



Tasmanian
Audit Office

Client Information Session

Local Government
17 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 local government 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 – 10:20	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
10:20 – 10:30	Break	
10:30 – 10:55	Jeff Tongs	<ul style="list-style-type: none">• Overview of financial reporting changes• Current Accounting Standards and technical issues• Other Reporting Considerations
10:55 – 11:20	Janine McGuinness	Performance Audit <ul style="list-style-type: none">• COVID-19 wrap up
11:20 – 11:30	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

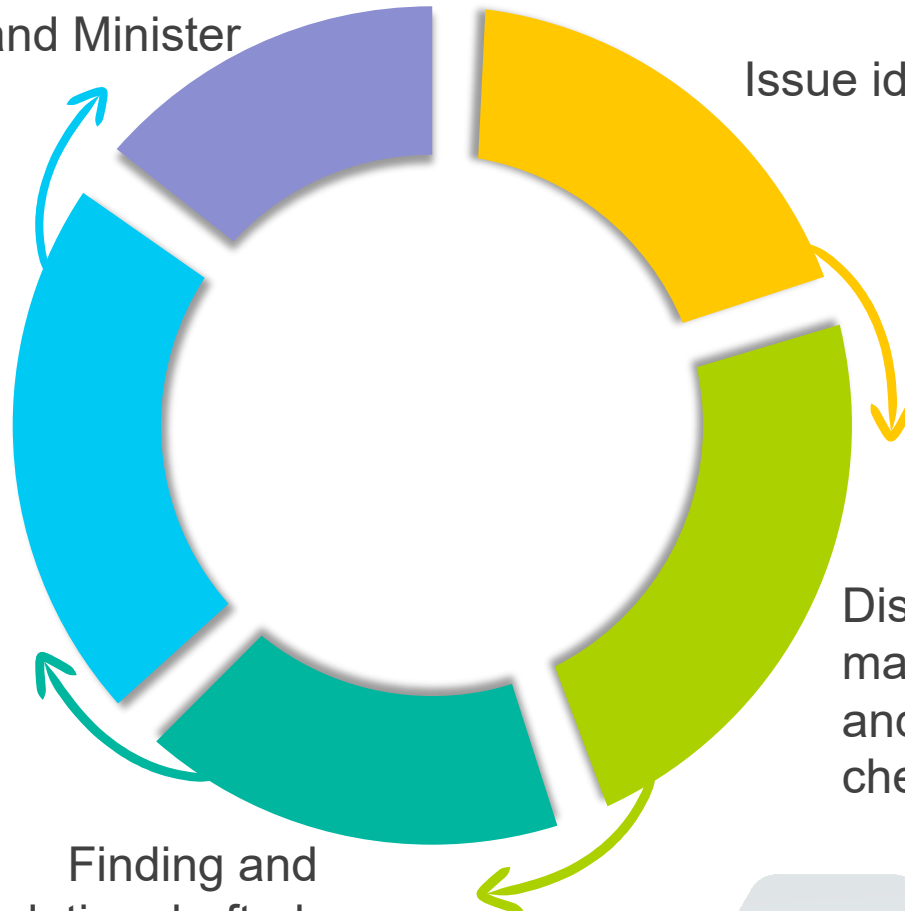
Report finalised and issued to
TCWG and Minister

