



Tasmanian
Audit Office

Client Information Session

Government Business Enterprise

12 May 2022

Agenda

Time	Presenter	Topic
09:30 – 09:35	Rod Whitehead	Introduction
09:35 – 10:05	Stephen Morrison	Matters from 2021 <ul style="list-style-type: none">• 2021 audit findings for business entities• Prior period errors Audit focus areas of 2022 <ul style="list-style-type: none">• Accounting position papers• High risk audit areas audit approach• Internal control focus areas for 2022
10:05 – 10:30	David Bond	<ul style="list-style-type: none">• ASA 315 – Risk assessment relating to financial reporting objectives• Documentation of key controls• Assessment of work of experts• Subsidiaries – submission of financial statements, audit dispensation, company constitutions
10:30 – 10:40	Break	
10:40 – 11:05	Jeff Tongs	<ul style="list-style-type: none">• Overview of financial reporting changes• Current Accounting Standard and technical issues• Other Reporting Considerations
11:05 – 11:30	Gary Emery	Performance Audit <ul style="list-style-type: none">• COVID-19 wrap up
11:30 – 11:40	Rod Whitehead	Questions and Close



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2021 findings and 2022 Focus areas

Stephen Morrison

Topics

- Matters from 2021
 - 2021 audit findings
 - Prior period errors
- Audit focus areas of 2022
 - Accounting position papers
 - High risk audit areas audit approach
 - Internal control focus areas for 2022

Findings – Audit Requirements

- Australian Auditing Standard 260 *Communication With Those Charged with Governance*
 - Paragraph 16: Significant findings from the audit
- TAO
 - Summary level in Report to those charged with governance (completion report)
 - Detailed level in Memorandum of Audit Findings (**Copy sent to Minister**)
- *Audit Act 2008*
 - S.29(1) report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities
 - S.29(4)(a) may draw attention to functions of an accountable authority that were not adequately and properly performed, which the Auditor-General considers of sufficient importance
 - S.40 The Auditor-General must notify the appropriate Minister of all matters arising out of the performance of the Auditor-General's functions

Findings process

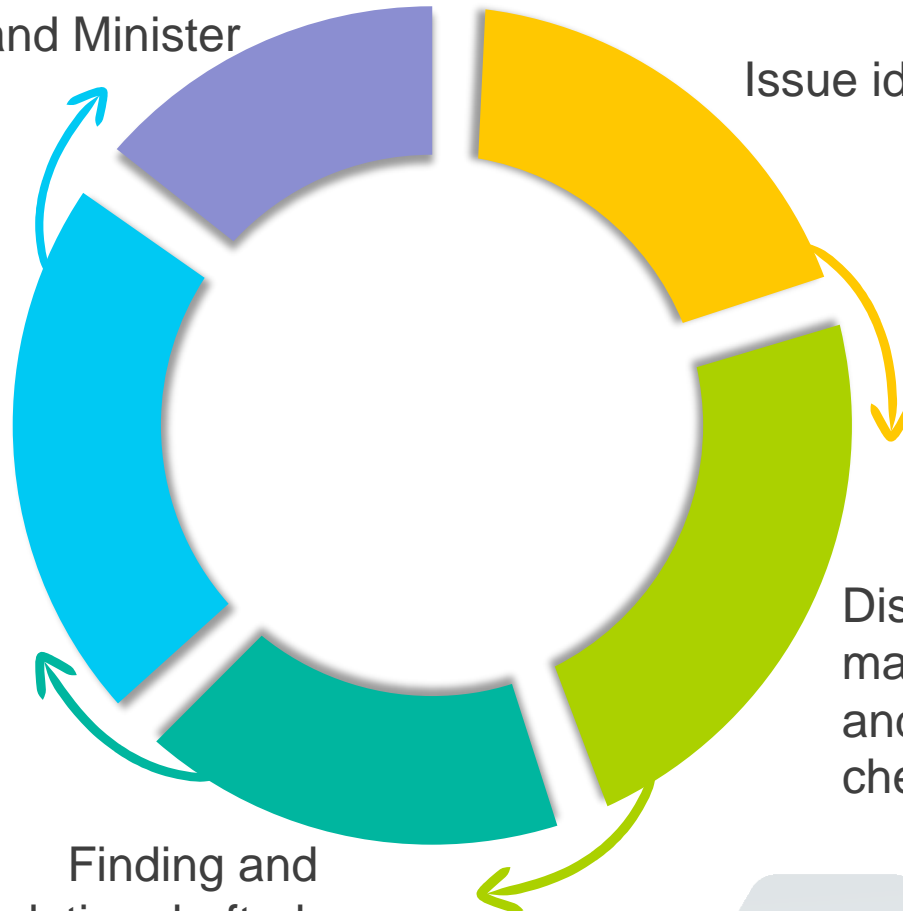
Report finalised and issued to
TCWG and Minister

Issue identified

Management
response
obtained and
incorporated

Discussed with
management
and fact
checked

Finding and
recommendation drafted,
classified and rated



Findings classifications

Classification	Internal control	Financial Reporting	Fraud	Non-compliance with laws and regulations	Other significant matters
Sub-classification	<ul style="list-style-type: none"> • Control environment • Risk assessment • Information system and communication • Control activity • Monitoring activity 	<ul style="list-style-type: none"> • Going concern • Fair value • Accounting estimate • Related party • Accounting standard non-compliance • Unintentional misstatement • Disclosure 	<ul style="list-style-type: none"> • Intentional misstatements • Misappropriation of assets 		<ul style="list-style-type: none"> • Management actions • Other difficulties

2021 Findings (overall)

Findings from 31 December 2020 and 30 June 2021 financial statement audits

State entities and audited subsidiaries of State entities
31 December 2020 and 30 June 2021

