing off on grant income.Yearly review of budget against expenditure, with investigations completed or variances to ensure that they are reasonableness.Reviews when the grant is received to ensure that the receipt of the grant monies is in accordance to standards (normally recognised when received).
<ul style="list-style-type: none">Finance One			

Recap focus areas 2022

Line item risks with detailed risk cards

	Daily/Weekly controls	Monthly Controls	Yearly controls
	<ul style="list-style-type: none">• Requests to invoice are received from and reviewed and inputted by an accounts receivable officer. Once complete the file is reviewed & certified by the next senior officer and notated in;• that the invoices are approved for issuance. Once issued the invoices are posted by the Manager Financial Operations (segregation of duties).	N/A	N/A
Specific controls for fraud and errors:			
<ul style="list-style-type: none">• Reviews of agreements and spends vs budget completed• Segregation of duties between the invoicing processes and posting to the GL.• Delegations' policy is in place for grant processing.• Segregation of duties for invoicing, cash collection, and cash deposits.			
Estimates/ Key Judgements involved:			
<ul style="list-style-type: none">• N/A			
Oversight/ Governance aspects in place:			
<ul style="list-style-type: none">• Grant income/expenditure is signed off by a delegated staff member.• Policies and procedures are signed off by the Board.• Acquittals are required to be produced and signed off.• Policies for recognition of grant income is signed off regularly.			
Any known exposures / gaps / concerns			
The following were flagged as potential issues:			
<ul style="list-style-type: none">• Fraud risk - some grants are applied for outside of central team (e.g. cyber grant) where there may not be an awareness within the Finance Team of the grant. Risk of the use of personal accounts used to transfer grant monies.			

Recap focus areas 2022

Risk/control documentation not rated

Process	Reference	Risks	R[A]	Controls	C[1]	Related process details and non-key controls (if applicable)	Finance Manual Reference
Entity Level Business Risks	Not applicable - Entity level controls	There is a material misstatement reporting in the financial statements, either fraudulently or in error.		Active Audit Committee who oversee both internal and external audit, as well as implementing any recommendations.		Audit committee is responsible for the overall management of financial reporting risk. As defined, the scope of the Audit Committee is to manage and oversee financial reporting, regulatory obligations, internal and external audit and risk management framework.	Not applicable - Not related to any individual business process
				Sufficient segregation of duties across all processes in order to mitigate the overall business risk.		Throughout the entity, all employees must seek relevant approval and review on entering or completing certain transactions. This is based on a risk approach to identify areas in which puts XXXX at risk of fraud or error.	
				Implement an entity wide delegation authority in which all staff and TC/VG must adhere to.		All employees (including TC/VG) must abide by a Board approved delegation policy. This lowers the over risk of material inappropriate expenditure and contracts.	
				Own, maintain and implement a Code-of-Conduct that all staff must adhere to.		The Code of Conduct and Ethics (Code) governs operations and the conduct of Directors, employees, consultants and all other people when they represent XXXX.	
Expenditure	Risk A - R[A] and Control 1 - C[1]	Items not appropriately ordered		Purchase requests are approved		PO systems being used include: - System A - System B - System C. System A is primarily used for general purpose goods and capital expenditure. Purchase requests are reviewed and approved before the purchase order is issued to the supplier. System B purchase orders are often initiated from Group A then reviewed by Group B. System C maintain order pricing and threshold with in the system, Purchasing manager also has access to a dashboard to manage the status of purchase orders in process. System A also has dollar enforced approval limits.	AP.44
	Risk B - R[B] and Control 2 - C[2]	Invoices recorded/classified incorrectly		Expense details are entered by invoice user Invoices are approved prior to payment		There are multiple review points for invoice date, number, amount and supplier - both in the purchasing departments and within System A and the AP process. Classification of coding such as correct general ledger or expenditure / capital expenditure classification is done on final review prior to posting and at month end expense GL's are reviewed against budget and prior year costs, commentary is provided to the CFO on significant variances.	AP.44
	Risk C - R[C] and Control 3 - C[3]	Misappropriation of funds during payment process		Staff sign off on two sample check. Two signatories on cheques. Two authorisation in xxxx on EFT payments		Payments are generated from System X which creates supplier remittances and bank files. File is uploaded as created. During the review process it may be identified that there is an error with a supplier payment, in this instance the whole payment line is removed (payable amount not amended) and journal processed to adjust the payment. Files are saved on network drive, amended discussed is a group WebEx space and version controls of documents are stored. Two authorities required to process a payment.	AP.12
	Risk D - R[D] and Control 4 - C[4]	Risk of misappropriation of funds by changing of creditor details		- Master file data amendments performed and validated currently by corporate services team member. - Bank file is sample checked against original invoices by independent reviewer, however all parties have access to source all source documents. - Batch check is performed by a second AP			AP.5