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

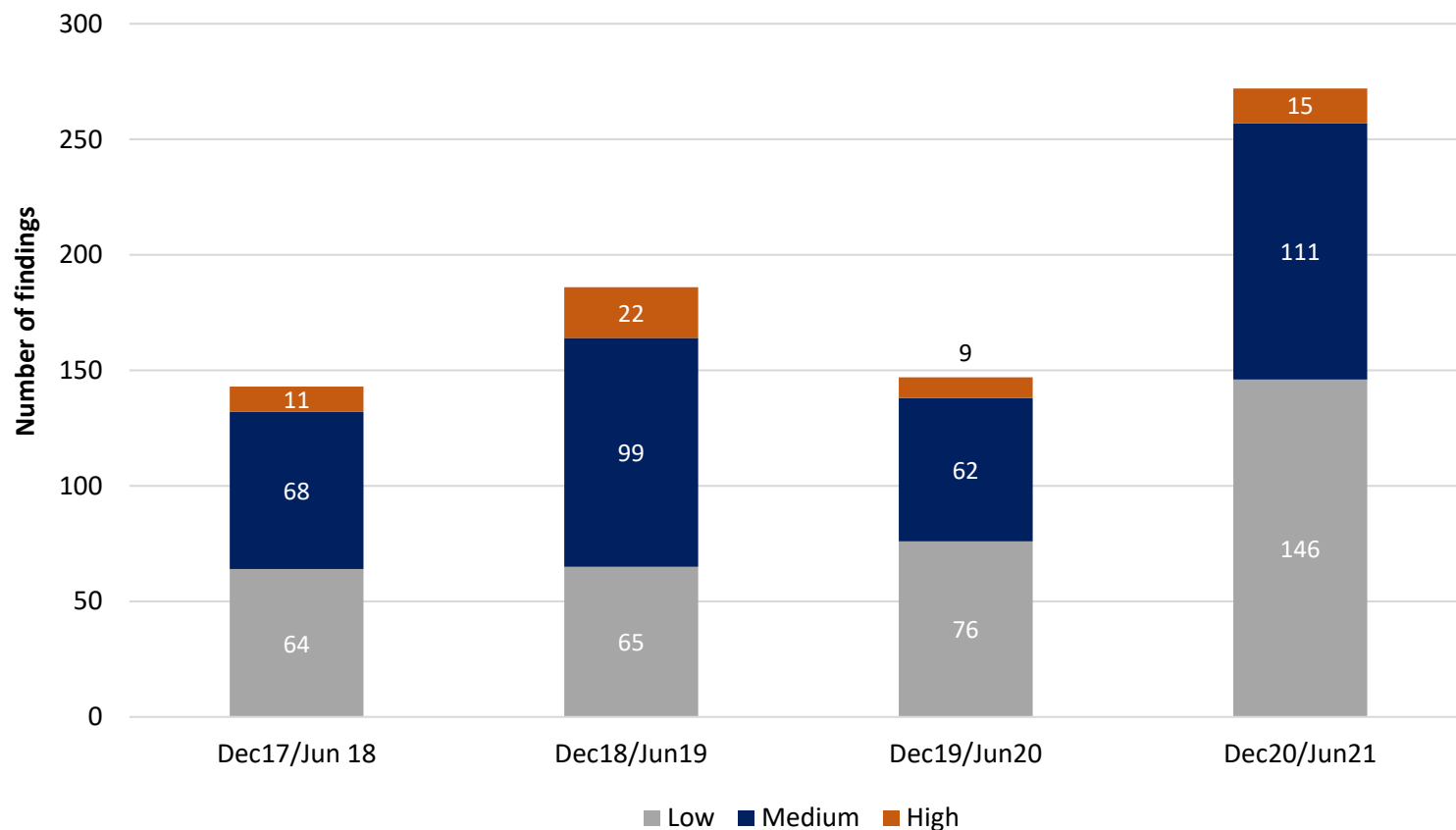
272

Audit matters raised

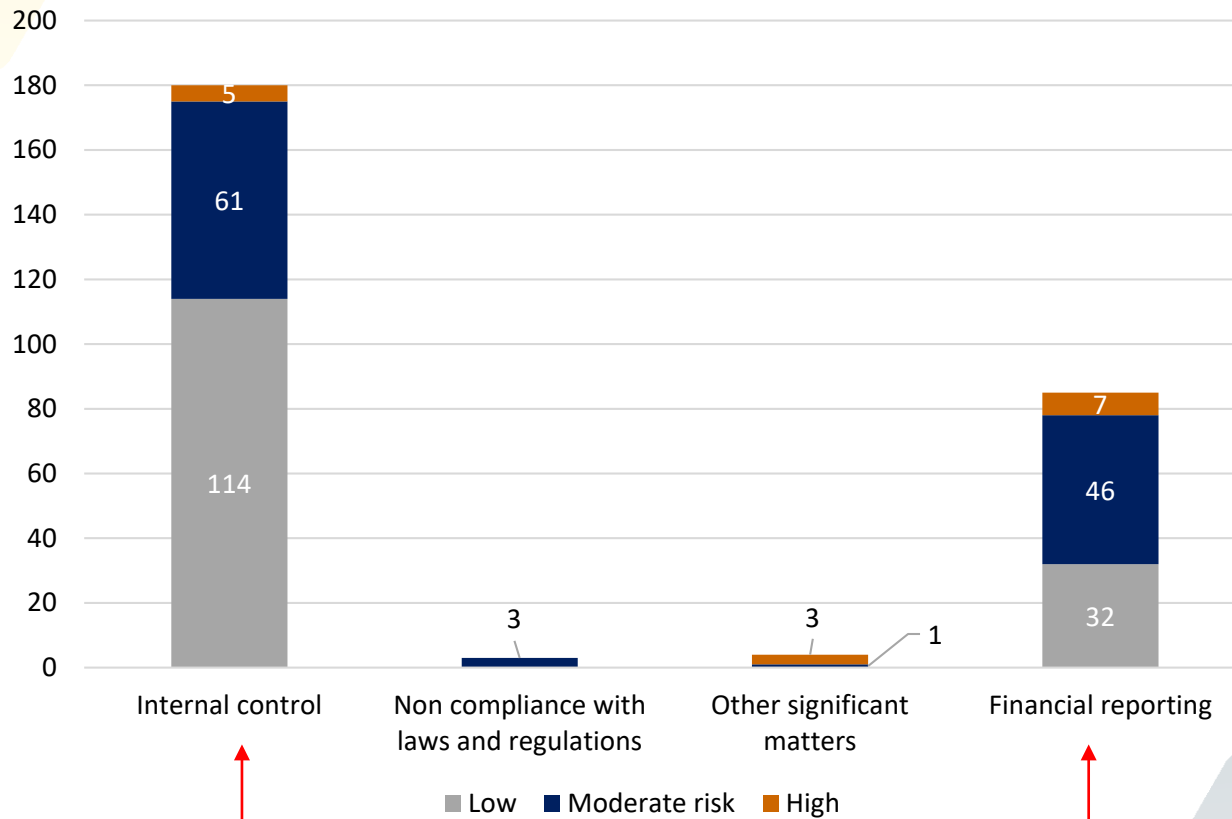