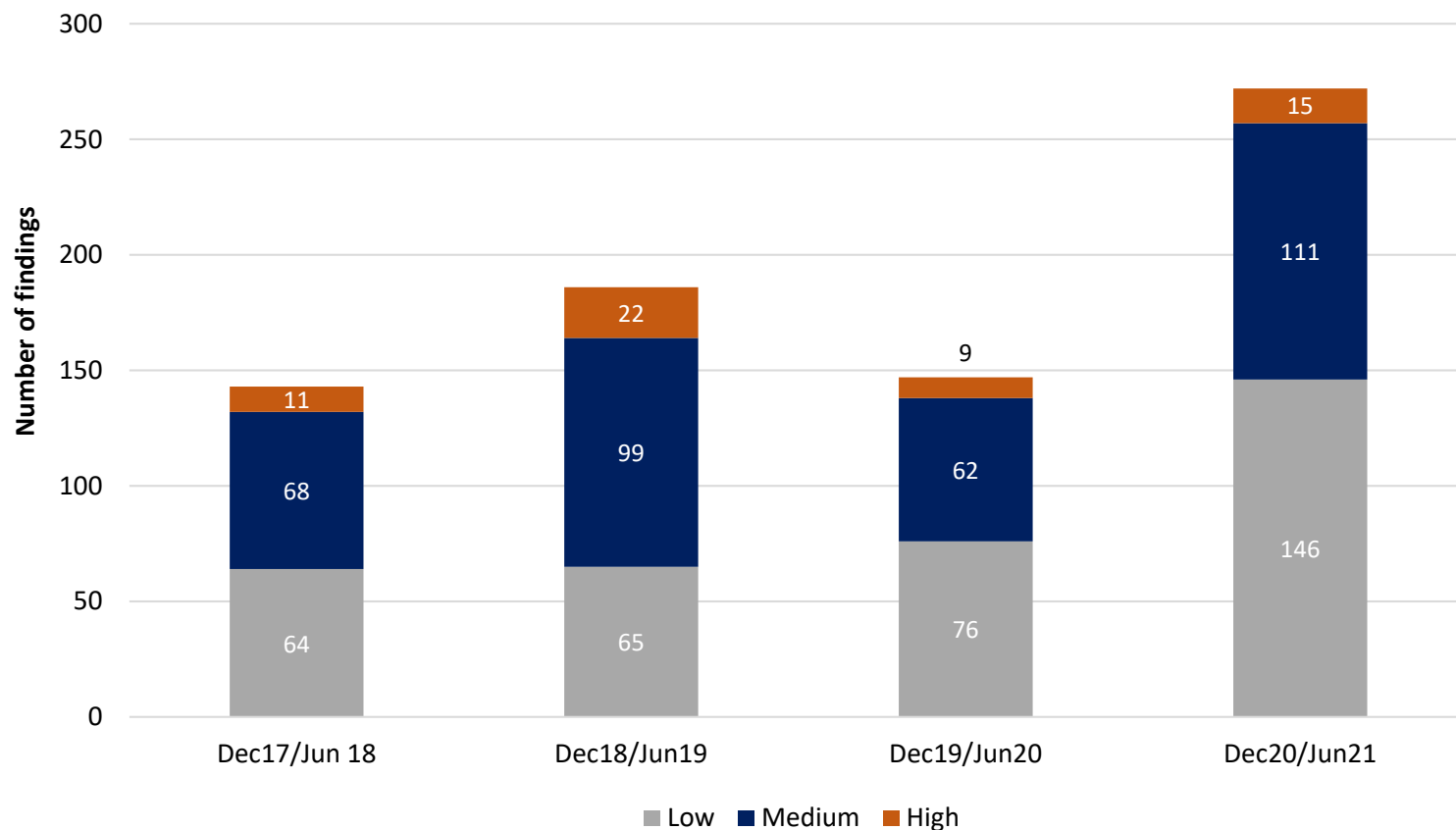
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Audit matters raised

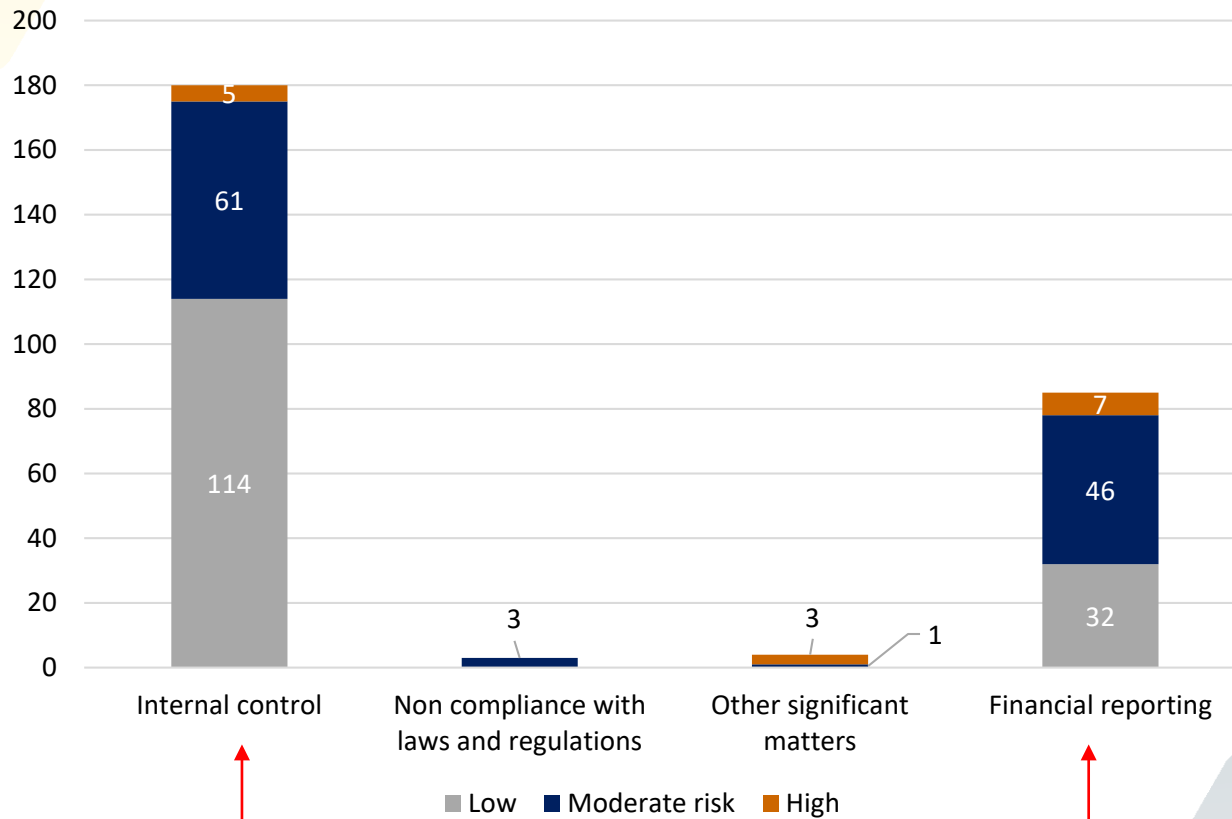
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Audit matters raised in prior periods
assessed as unresolved