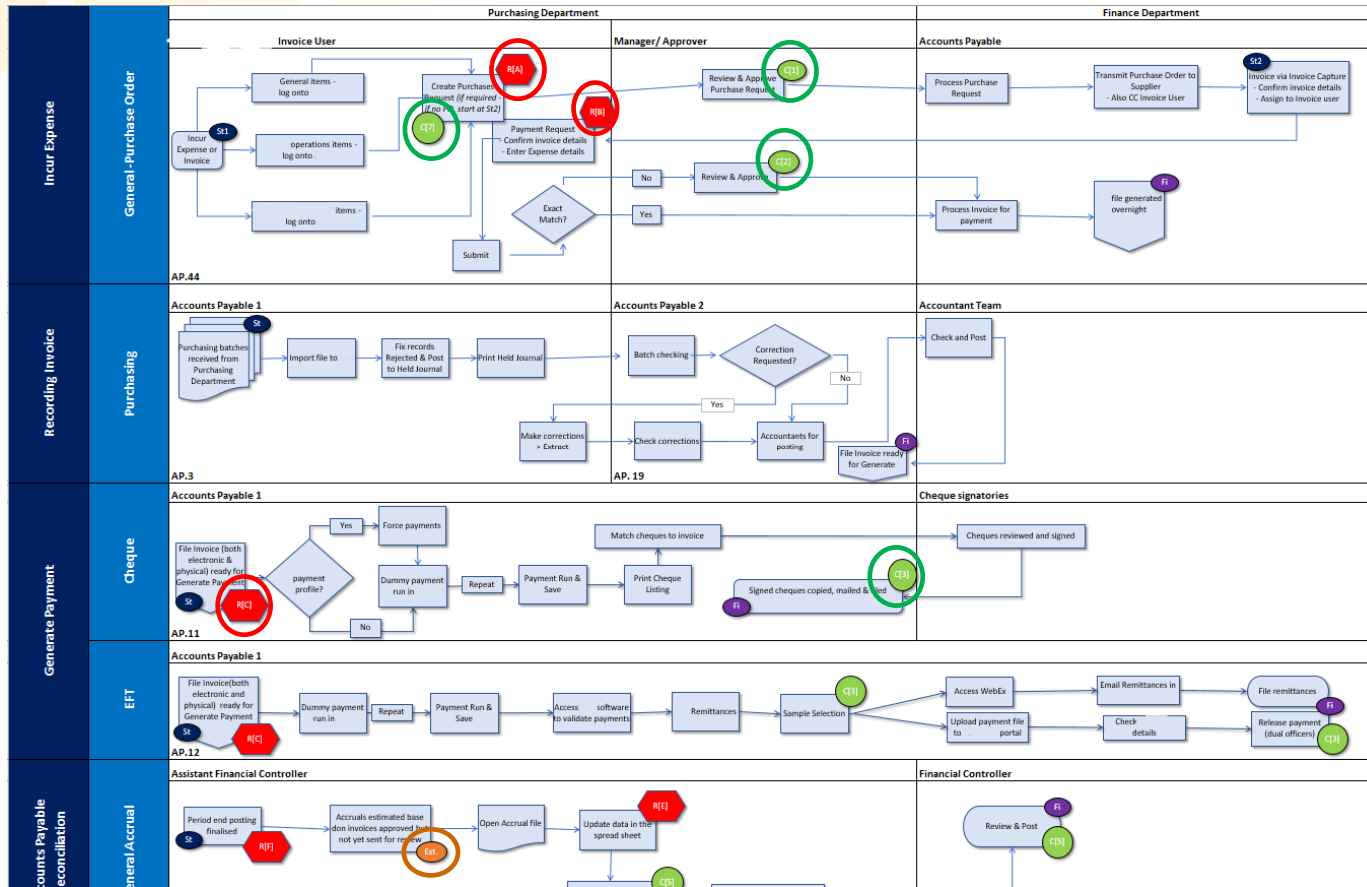
Recap focus areas 2022

Process documentation
(including key controls) –
flow chart style

Risks

Control points

Areas of estimation



Recap focus areas 2022

Process documentation (including key controls) – narrative style

3 General Finance Processes

3.1 Fraud Prevention

3.1.1 Detailed controls to prevent fraud

3.2 Journals

3.2.1 Processes

3.2.2 Key Risks

3.2.3 Detailed controls

3.3 Cost Allocation Methodology (CAM)

3.3.1 Processes

3.3.2 Key Risks

3.3.3 Detailed Controls

4 General Ledger Accounts

4.1 Revenue

4.1.1 Processes

4.1.2 Key Risks

4.1.3 Detailed Controls

4.2 Expenditure

4.2.1 Processes

4.2.2 Key Risks

4.2.3 Detailed Controls

4.3 Assets

4.3.1 Processes

4.3.2 Key Risks

4.3.3 Detailed Controls

4.3.4 Material Judgements and Estimates

4 General Ledger Accounts

4.1 Revenue

XXXXX derives its revenue from contracts with customers for the transfer of goods and services both over time and upon completion. Revenue is recognised at fair value of the consideration received or receivable net of the amount of GST payable.

4.1.1 Processes

- Invoicing** – Approved invoicing requests are sent to accounts receivable. The approval of the invoice is per the delegations framework. Invoice requests are received either via email attaching the invoice request form, a XXXXX template (monthly billings) or a XXXXX request (daily invoices). Invoice requests are sent to accounts receivable via the XXXXX inbox.
- Accruals** – work completed not yet invoiced to the customer are entered into the system as manual accruals. Income accruals are determined and processed by Finance as part of the month end reporting process. Accruals are entered into xxx via a journal (see section 3.1). Accrual journals must be supported by independent verification of the requirement for and value of the accrual.
- Unbilled services provided** – As part of the month end financial reporting process, a report and associated data is extracted from the XXXX Billing System which details estimated unbilled services. This information is extracted by XXXX as part of their month end processes and provided to Finance for high-level review prior to being processed as a month end journal (see section 3.1).
- Income received in advance** – revenue recognition rules under Australian Accounting Standards require the performance obligation to be completed prior to the recognition of revenue in the financial statements. XXXXXX has a large number of jobs that require invoicing and payment by the customer prior to the commencement of works as well as a number of contracts for long-term XXXXXXXXXX. These invoices are allocated to income received in advance by the Senior Treasury Analyst and a monthly revenue recognition journal (see section 3.1) is completed by the Senior Treasury

4.1.2 Key Risks

- Completeness of revenue for the year, not all transactions may be captured or there may be duplication of transactions.
- Fraudulent transactions
- Invoicing occurs without approval
- Timing of revenue recognition into the correct month and financial year

4.1.3 Detailed Controls

Delegations Framework – provides a number of reserved functions and general controls around revenue including:

- Invoicing approval limits; and
- Income/income stream approvals.

System Controls – invoices can only be raised by the Accounts Receivable team.

Regular Reporting – Revenue is recognised and reported on as part of the monthly performance report.

Reconciliations – reconciliations are completed and reviewed each month for a number of general ledger accounts associated with revenue such as income received in advance and accrued revenue.

Checklist – the unbilled services process has a checklist of steps that are required to be completed to verify the process, data and review.

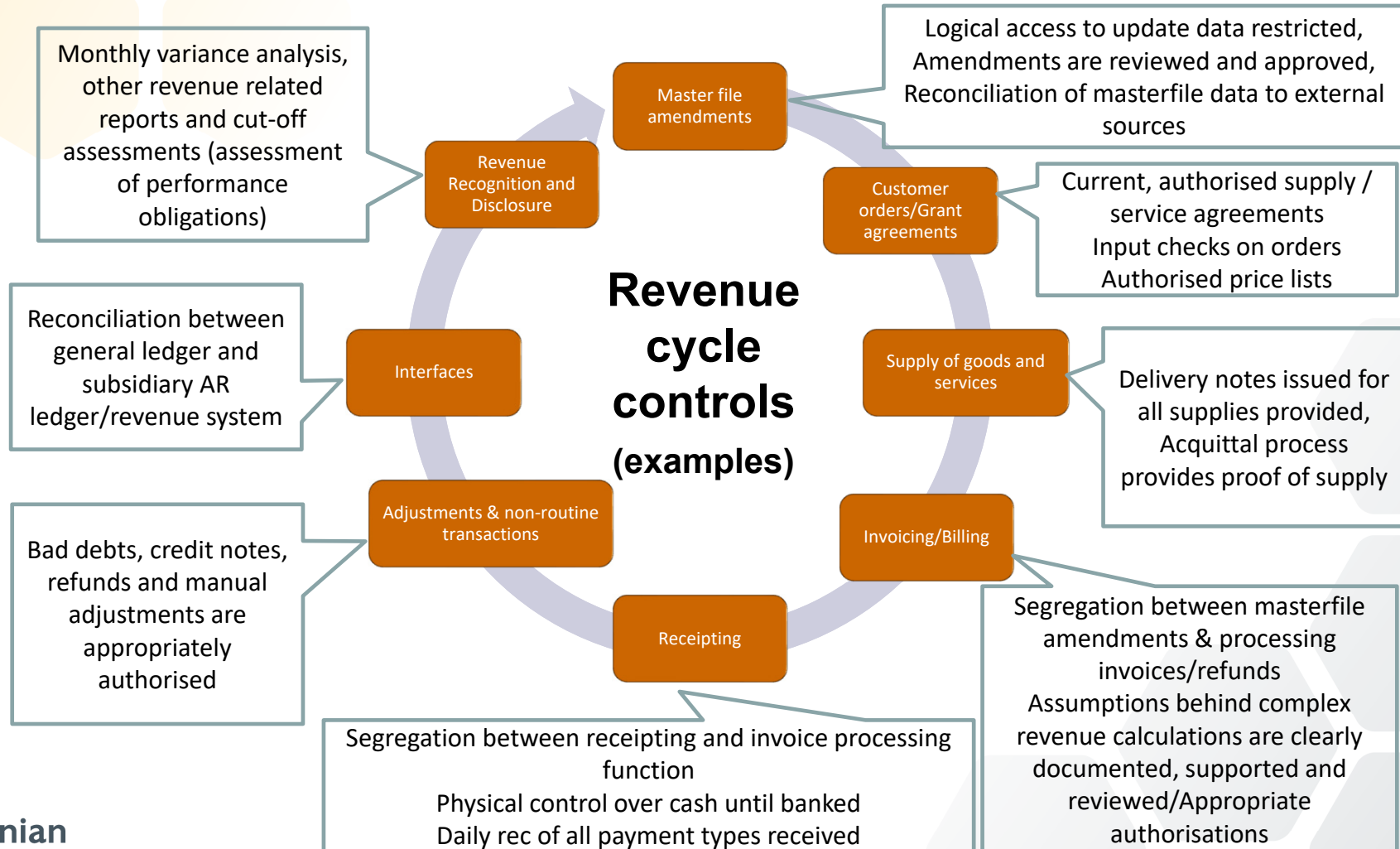
Credit Risk Committee – oversees the follow up of outstanding debtors amounts which would have initially been revenue. This oversight ensure control against fraudulent or incorrect invoices (these would remain unpaid).

Audit – All billing data and processes (used to generate revenue invoices) are subject to 6 monthly audits.

Internal control focus areas 2023

- General Information Technology Controls (GITC):
 - initial review on GITC in 2022
 - more detailed review in 2023 (covered later).
- Revenue controls:
 - not all controls will be relevant to all entities
 - will depend on revenue types and systems used.

Revenue cycle controls (examples)



Key management personnel disclosures

- Discussing with the Department of Treasury and Finance:
 - enhancing template document.
- Consistency of calculation between entities, e.g.:
 - other non-monetary benefits (including FBT impact)
 - personal use vehicle costs (including FBT impact).

Third party providers

- Contractual arrangements (including service level agreements):
 - documented
 - breadth of services
 - key performance indicators.
- Risk assessment - Remains the responsibility of management.
- Monitoring and oversight processes:
 - ongoing contract management
 - service Organisation Control (SOC) reports (Type 1 and Type 2)
 - anything else?