107

Audit matters raised in prior periods
assessed as unresolved

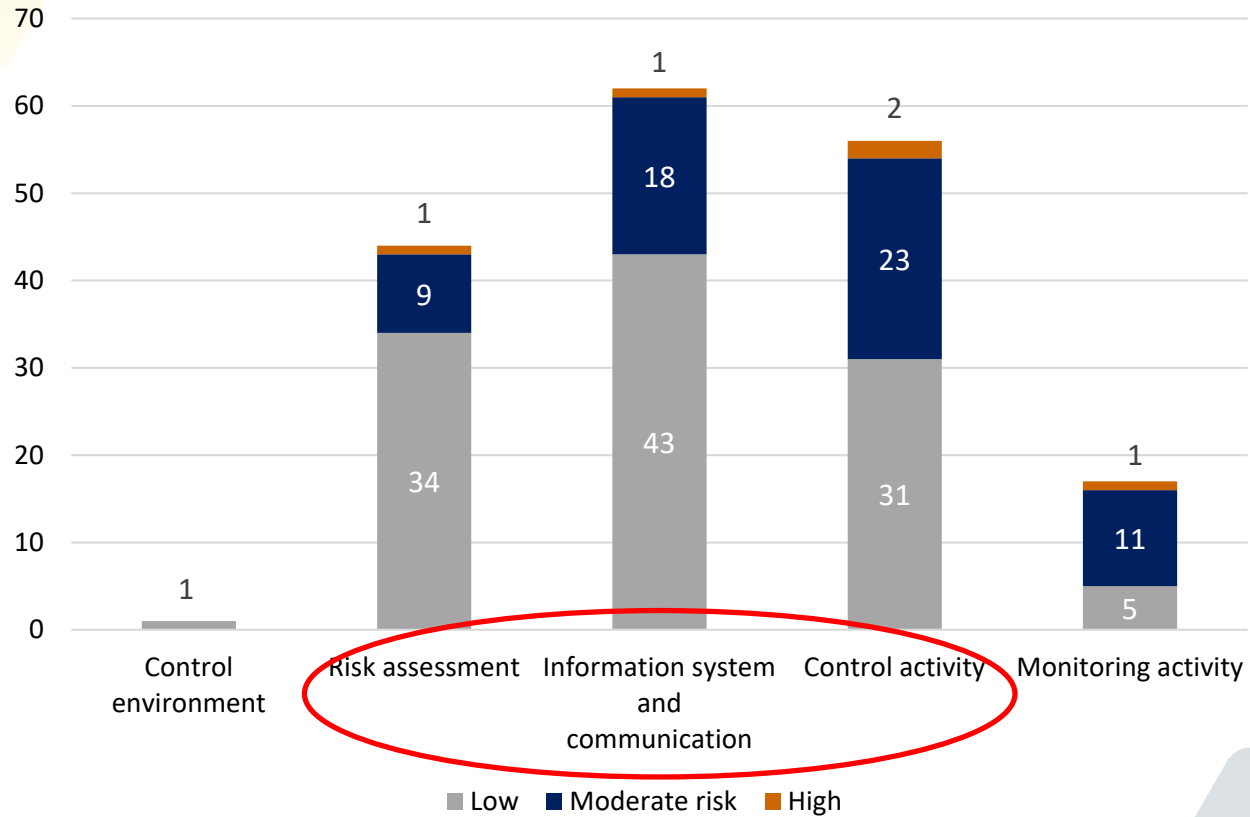
Comparison of audit findings by risk rating