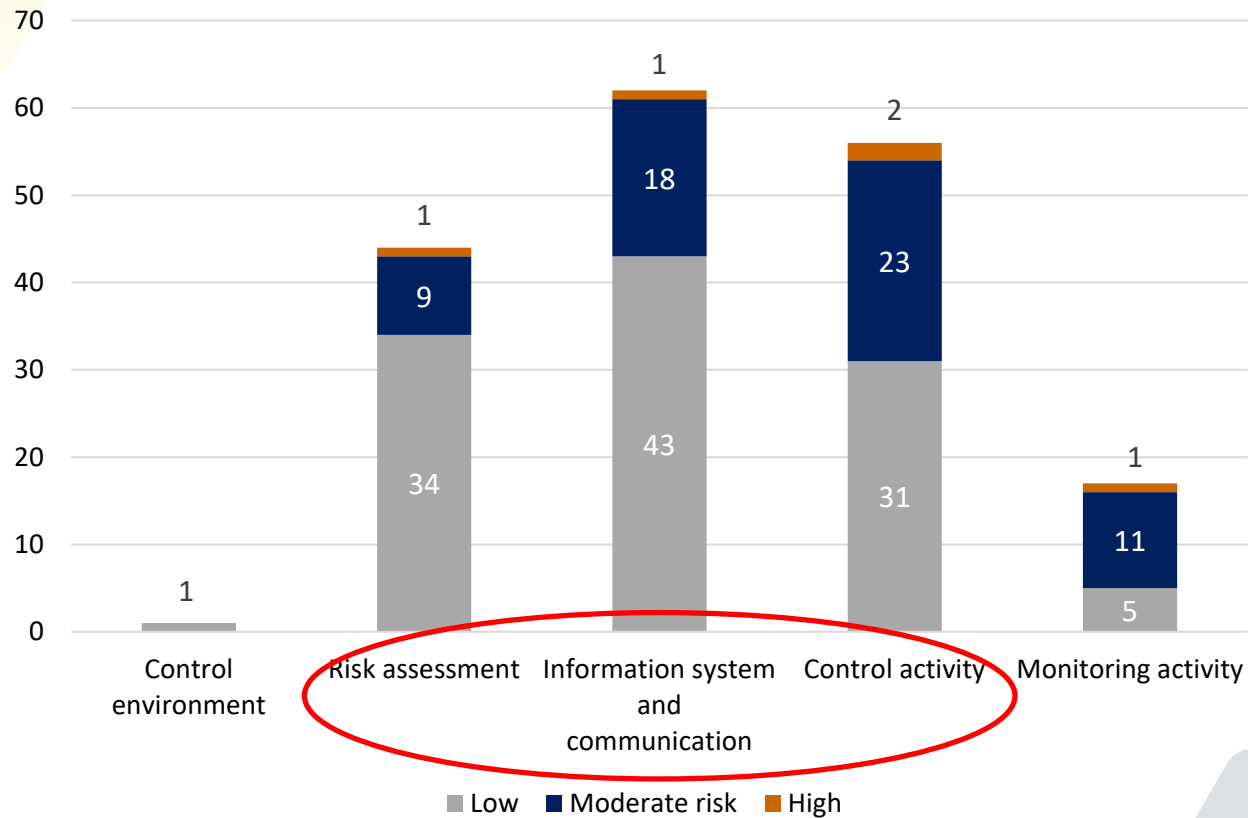
Comparison of audit findings by risk rating