Questions





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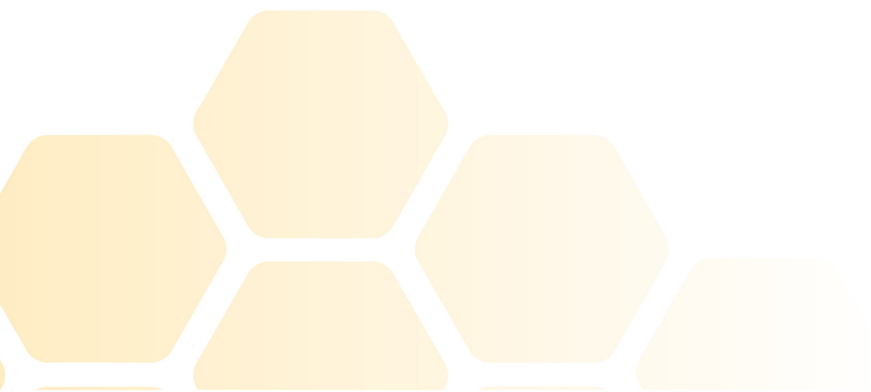
Performance Audit

Janine McGuinness



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Performance audit – There
is a performance audit
commencing in my entity –
here's what to expect



Performance audits – what are they?

- Section 23 *Audit Act 2008* – Examinations and investigations:
(e) examining the efficiency, effectiveness and economy of a State entity, a number of State entities, a part of a State entity or a subsidiary of a State entity.
- ASAE 3500 – Standard on Assurance Engagements – Performance Engagements.
- Independent, external, tabled in the Parliament.
- Annual Plan of Work, published on our website by 30 June each year.
- Investigations:
 - reactive
 - at discretion of the Auditor-General
 - not listed in the Annual Plan of Work.

The performance audit lifecycle



Planning Phase

Scoping

- Letter advising commencement of audit planning for the audit to you and to Parliament
- Entry meeting - the audit team, topic, approach and timing

Pre-study

- Preliminary discussions
- Review some documentation
- Test our audit scope and criteria
- Finalise our Audit Plan

Implementation Phase

Fieldwork & analysis

- Audit Plan - the audit has now commenced
- Contact Officer - Executive level
- Requests for access to: people, documentation, data and/or site
- Types of evidence depends on the audit topic

Preliminary findings

- Meeting to discuss our preliminary findings
- Presentation - what have we found and potential recommendations
- Opportunity for input

Reporting Phase

Draft report

- Sent to you for consultation with 'response grid'
- Comments can be general or specific
- Recommendations:
 - 'What' not 'how'
 - Can you implement?

Final report

- Copy to Treasurer, relevant Minister(s) and your head of entity for formal comment
- Explanation: what did we change or leave and why
- Usually published verbatim

Follow up

- Public Accounts Committee inquiry
- Formal follow up audits
- Regular reporting to your Audit Committee

Questions



Break





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Data Analytics and IT Audit

David Bond



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Data Analytics

Our vision, strategy, governance,
and engagement

Data Analytics Engagement

How we will engage with audit clients with Data Analytics (DA) to enhance reporting and value to clients' business



Initiation

We embarked on a DA journey from a FY 21-22 budget bid



Governance

A framework of documents from strategy to change control



Objectives

How DA enhances organisation's business



Expectations

Provisions and behaviours of all parties



Feedback

How we will continually improve and maintain the conversation

- We developed a Strategy for DA with the Vision:
 - improve the impact, quality and relevance of our work and reports
 - meet changing demands of public sector auditing and changes across the public sector environment.



Initiation

Budget bid
Strategy

- Successful in FY 21-22 budget bid.
- Implement DA over a four year period.
- Funding will cover two FTE's, tools, and environment setup.



Initiation

Budget bid
Strategy

- Perform audits on full population data rather than samples.
- Automate data gathering to reduce workload on clients and us.
- Receive data-sets more frequently to enable better depth and trend analysis.



Objectives

More data

More frequently

Better analysis

Client business focus

- Enhance client's business functions by providing more timely and targeted results.
- Expand scope of client applications under audit analysis.
- Use a range of tools and techniques to further enhance analysis.



Objectives

More data

More frequently

Better analysis

Client business focus

- Better understanding of client's business practices to improve audit focus.
- Improved client satisfaction with audit results.



Objectives

More data

More frequently

Better analysis

Client business focus

- A comprehensive Data Governance Framework that outlines the information management principles around data analytics.
- A Data Request Policy (internal) that defines roles and responsibilities.
- A Data Request Process for client engagement with detailed step-by-step guides for all parties.



Governance

Framework

Policy

Process

Operational documents

- A Data Collection Catalogue to track data collections received.
- A Change Control procedure to ensure any analysis is repeatable in the client's environment.



Governance

Framework

Policy

Process

Operational documents

- Process will be collaborative between clients and us, not a demand.
- Process will be a conversation to ensure benefits and accuracy are best achieved.
- As this is a new function, there will be scope for expansion, improvement, change, and consultation.



Expectations

Collaboration

Consultative

Continual improvement

Scope for expansion

- Clients will engage in the process and be willing to supply resources with the goal of ongoing simplification.
- We will understand the client's business demands and priorities.
- All data exchanges will be treated as sensitive:
 - appropriate security
 - information management measures.



Expectations

Collaboration

Consultative

Continual improvement

Scope for expansion

- We will:
 - ask for feedback at the end of the initial engagement
 - listen and act on any client concerns during the process
 - attempt to improve the process to ensure minimal resource requirements from the client.



Feedback

Benefits to client's business
Efficiency of process
Confidence in process
Suggestions

- We will:
 - strive to engender confidence in the process with the client
 - not be inflexible in its approach to data analytics
 - maintain currency of its methods through collaboration with other jurisdictions, industry, and clients.



Feedback

Benefits to client's business
Efficiency of process
Confidence in process
Suggestions




QUESTIONS?

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IT AUDIT

RISK IDENTIFICATION,
UNDERSTANDING THE ENTITY'S USE
OF IT AND IT AUDIT CONTROLS

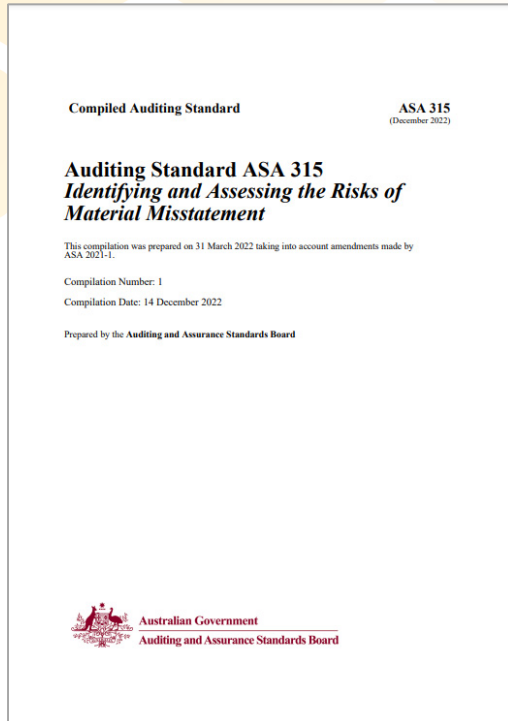
Introduction

- Information Technology (IT) is now pervasive for many entities.
- Focus on cyber security is getting larger every year, with many cyber attacks occurring in Australia, and more recently, in Tasmania.
- Many entities are now focusing on the 'Essential 8' and the Information Security Manual.

Introduction

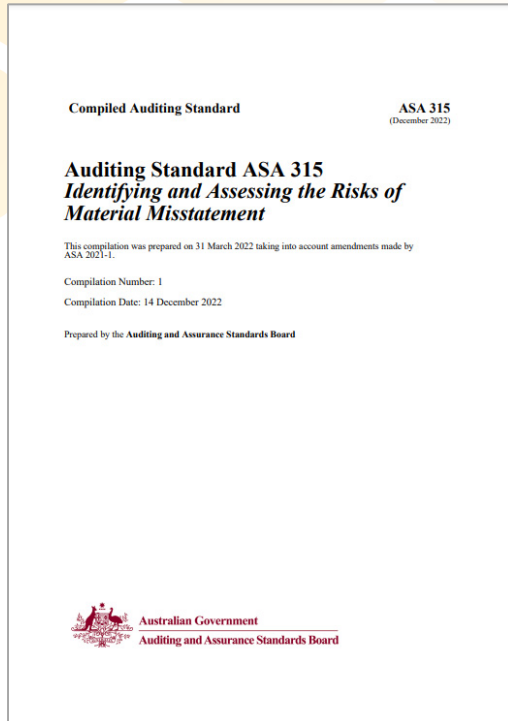
- Audit Standard ASA 315 assists in recognising how pervasive IT is, and requires the auditor to know:
 - an understanding of the entity and its information system
 - the IT environment, including data bases, operating systems and applications
 - controls to protect the IT environment and the data that it holds.