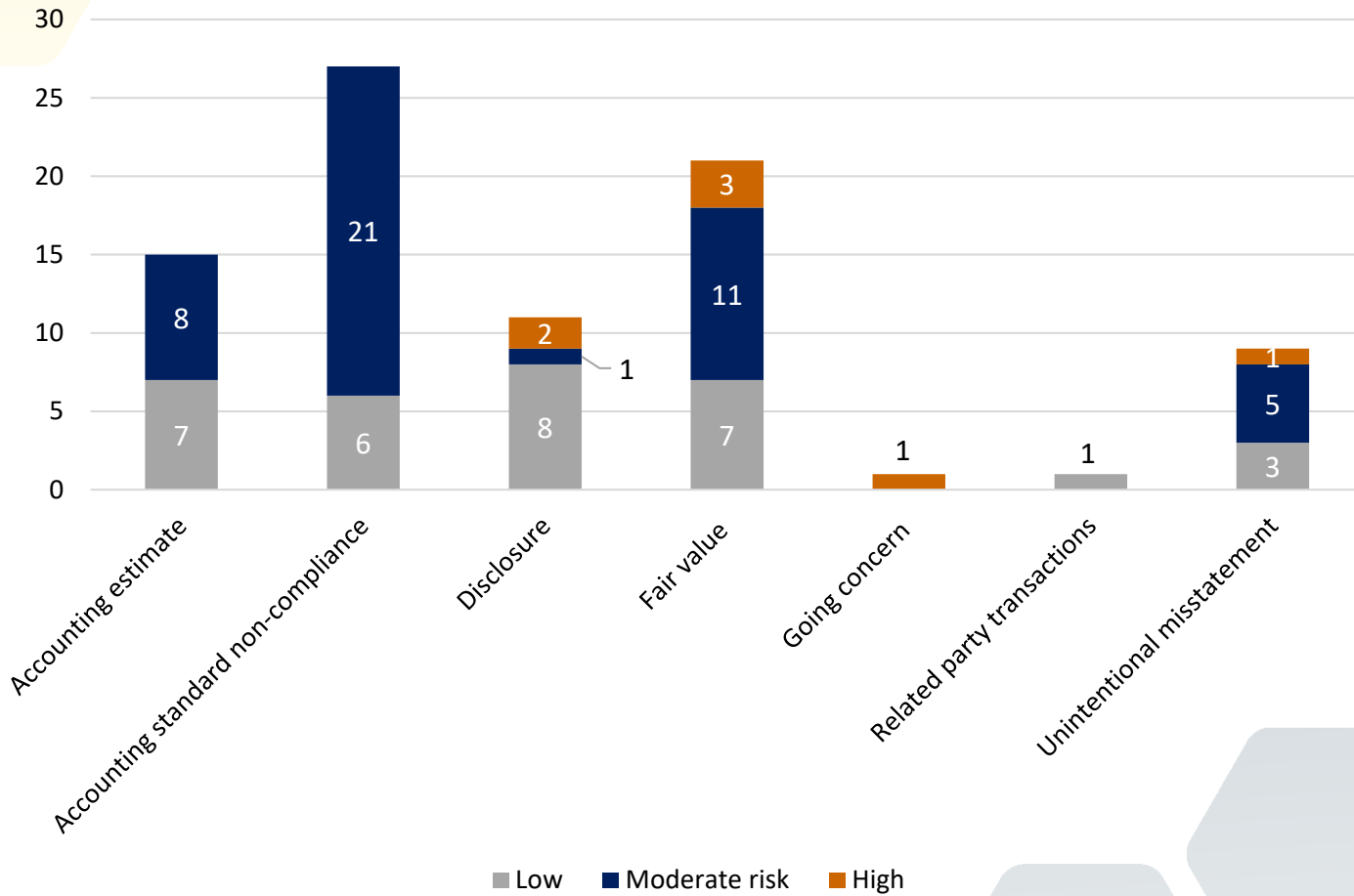
Classification of audit findings



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 (Local government)

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	16	47	64
Non-compliance with laws and regulations	0	0	0	0
Other significant matters	0	0	0	0
Financial reporting	2	31	16	49
Total	3	47	63	113

2021 findings (Local government)