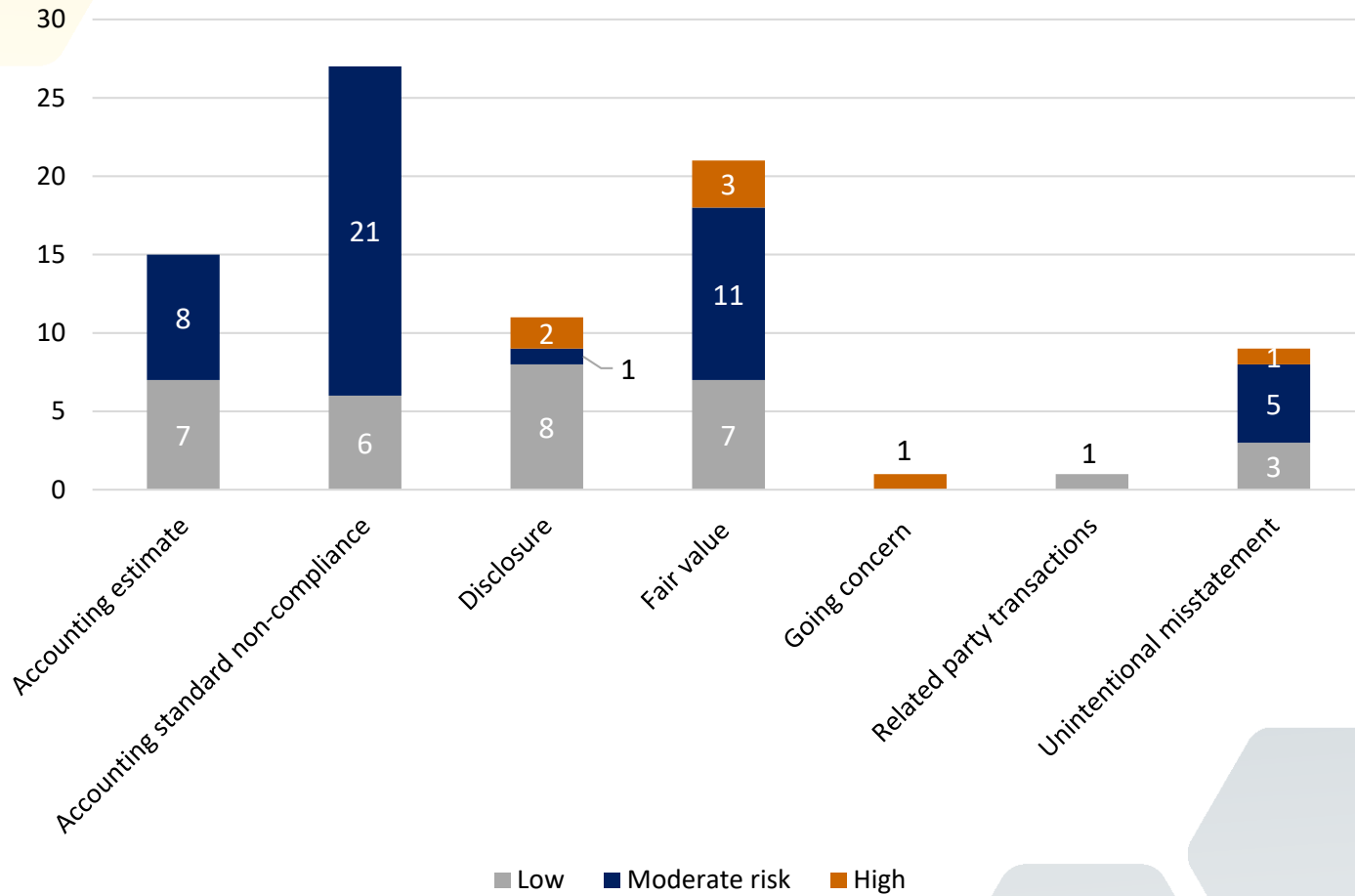
Classification of audit findings



Classification of audit findings



Classification of audit findings



2021 findings (by sector)

Table 4: 31 December 2020 and 30 June 2021 audit findings by sector and risk rating

2021	High Risk	Moderate Risk	Low Risk	Total
General Government Sector	3	26	48	77
Government Business	1	20	20	41
Local Government	3	47	63	113
Other	8	18	15	41
Total	15	111	146	272

2021 findings (Government Businesses)

31 December 2020 and 30 June 2021 audit findings by classification and risk rating

2021	High Risk	Moderate Risk	Low Risk	Total
Internal control	1	14	15	30
Non-compliance with laws and regulations	0	2	0	2
Other significant matters	0	0	0	0
Financial reporting	0	4	5	9
Total	1	20	20	41

2021 findings (Government Businesses)

31 December 2020 and 30 June 2021 audit findings by classification and risk rating

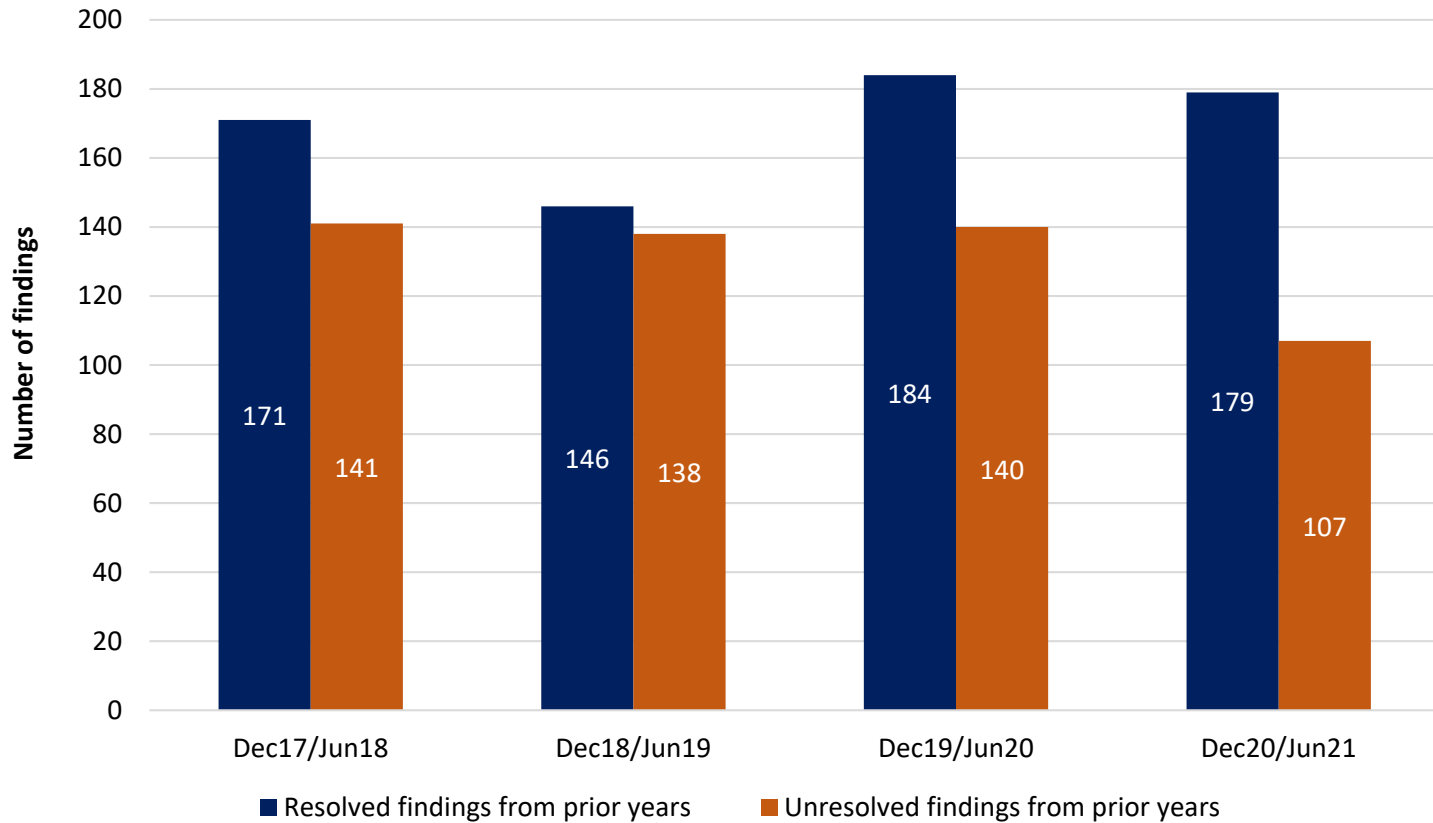
2021	High Risk	Moderate Risk	Low Risk	Total
Internal control	1	14	15	30
Control environment	0	0	0	0
→ Risk assessment	0	4	5	9
→ Information system and communication	1	7	6	14
→ Control activity	0	2	4	6
Monitoring activity	0	1	0	1