ASA 315 – key definitions



- IT environment – the IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that are used to support business operations and achieve business strategies.
- Risks arising from the use of IT – susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information) in the information system, due to ineffective design or operation of IT controls.

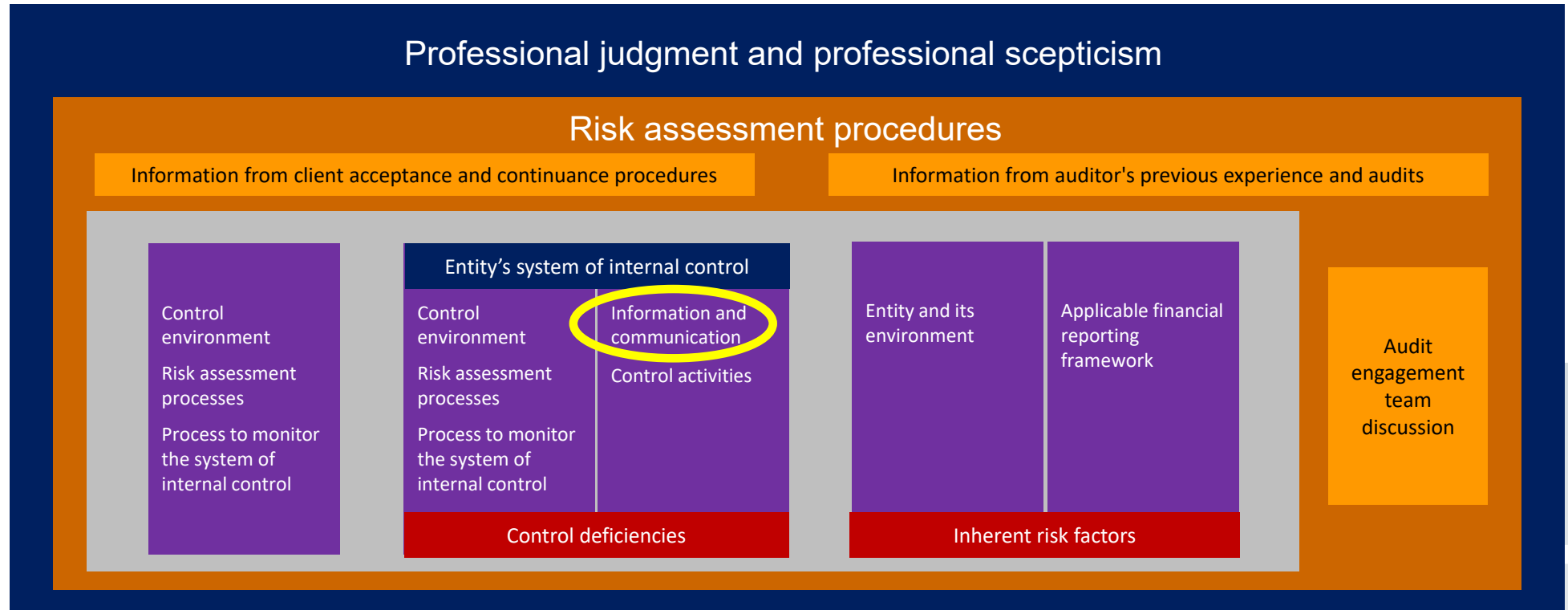
ASA 315 – key definitions



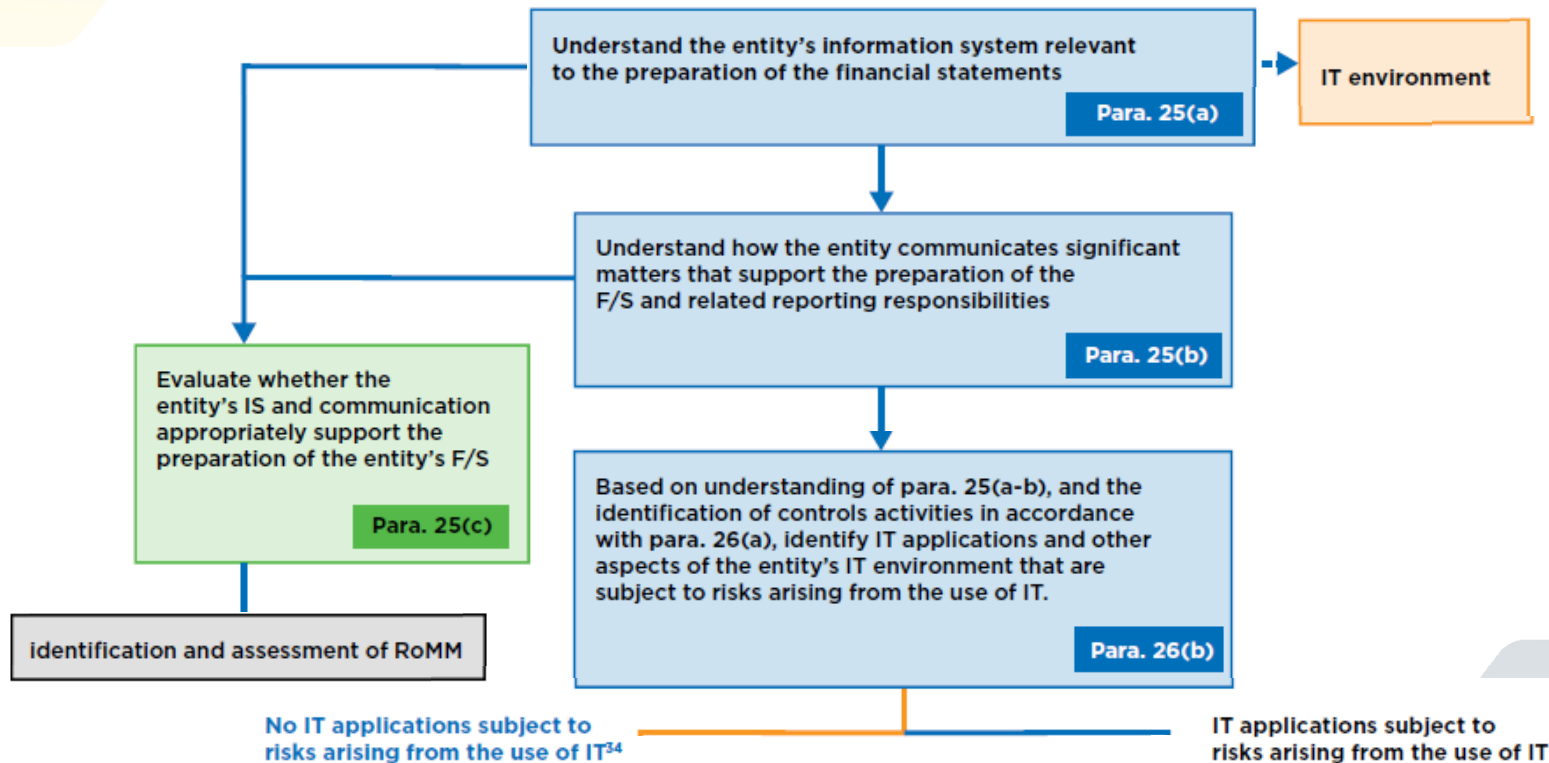
- General information technology controls (GITC) – controls over IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information (i.e., the completeness, accuracy and validity of information).
- Information processing controls – Controls relating to the processing of information in IT applications or manual information processes that directly address risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information).