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

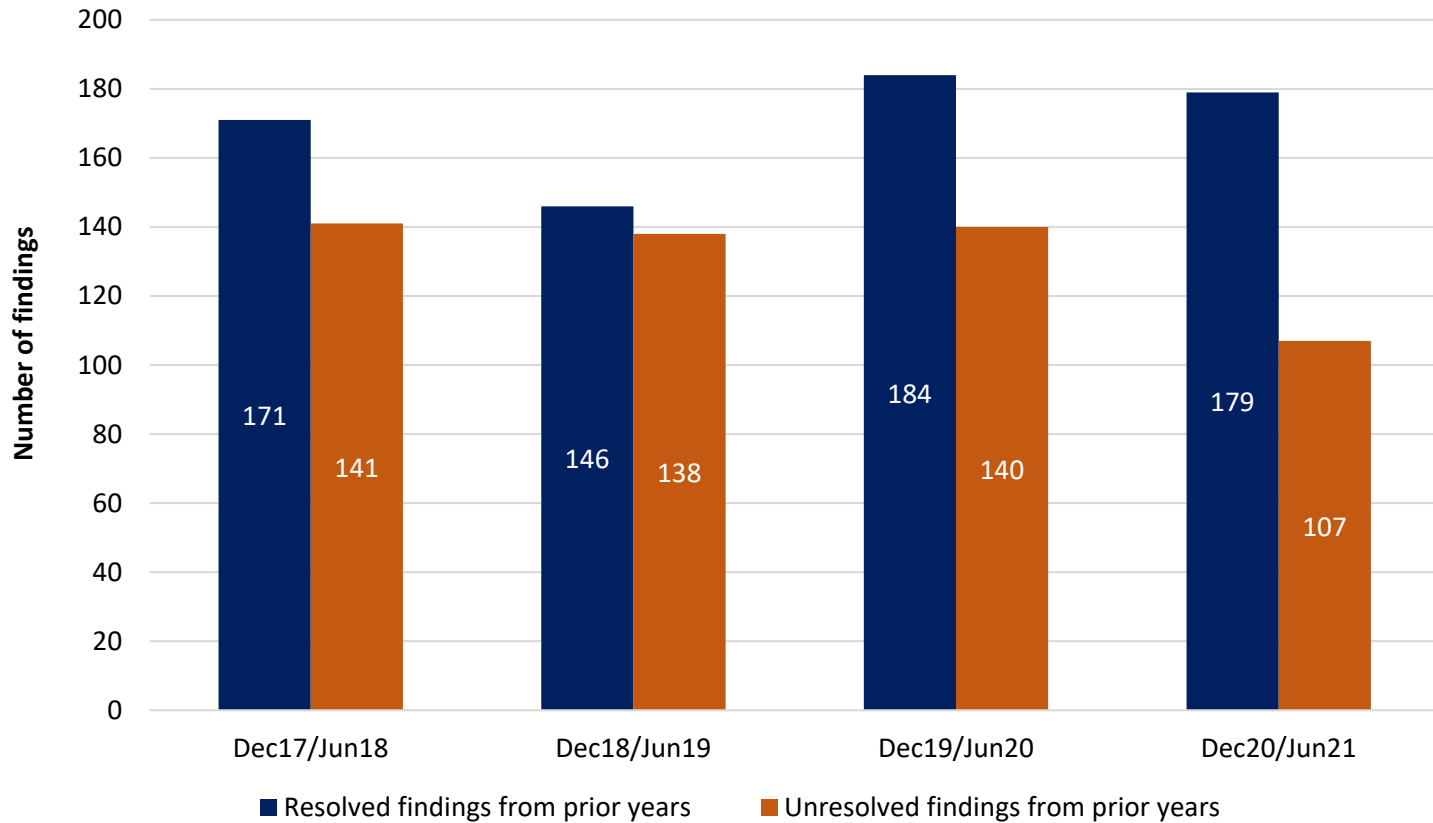
2021	High Risk	Moderate Risk	Low Risk	Total
Internal control	1	16	47	64
Control environment	0	0	1	1
→ Risk assessment	0	1	13	14
→ Information system and communication	0	4	20	24
→ Control activity	0	7	12	19
Monitoring activity	1	4	1	6

2021 findings (Local government)