2021 findings (Government Businesses)

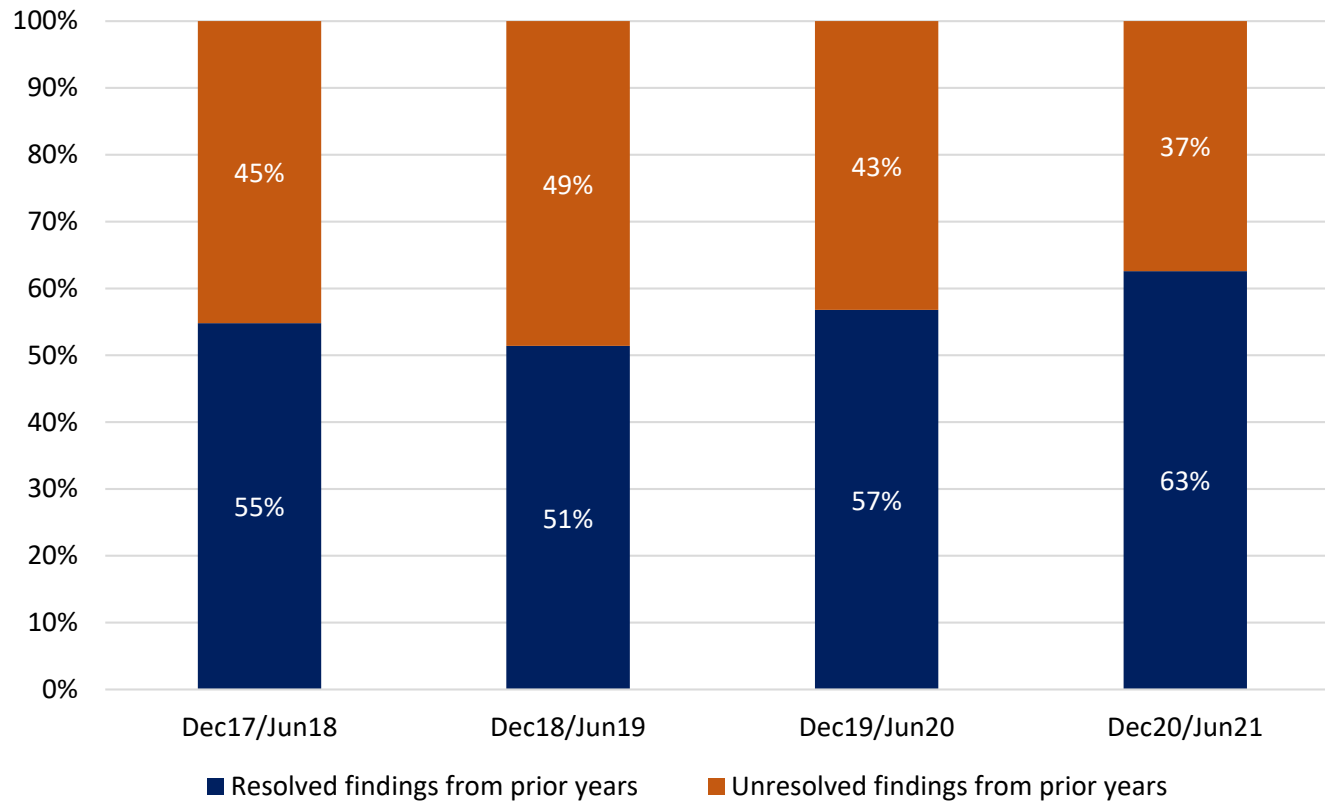
31 December 2020 and 30 June 2021 audit findings by classification and risk rating

2021	High Risk	Moderate Risk	Low Risk	Total
Financial reporting	0	4	5	9
Accounting estimate	0	2	0	2
Accounting standard non-compliance	0	1	0	1
→ Disclosure	0	0	5	5
Fair value	0	1	0	1

Prior years' audit findings

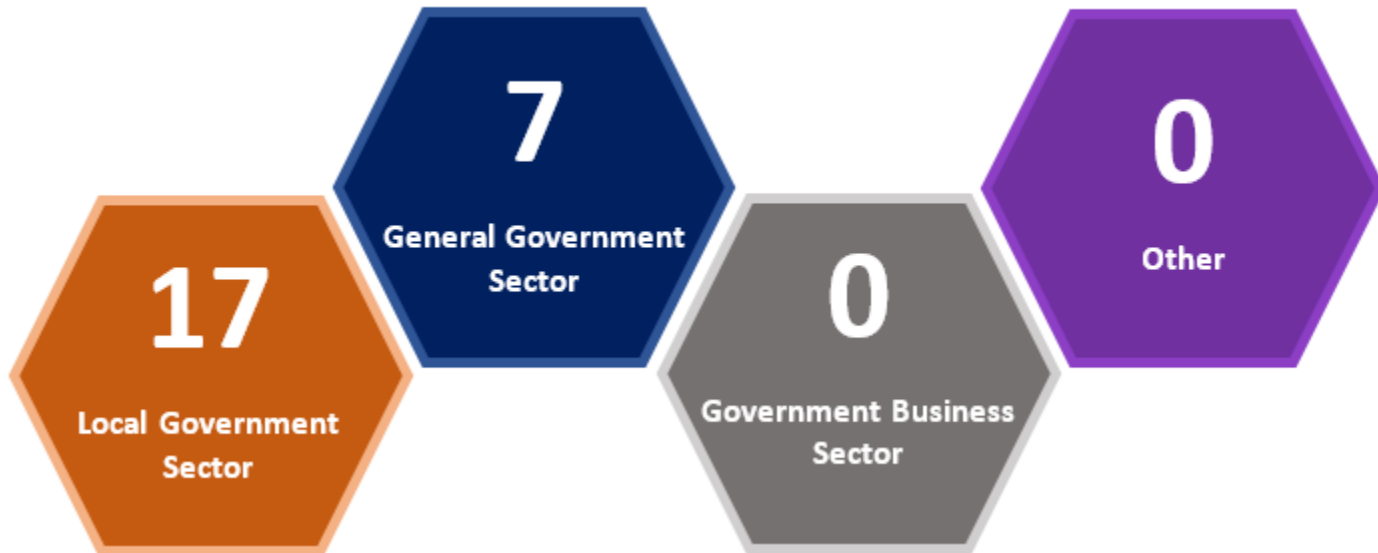


Resolution of prior years' audit findings



Prior period errors (Overall)