Audit risk identification and assessment process

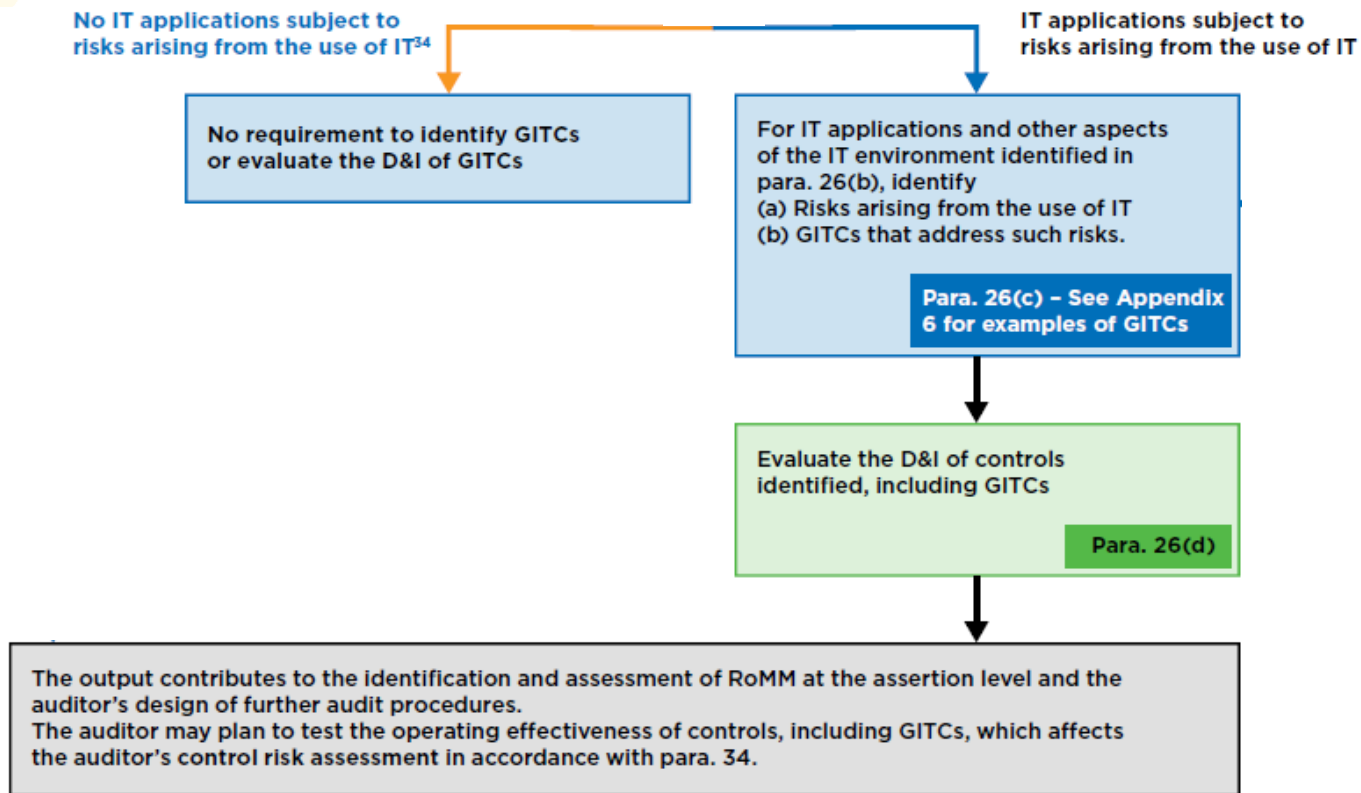
Understand the use of IT in the system of internal control