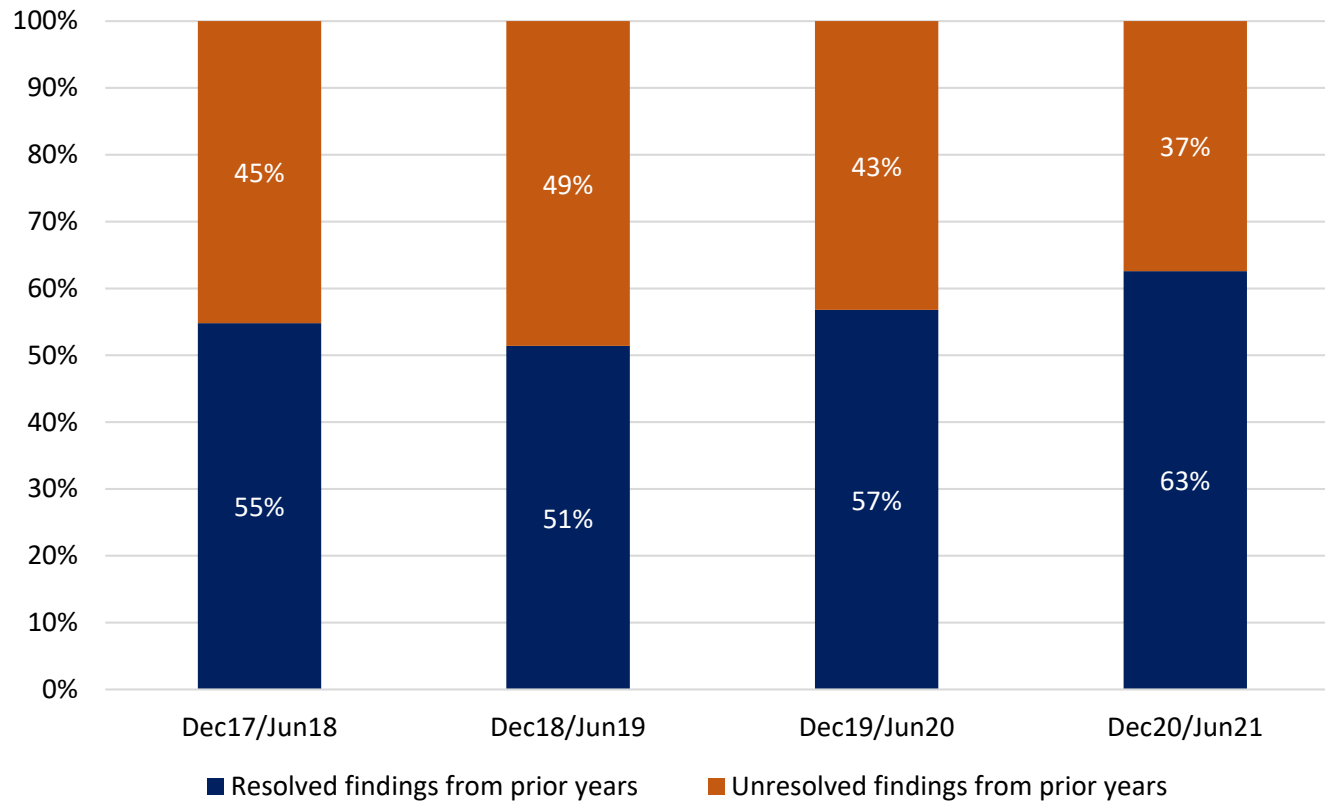
31 December 2020 and 30 June 2021 audit findings by classification and risk rating

2021	High Risk	Moderate Risk	Low Risk	Total
Financial reporting	2	31	16	49
Accounting estimate	0	5	1	6
Accounting standard non-compliance	0	16	3	19
Disclosure	0	0	2	2
Fair value	2	8	7	17
Going concern	0	0	0	0
Related party transactions	0	0	1	1
Unintentional misstatement	0	2	2	4