Figure 11: Prior period errors - by sector



Accounting position papers

- Should form part of financial statement/management process
- Types and examples
 - Changes in accounting policy
 - New standards
 - Annual assessments of useful lives and other estimates
 - Consideration of reports from experts (eg. Valuations)
 - Consideration of impairment and expected credit losses
 - Other matters of significance effecting the accounting or disclosures in the financial statements

High risk areas – control approach

- Presumption that management will have controls in place for high risk areas
- Audit reliance on key controls (focus area in 2022)
- Key assertions at risk (eg. completeness, accuracy, existence, valuation, presentation and disclosure)
- Design and Implementation of key controls
- Operating effectiveness of key controls
- Reporting of control deficiencies/areas for improvement
- Impact on audit approach

Internal control focus areas 2022

- General IT controls (examples)
 - Governance
 - Change management
 - Access management
 - Service organisations (IaaS, PaaS, SaaS)
 - Disaster recovery/backups
- Payroll (examples)
 - Valid employees
 - Correct rates
 - Masterfile changes
 - Leave balances/approvals
 - Payroll reconciliations



Internal control focus areas 2022

- Property, Plant and Equipment (examples)
 - Independent review of asset/WIP reconciliations
 - Management review and approval of valuations or indices applied to assets
 - Application controls and the calculation of indices/depreciation rates applied to assets
 - Managements review of remaining useful lives of assets
 - Management assessment of impairment indicators
 - Controls around commissioning of assets of a timely basis



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2021 / 2022 Audit focus areas & Subsidiaries

David Bond

Audit focus areas

Areas subject to audit focus include:

1. consideration by those charged with governance (TCWG) and management of the risks relevant to financial reporting objectives
2. extent to which the design and implementation of appropriate controls and processes are adequately documented
3. reliance on information produced by experts.

Business risks relevant to financial reporting objectives

- Australian Auditing Standard ASA 315 - required to consider if the entity has a process for identifying business risks relevant to financial reporting objectives.
- If such a process does not exist, then this would be deemed to be a significant deficiency in internal control.
- Does it specifically address business risks relevant to financial reporting objectives?

Process for identifying business risks relevant to financial reporting objectives



Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed a COSO Framework for evaluating internal controls.

For the purposes of the Australian Auditing Standards, the system of internal control comprises the same five inter-related components

What could go wrong?

- Control environment:
 - Inadequate governance structures
 - Poor commitment to integrity and ethical values
 - Unclear assignment of authority and responsibility
 - Inability to attract, develop and retain competent individuals
 - Limited governance over information technology and communication systems/changes

What could go wrong?

- Information system and communication:
 - IT applications – working around controls that initiate, process, record and report transactions or information
 - IT infrastructure – limited oversight of network, operating systems, and databases and their related hardware and software
 - IT processes – poor controls over access, change management, IT operations
 - Breakdowns in initiating, recording, processing and correcting (if necessary) transactions

What could go wrong?

- Information system and communication:
 - Limited capture, processing and disclosure of other events and conditions (other than transactions) in the financial report
 - Deficient/missing accounting records
 - Unclear financial reporting process to prepare the financial statements
 - Inadequate resources relevant to the above

What could go wrong?

- Control activities:
 - Absence of authorisations and approvals
 - Limited review of reconciliations
 - Over-reliance on manual verifications
 - Poor physical controls
 - Inadequate safeguarding of assets
 - Inadequate segregation of duties
 - Overriding of IT controls - completeness checks, validity checks, input controls

What could go wrong?

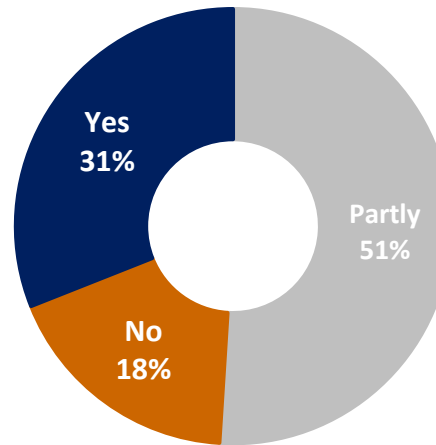
- Monitoring activities:
 - Limited processes to monitor the effectiveness of controls, identification and remediation of control deficiencies
 - No, or ineffective, internal audit function
 - Limited processes to test the effectiveness of IT controls, identification and remediation of IT control deficiencies

What could go wrong?

- Financial reporting considerations:
 - Going concern
 - Fair value
 - Estimates
 - Key judgements
 - Related party transactions
 - Accounting standards
 - Disclosures
 - Use of experts
 - Unintentional misstatement
 - Intentional misstatement
 - Asset misappropriation
 - Fraud
 - Non-compliance – laws, etc.

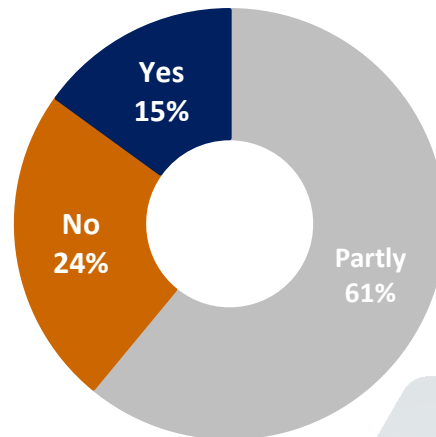
Documentation of key internal controls relevant to financial reporting objectives

- How well are key internal controls:
 - understood?
 - documented?



Only a third of respondents felt that it was clear who is responsible for setting the standards for controls and designing controls within their organisations

- KPMG Controls Transformation and Automation Survey across 300 organisations, March 2021



Nearly a quarter of respondents said the controls were not formally documented with over 60 percent saying that only some controls were documented (e.g. financial)

Documentation of key internal controls relevant to financial reporting objectives

ASIC guidance:

- Entities must have appropriate processes and records to support information in the financial report rather than rely on the independent auditor.
- An entity must keep written financial records that:
 - correctly record and explain the entity's transactions and its financial position and performance
 - enable true and fair financial statements to be prepared and audited.