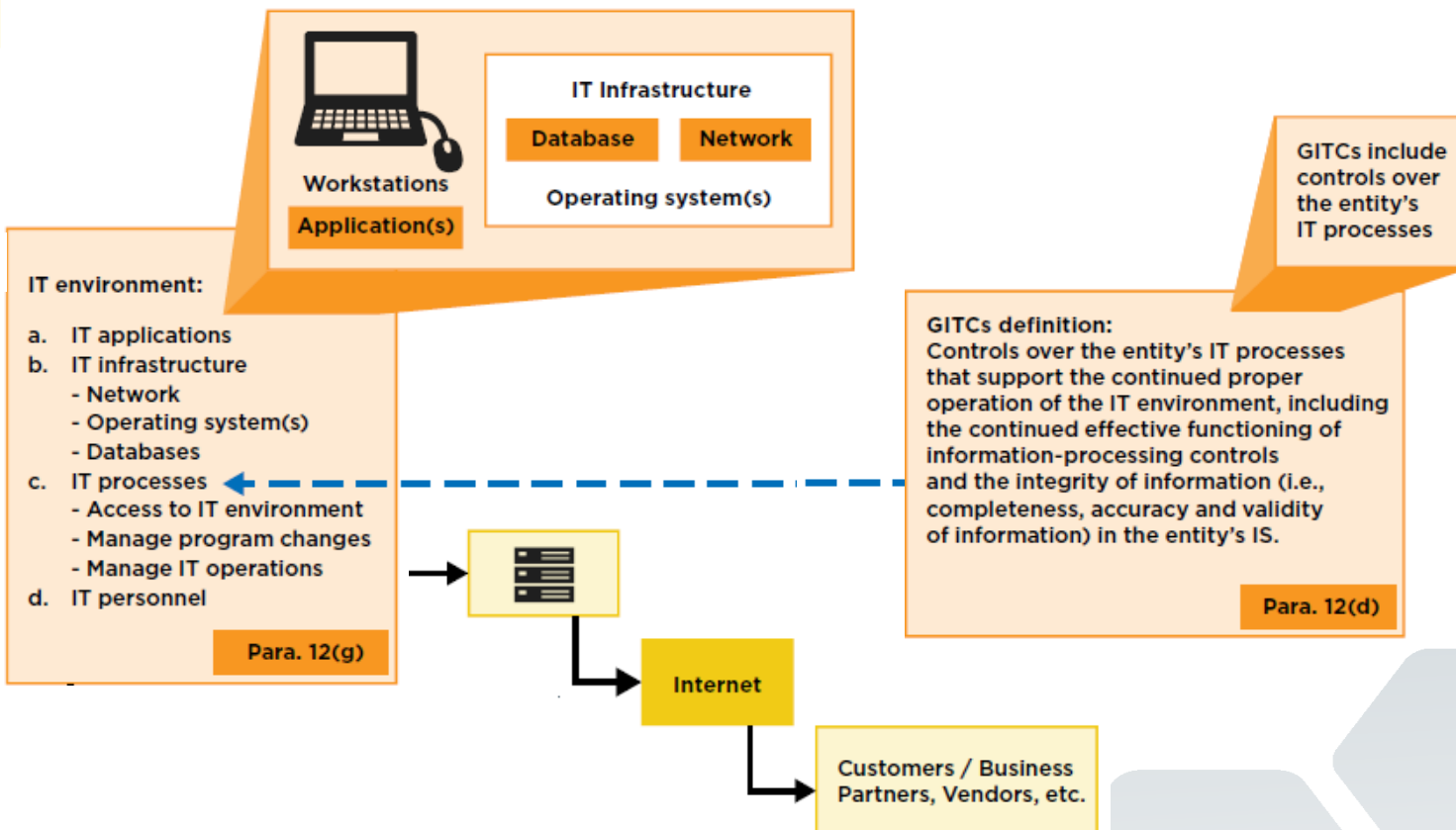
Understanding the entity's use of IT



Understanding the entity's use of IT

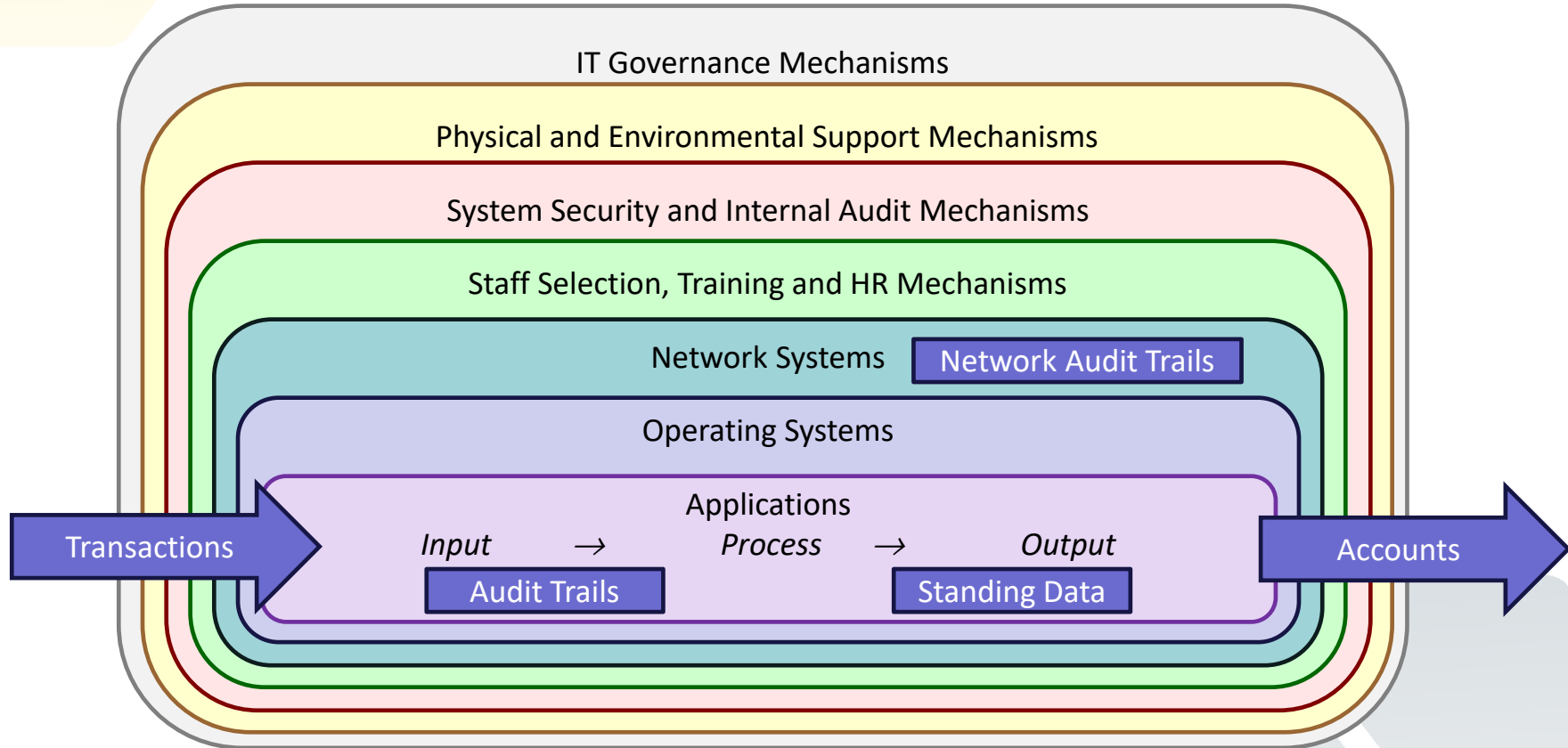


Understanding the entity's use of IT



Hierarchical indication of IT audit controls

An excerpt from the WGITA IDI handbook IT Audits, 2014



Financial audit strategy

Risk	Key audit matter (KAM) or significant risk (SR)	Risk assessment			Audit response		
		Inherent risk assessment	Control risk assessment	Risk of material misstatement	Test of controls ¹	Substantive analytic procedures	Substantive tests of detail
Risks pervasive to the audit							
Management override of controls	SR	H	L	M	✓		✓
Risks arising from the use of Information Technology	SR	H	L	M	✓		

IT audit is based upon entity classifications

Determine if the entity is classed as a Less Complex Entity (LCE) according to the following criteria:

1. Does the entity generally use commercial off-the-shelf software?
2. Does the entity have little or no access to source code and raw data (other than configuration parameters and reporting)?
3. Does the entity have minimal IT resources (other than application administrators)?
4. Are there minimal interfaces between business applications?
5. Generally, is data manually input into business applications? (small bulk loads, or integration with external sources)
6. Is the entity's financial reporting mainly using built-in or automatic reporting with little ad-hoc or customisation?
7. Does the entity have a relatively flat organisational structure?
8. Is segregation of duties naturally difficult due to the number of key staff managing corporate services?
9. Is there a reliance on third parties, contractors, and/or fractional FTEs for specific skillsets?

IT audit is based upon entity classifications

0. Checklist for Less Complex Entities (LCEs)

Client name		TAO CaseView documents	Throughout this document, please note the comments indicated by a red triangle. These are vital to understanding the process.				
Year end		30/06/2023					
Prepared by							
0.1 Environment survey		These questions may help determine the level of the IT testing to be completed and specialist involvement. For each response that the auditor assesses as some sort of deficiency, a risk assessment should also be performed.					
Ref.	Discussion	Response	Auditor Comments				
0.1.1	What is the entity's key financial application?						
0.1.2	What other apps manage key functions?						
0.1.2.1	- Revenue (including rating and fees)						
0.1.2.2	- Expenditure						
0.1.2.3	- Payroll						
0.1.2.4	- Assets						
0.1.2.5	- Liabilities						
0.1.2.6	- Equity						
0.1.3	How is data entered into the financial reporting system and by whom?						
0.1.4	How many IT staff?						
0.1.5	If IT functions are outsourced, what function to whom and what proportion?						
0.1.6	How are outsourced functions managed (SLAs, contract register, SLTs, CRM, etc.)?						
0.1.7	What change control is in place for operating system and network patching, including risk based frequency?						
0.1.8	What change control is in place for business application patching, including risk based frequency?						
▶	Summary	0. Checklist for LCE	1. IT applications relevant	2. Significant interfaces	3. ICT diagrams	4. IT control environment	5. PY

General IT Control worksheet

Ref.	Policy Name	Internal ref/name (with link)	Small Org	Tab 4 ref	Standard	Creation date	Review cycle	Last review date	Reviewer	Last breach	Assessment	Likelihood	Consequence	Residual Risk	Effort required
8.1.1	Cloud Adoption		Optional	4.2.3								Unlikely	Minor	4	Moderate
8.1.2	Data Sharing (ISMS)		Optional	4.2.3								Possible	Moderate	9	Moderate
8.1.3	Cyber Security (ISM)		Essential	4.2.8								Likely	Extreme	20	Moderate
8.1.4	Information Management (ISMS)		Yes	4.2.8								Likely	Extreme	20	Major
8.1.5	Right to Information		Yes	4.2.8								Likely	Extreme	20	Moderate
8.1.6	Risk Management (ISMS)		Yes	4.3.1								Likely	Extreme	20	Major
8.1.7	Segregation of Duties (ISM)		Essential	4.4.1								Likely	Major	16	Moderate
8.1.8	Physical access (ISM)		Yes	4.4.1								Possible	Major	12	Moderate
8.1.9	User Access – User Agreement & Approval – Network		Yes	4.4.3								Possible	Extreme	15	Moderate
8.1.10	User Access – User Agreement & Approval – HR/Payroll		Yes	4.4.3								Possible	Major	12	Moderate
8.1.11	User Access – User Agreement & Approval – Finance		Yes	4.4.3								Possible	Major	12	Moderate
8.1.12	User Access – User Agreement & Approval – Working from Home		Yes	4.4.3								Possible	Major	12	Moderate
8.1.13	Social Media (ISMS)		Yes	4.4.3								Possible	Minor	6	Moderate
8.1.14	Mobile devices (ISM)		Yes	4.4.3								Possible	Major	12	Moderate
8.1.15	Bring Your Own Device – BYOD (ISM)		Optional	4.4.3								Possible	Moderate	9	Moderate
8.1.16	Change control (ISMS)		Yes	4.5								Possible	Major	12	Moderate
8.1.17	System Development		Optional	4.5.1								Possible	Minor	6	Major
8.1.18	Third party management		Essential	4.6.1								Likely	Major	16	Moderate
8.1.19	Supplier Relationship Development		Yes	4.6.1	IM-1785							Possible	Minor	6	Moderate
8.1.20	IT Procurement		Yes	4.6.1								Possible	Major	12	Moderate
8.1.21	Data resilience and availability (ISM)		3rd party	4.7.3								Possible	Extreme	15	Major
8.1.22	Network resilience and availability (BCP – ISM)		3rd party	4.7.3								Possible	Extreme	15	Major

General IT Control worksheet

Ref.	Description	Evidence Ref Tab 8	Links to CaseWare	Client Contact	Audit documentation/notes	Conclusion
4.2	Evaluate IT governance processes					
4.2.1	Obtain an understanding of the effectiveness of the entity's IT governance structure. For example: is there an information steering committee or equivalent to oversee, direct and monitor IT/digital strategies?	8.2.5				<i>Conclusion: Is an appropriate IT governance framework in place (e.g. IT steering committee with appropriate charter, membership, scope and frequency of meetings)? Have all moderate and significant audit risks identified been raised within the CaseWare file?</i> <i>Are there other related committees/groups that assist with IT governance? Obtain evidence and scope as required</i>
4.2.2	How effective is the information steering committee? Consider:					
	• composition—level of seniority, representation from business areas	8.2.6				
	• status - issues under consideration. Obtain minutes and/or status report	8.2.7				
	• how often does the committee meet? Obtain the terms of reference.	8.2.5				
4.2.3	Is there a fit for purpose IT strategic plan and/or the digital strategy and/or road map for IT systems?	8.2.8				
4.2.6	Obtain the IT portfolio of programs and projects.	8.2.9				
4.2.7	Discuss the portfolio with the audit team for their understanding and awareness.					
4.2.8	Does the organisation have cyber security policy or cyber security strategy? Are there any known security breaches in the last 12 months?	8.1.3-4 8.2.10-13				
4.2.9	Does the committee play a role in developing the PSPF returns?	8.2.14	This item pending implementation by DPaC			




QUESTIONS?