Prior years' audit findings

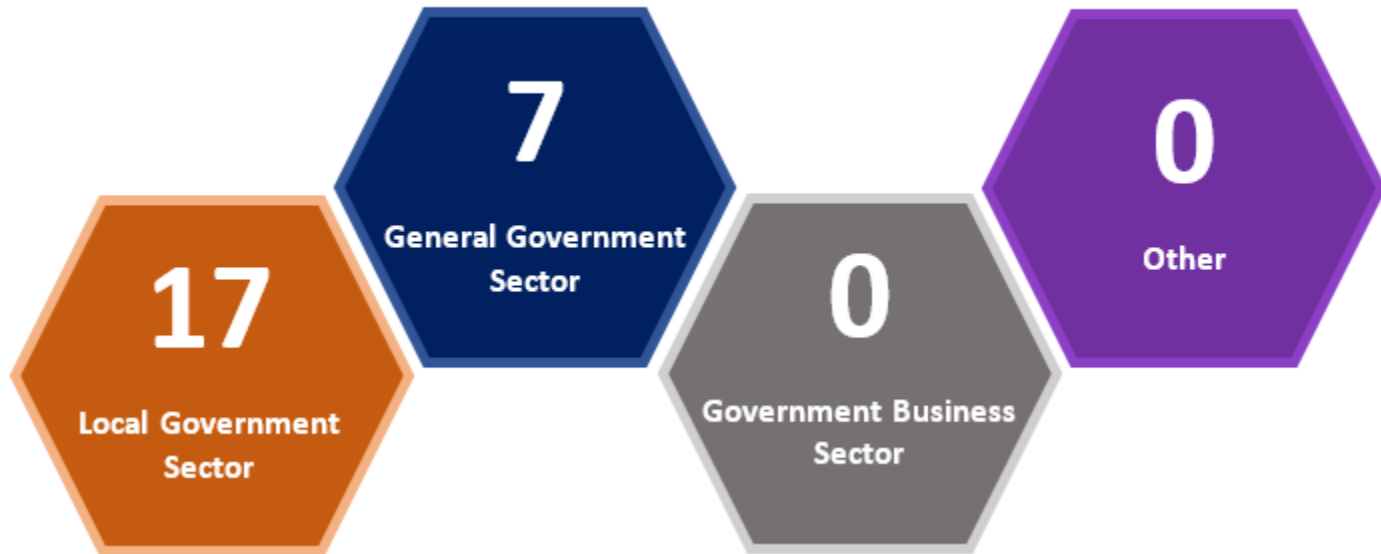


Resolution of prior years' audit findings



Prior period errors (Overall)

Figure 11: Prior period errors - by sector



Prior period errors (Local government)

Table 5: Summary of prior period errors

Entity	Prior Period Error
Burnie City Council	Amendment arising from changes to comparative balances of a controlled entity. Amendment arising from changes to comparative balances of a joint venture.
Copping Refuse Disposal Site Joint Authority	Incorrect recognition of future payments on right of use assets and lease liabilities. Incorrect recognition of rehabilitation provision and aftercare.
C Cell Pty Ltd as Trustee of C Cell Unit Trust	Incorrect recognition of rehabilitation provision and aftercare.
Dorset Council	Incorrect depreciation resulting in an overstatement of assets and understatement of expenses. Outdated/not up-to-date asset register, resulting in incorrect asset value.
Dulverton Regional Waste Management Authority	Incorrect determination of unwinding discount rate for aftercare provision.
Glamorgan Spring Bay Council	Unrecognised revaluation of asset classes.



Prior period errors (Local government)

Table 5: Summary of prior period errors

Entity	Prior Period Error
King Island Council	Omission of culverts as part of a previous revaluation.
Latrobe Council	Error in calculation of the drainage revaluation.
Launceston City Council	<p>Incorrect allocation of accumulated depreciation value against a group of non-depreciating assets within an asset class.</p> <p>Incorrect accounting for the transfer of roads between Council and State Growth. Transfers were based on a signed agreement which differed from the assets that were gazetted.</p> <p>Omission of a number of items in the Museum Collection as part of previous revaluation.</p>
Sorell Council	Removal of waste infrastructure assets no longer held.
Southern Midlands Council	Omission of land and buildings as part of a previous revaluation.
West Coast Council	Omission of stormwater assets as part of previous revaluation.



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

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?

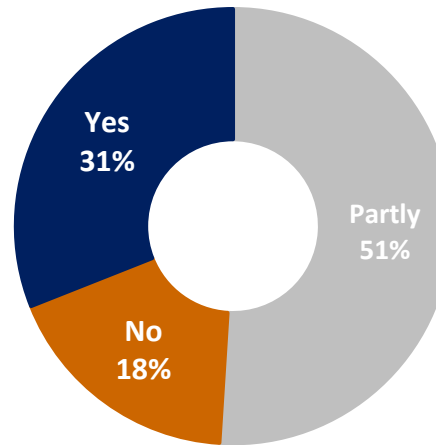
- Monitoring activities:
 - Limited processes to monitor the effectiveness of controls, identification and remediation of control deficiencies
 - No, or ineffective, internal audit function
 - Limited processes to test the effectiveness of IT controls, identification and remediation of IT control deficiencies

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.

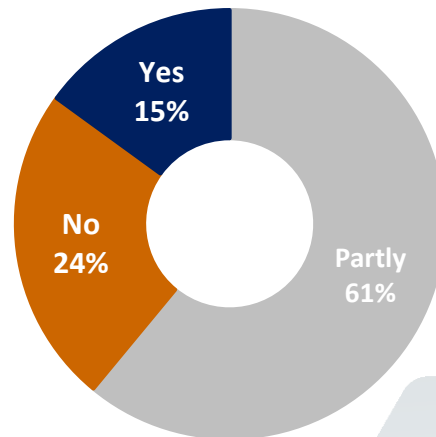
Documentation of key internal controls relevant to financial reporting objectives

- 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.