Documentation of key internal controls relevant to financial reporting objectives

ASIC guidance:

- TCWG's and management's obligation extends to ensuring that the entity's records are complete and accurate by adopting appropriate accounting policies and designing and implementing appropriate controls and processes.
- This obligation exists regardless of whether books and records are maintained in-house or outsourced to a third party, or whether they are electronic or in hard copy.

Reliance on works of experts

- Management's expert - an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial report.
- Management should document their:
 - consideration of the competence, capabilities and objectivity of the expert
 - understanding of the work of that expert
 - evaluation of the appropriateness of the expert's work for use in preparing the financial statements.
- Audit committees should evaluate management's assessment.



Subsidiaries

Audit Act 2008, para 21: Audit of subsidiaries of State Entities:

- An accountable authority responsible for the operations of a State entity is to advise the Auditor-General, in writing, before the end of the relevant financial year of all subsidiaries of the State entity.

Audit Act 2008, para 17: Accountable authorities are required to submit financial statements to Auditor-General:

- An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.

Subsidiaries

Audit Act 2008, para 18: Auditor-General to be auditor of financial statements of all State entities:

- the Auditor-General may, in respect of a particular financial year, dispense, subject to any conditions that the Auditor-General may determine, with all or any part of the audit of a particular State entity or the audits of State entities included in a category or class of State entity specified by the Auditor-General, if the Auditor-General considers that it is appropriate in the circumstances.
- Before we can dispense with an audit, state entities need to submit the financial statements certified by the accountable authority to the Auditor-General.



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Overview of financial reporting changes,
technical accounting issues, and other
reporting considerations

Jeff Tongs

Topics

Overview of financial reporting changes:

- Cloud Computing - accounting for SaaS
- AABS 1060: GPFS Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities
- Impairment of Assets
- Other Reporting Considerations (Climate, Covid, Leasing)
- Guidance paper - accounting for assets valued using current replacement cost
- New accounting standards

Cloud Computing /Software-as-a-Service (SaaS)

IFRIC Agenda Decision - Configuration or Customisation Costs in a Cloud Computing Arrangement

The SaaS arrangement gave the customer the right to receive access to the supplier's application software over the contract term (i.e. it is a service contract, not an intangible asset). The customer received no other goods and services but incurred costs for:

Configuration - involved the setting of various 'flags' or 'switches' within the application software, or defining values or parameters, to set up the software's existing code to function in a specified way.

Customisation - involved modifying the software code in the application or writing additional code. Customisation generally changes, or creates additional, functionalities within the software.

Cloud Computing /Software-as-a-Service (SaaS)

IFRIC decisions:

- rejected the view that a SaaS contract created a separate intangible asset, or a lease, as there was no control over software code
- rejected the view that the SaaS contract itself in this case represented an intangible asset (despite an intangible asset is defined as arising from contractual or other legal rights)
- costs related to getting these services ready for use **cannot be capitalised** as an intangible asset
- Expense upfront or over the contract for service period (depending upon “**distinct services**” test)

Cloud Computing /Software-as-a-Service

Distinct Service or Not a Distinct Service? Apply AASB 15?

If the configuration/customisation service is:

- a distinct service from the right to receive access to the supplier's software, the costs are expensed upfront when performed.
- not a distinct service from the right access to the supplier's software, the costs are recognised as expenses as/when the supplier provides access over the contract term. This usually means recognising a prepaid asset upfront, which unwinds over the contract term.
- completed by a third-party supplier, recognise the costs as an expense when the service is performed.

Cloud Computing /Software-as-a-Service (SaaS)

Issues to consider:

- What costs have been capitalised for what projects?
 - What assets controlled by the entity do the costs represent?
 - Is it computer code? *“Show me the code”*
 - Who provided the services? - SaaS/cloud computing company, third party, internal costs?
 - What is the breakdown of services delivered in the contract and what are the costs relating to each service?
 - Know your contract – know your costs
 - Different costs could be expensed upfront or over time
- (prepayment or intangible if software)*

Cloud Computing /Software-as-a-Service (SaaS)

Transition:

- Change in accounting policy, not via a standard or interpretation
- Not an error – change is based on ‘new information’
- Retrospective application applies:
 - Opening position 1 July 2020
 - Write-off applicable capitalised costs to retained earnings
 - Reclassify applicable costs to prepayments
 - 1 July 2020 to 30 June 2021 restated
 - Expense what was capitalised under old policy
 - Reverse amortisation of what was previously capitalised
 - Reclassify cash flows
 - 1 July 2021–30 June 2022
 - Make sure of new policy

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

- *AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- “**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”. If not changed, Australian entities would be non-compliant with IFRS.
- Non-reporting entity and special purpose financial statements removed (AASB 2020-2) for for-profit entities. “Specified Disclosure” reporting framework introduced.

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

- **Conceptual Framework (CF)**
 - Mandatory application for **for-profit private sector entities**.
 - **For-profit public sector** entities can elect to apply if IFRS compliance is necessary
 - **Not for use by NFP private and public sector entities**
- AASB 1060 introduces the ‘Simplified Disclosures’ framework for Tier 2 entities - disclosures now combined into a single standard
- Replaces the previous ‘Reduced Disclosure Requirements’ (RDR) framework. - “shaded” disclosure paragraphs now redundant
- DOES NOT APPLY to Businesses and Statutory Entities who apply their own Act (GBE, Corps or other Act) - Tier 1 (full) GPFR

AASB 136 *Impairment of Assets*

What's included?

- **Recoverable amount** of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use
- So, what does AASB 136 apply to?
 - Property, plant and equipment under AASB 116
 - Intangible assets under AASB 138
 - CGUs, including goodwill identified under AASB 3 *Business Combinations*
 - Investment property at cost (AASB 140 *Investment Property*)
 - Right of use assets at cost (AASB 16 *Leasing*)
 - Equity accounted investments (Investments in Associates and Joint Ventures)
 - Investments in subsidiaries, associates and joint ventures at cost
 - Costs to obtain or fulfil a contract under AASB 15 para 101-103
 - Biological assets at cost



Identifying an impaired asset

- At the end of each reporting period an entity **must assess** whether there is any indication that an asset may be impaired.