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Overview of current reporting matters, and other considerations

Jeff Tongs

Topics



- New Standards for 30 June 2020-23
- Standards deferred
- Tier Reporting for Public Sector Entities
 - General purpose or Simplified Disclosures?
- Sustainability Standards
 - What's happening Internationally
 - How will it effect your entity!
- Other Reporting Considerations

Standards for 30 June 2020-23

Amendment	Implications
AASB 2020-3 Annual Improvements 2018-20	<p>AASB 1 – Simplifies treatment of translation differences for a subsidiary that becomes a first time adopter after the parent.</p> <p>AASB 3 – Updates reference to the Conceptual Framework for Business Combinations</p> <p>AASB 9 – Derecognition – clarification in treatment of fees included in where a financial liability is substantially modified</p> <p>AASB 116 – recognition of sale proceeds from an item of PPE before it is ready for use to be recognised in the profit or loss inline with AASB 108 <i>Inventories</i></p> <p>AASB 137 – to specify which costs an entity needs to include when determining whether a contract has become onerous.</p> <p>Costs directly related to fulfilling the contract – unavoidable costs = present obligation!</p> <ul style="list-style-type: none">• Incremental costs – Direct labour and materials• Allocated costs – related – e.g. depreciation <p>AASB 141 – removes the requirement to exclude cash flows from taxation in measuring fair values, aligning it with the principles in AASB 13</p>

Standards – deferred until years beginning on or after 1 January 2024

Amendment to AASs	Implications
AASB 2020-1 Classification of Liabilities as Current or Non-current Amended by: AASB 2022-6 Non-current Liabilities with Covenants	Clarified that to classify a liability as non-current, an entity needs to have the right at the end of the reporting period to defer settlement for at least 12 months <i>(suppose to start this year)</i> A right to defer settlement of liabilities for at least 12 months after the reporting period is subject to the entity complying with conditions (or 'covenants') specified in the loan arrangement. Shall disclose: <ul style="list-style-type: none">a) information about the covenants nature and timing to comply and the carrying amount of related liabilitiesb) facts and circumstances, if any, that indicate the entity may have difficulty complying. (may also include facts and circumstances after reporting period)

AASB 1053 *Application of Tiers of AASs*

11 Application of Tier 1 Reporting Requirements

The following types of entities shall prepare general purpose financial statements that comply with Tier 1 reporting requirements:

(b) the Australian Government and State, Territory and Local Governments.

Departments / FMA entities / Councils

12 Application of Tier 2 Reporting Requirements

Tier 2 reporting requirements shall, as a minimum, apply to the general purpose financial statements of the following types of entities:

(c) **public sector entities, whether for-profit or not-for-profit**, other than the Australian Government and State, Territory and Local Governments

All other State Entities created under legislation

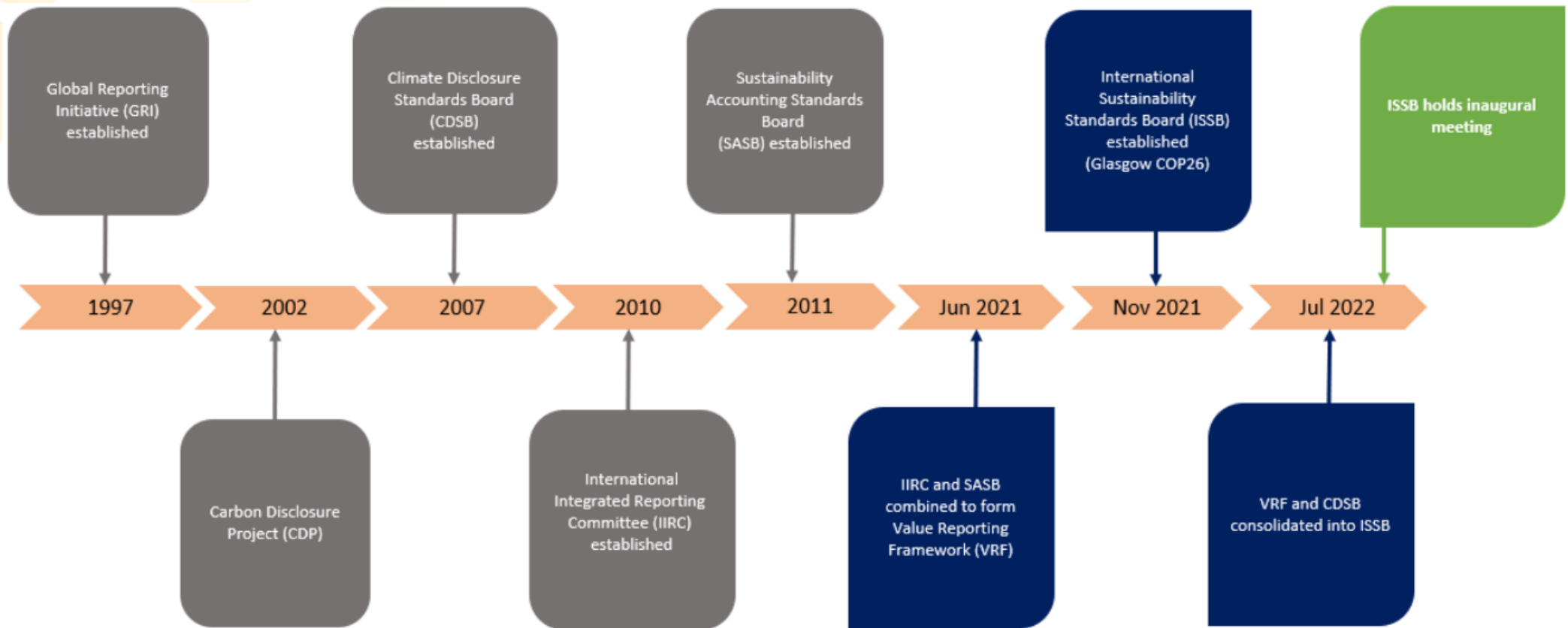
These types of entities **may elect to apply Tier 1 reporting requirements.**

AASB 1060: *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*

- AASB 1060 introduces the ‘Simplified Disclosures’ framework for Tier 2 entities - disclosures now combined into a single standard (*Replaces ‘Reduced Disclosure Requirements’*).
- “**Reporting Entity**” concept introduced by IASB. “An entity that is required, or chooses, to prepare general purpose financial statements.”
- Conflicted with Australian concept of a “reporting entity” and “non-reporting entity” based upon “dependent users”. Changed, to be compliant with IFRS.
- **Tier 2 minimum for public sector entities** (*per AASB 1053*).
- 1060 Applies to annual periods beginning after 1 Jan 2022 but before 1 Jan 2023.
- AASB still looking at Public Sector Conceptual Framework and Tier 3 NFP Private Framework.