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

Jeff Tongs

Topics

Overview:

- Cloud Computing - accounting for SaaS
- AABS 1060: GPFS Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities
- Concessionary Leases & Other Leasing Considerations
- Other Reporting Considerations
- 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 Local Government and Statutory Entities who apply their own Act (LGAT or other Act) - Tier 1 (full) GPFR

Concessionary Leases

- Temporary exemptions still allows Not-for-Profit lessees to elect to measure ROU assets at 'cost' (refer to option added in AASB 16 in para Aus 25.1).
- ROU assets can be treated as a separate class of asset, despite a similar nature and use
- What's next in public sector NFP lessees?
 - decision deferred on extending the 'cost' option, until additional guidance on fair value measurement for such ROU assets is discussed. (Refer ED 318)

Other Leasing 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

Other Reporting Considerations

Revenue and Income for Not-for-Profit (AASB 15/AASB 1058)

- AASB project:
 - Exposure Draft ED318 – Illustrative examples
 - Further education material expected (for 30 June 2022)
 - Some changes deferred for Post-Implementation Review (PIR)

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



Asset Valuation, Revaluation model – sufficient regularity

- Are valuations planned?
 - VG: 10 Municipalities in 2022, valuation is date 1 July 2021
 - Infrastructure?
- If not, what's the approach?
 - Indexing? (What basis?)
 - VG Adjustment factors? (*28 Feb 22 Land range: up to 5.00!*)
- Disclosure requirements all met and correct?
 - Policy, Effective date, Independent valuer or internal, Valuation technique explained, Hierarchy (level 1,2 or 3)....?

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 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*

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_Finished.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 - 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>
- **Valuation Adjustment Factors - 28 February 2022**
<https://nre.tas.gov.au/land-tasmania/office-of-the-valuer-general/property-valuation-adjustment-factors>
- **Guidance Paper – 30 June 2022 financial statement submission**
[Guidance-paper-30-June-2022-financial-statement-submission.pdf \(audit.tas.gov.au\)](#)

just released



Tasmanian Audit Office

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



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

- During preparation of the 2020-21 Annual Plan of Work, the Parliamentary Standing Committee of Public Accounts suggested the Auditor-General examine aspects of the Government's response to COVID-19
- 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

Preparedness and initial response

Key findings

- 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

Lessons

- 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



Resourcing the pandemic response

Key findings

- 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

Lessons

- Public Health were unable to cope in the early stages of the response and their role was quickly changed
- More tailored and targeted support for some staff was needed

Resourcing the pandemic response

Key findings

- Those most at risk and vulnerable were identified and resources allocated
- Across the public sector the demand for PPE was largely met

Lessons

- Some of the ways in which organisations worked more effectively/efficiently during the pandemic are starting to be lost

Support and stimulus measures

Key findings

- Effective contract management approach ensured there were enough hotel quarantine rooms to meet demand
- Stimulus measures provided real time support for people and businesses and processes ensured equity

Lessons

- 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



Support and stimulus measures

Key findings

- Use of existing systems and processes for allocating grants and funding reduced the risk of fraud

Lessons

- Some of the system-based controls in the grant management software used were underutilised
- Existing local providers/networks were not always utilised effectively

Communication

Key findings

- Communication to the public at a State level was clear

Lessons

- Communication with the regions and local providers of services could have been better

Questions and Close



Local Government Model Statements update



- **Q: Any update on the Local Government Model Statements becoming mandatory?**

A: In short no, this is a matter for the Director of Local Government.

In future the Model Statements will become the prescribed format by the Director of Local Government for General Managers to follow in the preparation of annual financial statements each year. This requirement is an outcome of the *Local Government Amendment (Targeted Review) Act 2017*, however the commencement date has yet to be proclaimed. Given implementation has been known for some time now and deferred to provide time for Councils to consider adoption, the earliest could well be for next year, 30 June 2023.

Most will be aware that there is currently a major review being undertaken for legislation that is administered by the Director of Local Government. Any decision by the Director to prescribe the Model Statements as mandatory will no doubt be in consideration of the progress of those reviews and any relevant outcomes.

In the interim it is hoped the Model Statements will continue to provide assistance to Councils in meeting their financial reporting requirements of the *Local Government Act 1993*, the *Audit Act 2008* and Australian Accounting Standards. We encourage Councils to consider the suggested disclosures before the mandatory application is required.