External sources	Internal sources
Observable indications that the asset's value has declined significantly more during the period than expected.	Evidence of obsolescence or physical damage to the asset.
Significant changes with adverse effects on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment.	Significant changes with adverse effects on the entity have taken place during the period, or are expected to take place in the near future, which may affect the extent or how the asset is used (e.g. assets becoming idle, restructuring, plans to dispose of assets early and reassessing useful life as finite rather than indefinite).
Increases in market interest rates (i.e. likely to increase the discount rate used to calculate the asset's value and therefore decrease recoverable amount).	Internal reporting indicates that the economic performance of an asset is, or will be, worse than expected.
Carrying amount of net assets of the entity is more than its market capitalisation (e.g. for listed entities).	

(AASB 136.12(a) – (g))

Identifying an impaired asset

- A mandatory impairment test is required (i.e. recoverable amount must be estimated) annually for the following assets:
 - Goodwill acquired in a business combination
 - Intangible assets with an indefinite useful life
 - Intangible assets not yet available for use



- Also, for Intangible assets initially recognised during the year, they have to be assessed again before the end of the year.

(AASB 136.10)

Other Reporting Considerations

- Climate Related Risks and Financial Statements
 - Risk related to reported amounts
 - Climate risks in key assumptions in developing estimates
- Impact of COVID-19 on Financial Reporting
 - Disclosure of significant impacts
 - Are previously disclosed impacts still valid?



Remember – Inclusion of key estimates, judgements and assumptions about the future are a requirement of AASB 101, and that includes comparative information if relevant to understanding the statements.

(AASB 101.122, 125 & 38)

Other Reporting Considerations

Equity Contributions \$135m in 2020-21

- 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*
 - Government designation determines – Equity or Income
- TI Guidance: FC-16 *Contributions to Government Businesses*
It provides criteria that the contribution must:
 - gives rise to a financial interest in the net assets
 - Be an equity instrument - can be sold, transferred or redeemed.
- If criteria not meet - recognise as grant funding
- Ultimately designation by Government determines treatment

Other Reporting Considerations

- Concessionary Leases for Lessors
 - No Change – should still account for the asset under lease
- Other Leasing changes
 - Lease Liabilities are scoped out of Financial Instruments – (rare exceptions)
 - Maturity analysis is required and now presented within the leasing note itself

Guidance paper - accounting for assets valued using current replacement cost

- For entities accounting for assets recognised at fair value using the cost approach under AASB 13 *Fair Value Measurement*
- “Gross” or “Net” disclosure?
 - *Model Departmental Financial Statements – look for Gross*
- Notes key points in AASB 116
- Prospective focus on remaining useful life to the entity is central for the calculation of depreciation

- TAO website resources under Other Client Information

<https://www.audit.tas.gov.au/wp-content/uploads/Accounting-for-assets-valued-using-current-replacement-cost.pdf>

New Accounting Standards



- 2023/24 *AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*
- 2023/24 *AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date*
- 2023/24 *AASB 17 Insurance Contracts* (replaces AASB 1023) for private sector. AASB 1023 continues to apply for public sector insurers until.....
- 2025/26 Expected public sector application of AASB 17 Insurance Contracts. Exposure draft presently being drafted for release in 2022

All Financial Statements

- To Disclose or Not to Disclose
 - Beware clutter, consider materiality
- Superannuation Guarantee Levy
 - from 1 July 2022 the rate will increase by 0.5% to 10.5%
- 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.

August						
Sun	Mon	Tue	Wed	Thr	Fri	Sat
				...	12	13
14	15	16	17	18	19	20
21	22...					

References



- Software as a Service – IFRIC Interpretation
<https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2021/configuration-or-customisation-costs-in-a-cloud-computing-arrangement-mar-21.pdf>
- Climate-related and other emerging risks disclosures
https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_Finshed.pdf
- Impact of COVID-19 on Financial Reporting
<https://www.audit.tas.gov.au/client-reference-information/>
https://www.aasb.gov.au/admin/file/content102/c3/AASB19009_COVID19_FA.pdf
- Guidance Paper – 30 June 2022 financial statement submission
[Guidance-paper-30-June-2022-financial-statement-submission.pdf \(audit.tas.gov.au\)](https://www.audit.tas.gov.au/guidance-paper-30-june-2022-financial-statement-submission.pdf)
- Guidance paper - accounting for assets valued using current replacement cost
<https://www.audit.tas.gov.au/wp-content/uploads/Accounting-for-assets-valued-using-current-replacement-cost.pdf>



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Performance audit: What we found from our COVID-19 work



Impact of the pandemic on our annual performance audit plan of work

- Request from Parliament to do and in the public interest to do COVID-19 audits
- Suspended our normal performance audit programme of work
- Concerns from key departments on the burden we might place on them and our messaging
- Work undertaken remotely and with a new team
- Mixture of reasonable and limited assurance activity

Our Covid-19 plan of work

- Support Measures:
 - Review of expenditure in 2019-20
 - Small Business Hardship Grant Program
 - Payroll Tax Waiver
 - Community Support Fund
- Pandemic response and mobilisation
- Allocation, distribution and replenishment of PPE
- Response to social impacts
- Response to Social Impacts: mental health and digital inclusion

The Governments response to the pandemic – what went well

- Government acted quickly to ensure governance and oversight for its response
- While initial plans were not fully developed they were quickly adapted and largely effective
- Departments and other stakeholders were agile and reacted well to changing circumstances
- While there was some ‘burn out’ for staff, resourcing largely met needs
- Despite the small size of the State sector there was adequate capability

The Government's response to the pandemic – what went well

- Those most at risk and vulnerable were identified and resources allocated
- The demand for quarantine was met throughout the response
- Across the public sector the demand for PPE was largely met
- Stimulus measures provided real time support for people and businesses and processes ensured equity
- Use of existing systems and processes for allocating grants and funding reduced the risk of fraud
- Communication to the public at a State level was clear.

What are the lessons for how the Government responds to a pandemic

- There was a lack of preparedness with no pandemic scenario testing, PPE stock levels or plans specifically developed for a pandemic
- While governance for the response was quickly set up and agile it was over complicated
- Public Health were unable to cope in the early stages of the response and their role was quickly changed
- Communication with the regions and local providers of services could have been better
- Existing local providers/networks were not always utilised effectively

What are the lessons for how the Government responds to a pandemic

- More tailored and targeted support for some staff was needed
- Having five agencies involved in quarantine resulted in some inefficiencies
- A lack of investment in grant management software prior to the pandemic impacted on the efficiency of grant program delivery
- Some of the system-based controls in the grant management software used were underutilised
- Some of the ways in which organisations worked more effectively/efficiently during the pandemic are starting to be lost