International sustainability standards

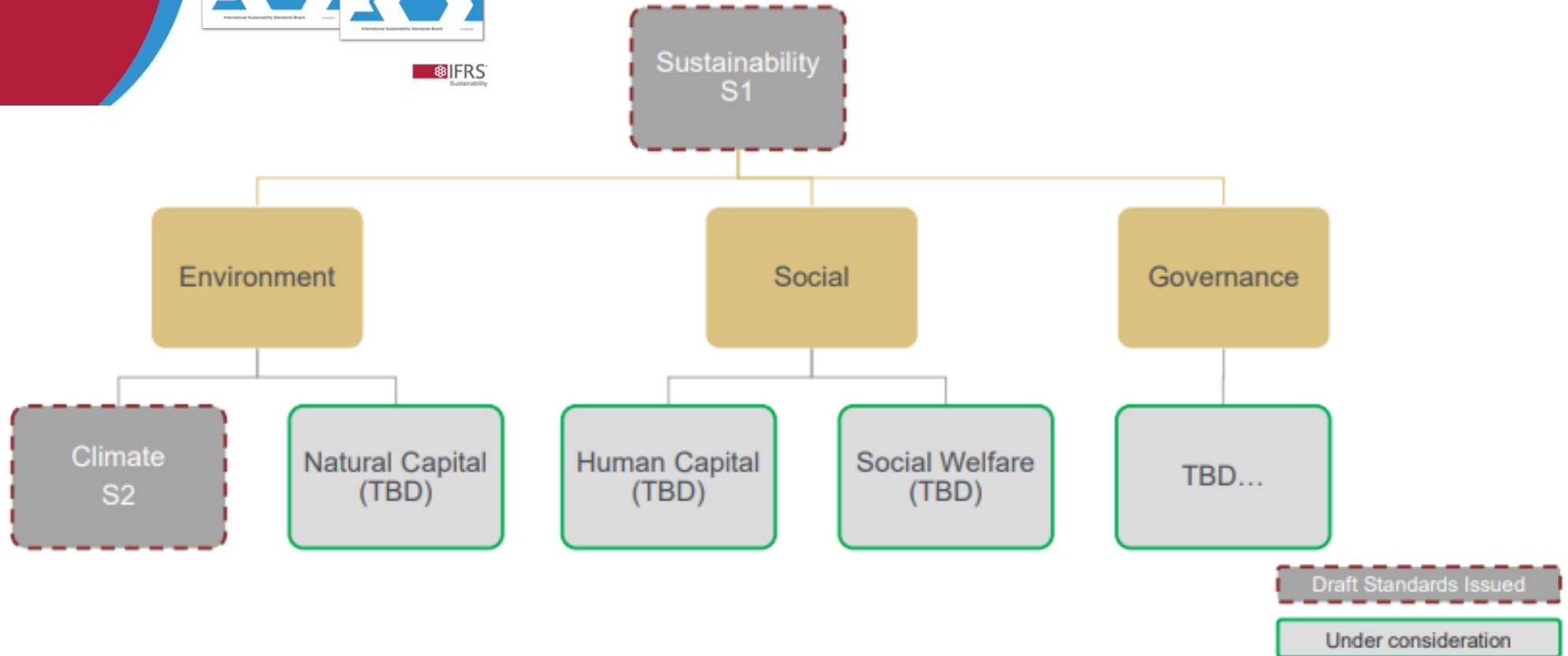
- *How did we get here?*



ISSB launches
consultation on first two
proposed standards



International sustainability standards - *what do we know?*



International Sustainability Standards: *where to from here?*

- ISSB S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures* - deliberations are concluding Q2 2023.
- Intended commencement date:
 - effective for annual reporting periods beginning on or after 1 January 2024.
(so 2024-25 would be the first full year for many global preparers).
- Some first year transition relief (*Climate-related Disclosures*):
 - comparatives not required
 - exemptions for scope 3 emissions
 - timing of report need not occur with financials.
- Guidance in areas of concern.

International sustainability standards: *What about Australia?*

AASB Approach

- Phase 1 – For Profit Entities
- Phase 2 – Not-for-profit
– Public Sector

Public Sector Consultation

- Still to occur
- Implementation issues
- Further details to follow

Commonwealth Treasury Consultation

Proposed amendments to ASIC Act
Sustainability Standards:

- Phased introduction from 2024-25?
- Possible initial relief from scope 3 emissions reporting?
- Audit and assurance requirements?
 - Phase in over time?
- Sustainability Standards oversight?
 - AASB or separate board?

IFRS–S1 General Requirements for Disclosure of Sustainability-related Financial Information



Core / 4 Pillars	Information to enable users to understand:
Governance	the governance processes, controls and procedures used to monitor and manage sustainability-related risks and opportunities.
Strategy	an entity's strategy for addressing significant sustainability-related risks and opportunities.
Risk management	the process, or processes, by which risks and opportunities are identified, assessed and managed. Enables users to assess the entity's overall risk management processes and evaluate the overall risk profile and risk management processes.
Metrics and targets	how an entity measures, monitors and manages its significant sustainability-related risks and opportunities, and assesses its performance, including progress towards the targets it has set

IFRS – S2 Climate –related Disclosures

Governance	Strategy Risk	Management	Metrics and Target
Disclose the entity's governance around climate-related risks and opportunities	Disclose the actual and potential impacts of climate-related risks and opportunities on the entity's businesses, strategy, and financial planning where such information is material.	Disclose how the entity identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the entity has identified over the short, medium, and long term.	a) Describe the entity's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the entity's businesses, strategy, and financial planning.	b) Describe the entity's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the entity's overall risk management.	c) Describe the targets used by the entity to manage climate-related risks and opportunities and performance against targets.

What are the projected climate change impacts for Tasmania?



Significant change in rainfall patterns



Fewer frosts



Increased ocean acidification and water temperature



Rise in annual average temperatures



Increase in storms, creating coastal erosion



Rise in sea levels



More hot days and heatwaves



Longer fire seasons, more days of high fire danger



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Implications for entities

- **Finance** – quantifying current period impacts; reporting; budget management.
- **Risk Management** – potentially integrating sustainability risk management with other risk management.
- **Legal** – drafting of contracts, advice on director / officer liability.
- **Procurement and Property/Facilities** – policies and practices to achieve targets, including net-zero, obtaining best value for money for external advisors.
- **Annual reporting process** – undetermined impact / requirements to include sustainability disclosures.


Implications for entities

- **Human Resources** – planning for capabilities; possible future social reporting requirements.
- **ICT** – acquiring or developing systems to manage data and reporting.
- **Corporate Governance** – implementing policies and processes about all relevant decisions; liaison with assurance providers if required.
- **Community and media liaison** – questions about performance arising from public reporting.

If the Audit Committee is to have an active role now.....(suggestions)

- Consider whether an amendment to the Audit Committee Charter is warranted.
- Clarify the role of the accountable authority and allocate responsibility for sustainability matters. Responsibility may be vested in more than one person (this is good governance).
- A preliminary process to identify climate-related risks and opportunities, perhaps through existing risk management processes (this is good governance).
- Plan for the committee to keep up to date with government reporting requirements.
- Seek and review a preliminary plan of how the entity will be able to make disclosures – high level sketch plan only, based on requirements in S1 and S2.
- Ensure emissions information that is already reported has robust measurement principles and documentation.
- If your entity is a company, consider legal liability of directors for sustainability reports.

All Financial Statements

- To Disclose or Not to Disclose
 - Beware clutter, consider materiality
- Superannuation Guarantee Levy
 - from 1 July 2023 the rate will increase by 0.5% to 11% 
- Submission date for Financial Statements
 - Audit Act says 45 days
 - 14th Day in August
- Submission guidance on Website
 - Management certification option (+ Submission Checklist)
prior to final certification by the accountable authority (i.e. Secretary).

August						
Sun	Mon	Tue	Wed	Thr	Fri	Sat
				...	11	12
13	14	15	16	...		

References



- International Sustainability Board: [IFRS - International Sustainability Standards Board](#)
- Task Force on Climate-related Financial Disclosures -
 - Good Practice Handbook : [tcfd_good_practice_handbook_v5_pages.pdf \(cdsb.net\)](#) *(Includes links)*
 - 2022 Status Report : [https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf](#)
- Climate-related and other emerging risks disclosures
[https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finished.pdf](#)
- Climate Risk Ready NSW Guide
[https://www.climatechange.environment.nsw.gov.au/sites/default/files/2021-06/NSW%20Climate%20risk%20ready%20guide.pdf](#)
- Queensland Sustainability Report 2022
[https://s3.treasury.qld.gov.au/files/2022-Queensland-Sustainability-Report-December-2022.pdf](#)
- Guidance Paper – financial statement submission
[Client Reference Information - Tasmanian Audit Office](#)



Questions





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Thank you for attending
Final questions and close

Slides for the session and other client information
available at:

www.audit.tas.gov.au/client-reference-information