Tasmanian Audit Office

Client Information Session 2019

Welcome

Overview (North)

Time	Presentation	Presenter
12.35 – 1.50pm	Accounting standards update	Jeff Tongs Jan Lynch Stephen Morrison
1.50 – 2.20pm	Afternoon tea	
2.20 – 2.50pm	Pilot Project - ED 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*	Rod Whitehead
2.50 – 3.20pm	Audit update	Ric De Santi
3.20 – 3.50pm	Recent performance audits	Rod Whitehead Ric De Santi
3.50 – 4.00pm	Close	Rod Whitehead

Overview (South)

Time	Presentation	Presenter
9.35 – 11.20am	Accounting standards update	Jeff Tongs Amy Parker (TasNetworks) Jeff Tongs/Stephen Morrison Megan Marion (TasWater) Stephen Morrison Adam Mucci (TasPorts)
11.20 – 11.50am	Morning tea	
11.50am – 12.20pm	*Financial Management Act 2016*	Craig Jeffery (Department of Treasury and Finance)
12.20 – 12.40pm	Pilot Project - ED 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*	Rod Whitehead
12.40 – 1.00pm	Audit update	Ric De Santi
1.00 – 1.20pm	Recent performance audits	Simon Andrews Janine McGuinness
1.20 – 1.35pm	Questions and close	Rod Whitehead

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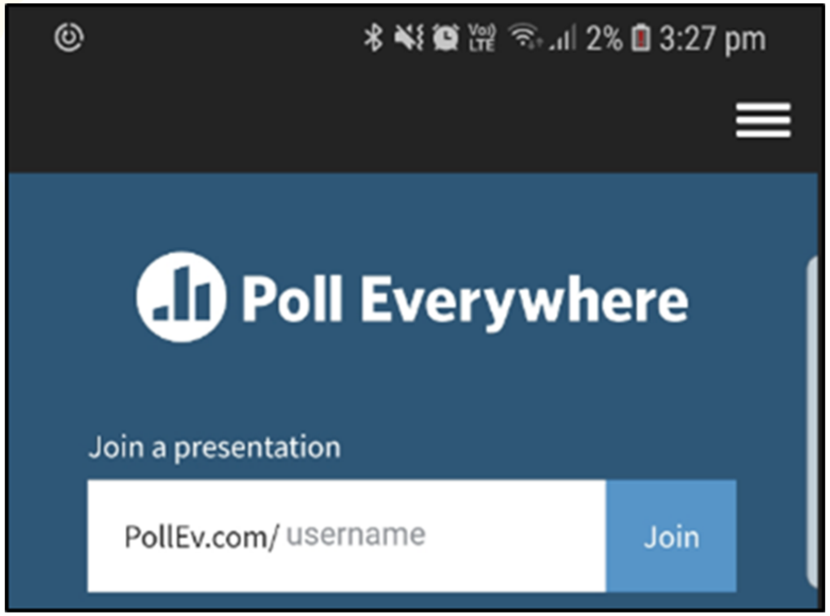
Poll Everywhere



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Accounting Standards Update

Hobart
May 2019

Jeff Tongs

Accounting Standards Update
Agenda

- Are you ready for:

Australian Accounting Standard	Effective Date – Year beginning on or after	30 June Year-end
AASB 9 *Financial Instruments*	1 January 2018	30 June 2019
AASB 15 *Revenue from Contracts with Customers*	1 January 2018 (For-profit) 1 January 2019 (Not-for-profit)*	30 June 2019 30 June 2020*
AASB 1058 *Income of NFP Entities*	1 January 2019	30 June 2020
AASB 16 *Leases*	1 January 2019	30 June 2020

** AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*

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AASB 9 - *Financial Instruments*

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

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AASB 9 - *Financial Instruments*

Objective

- Establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows.

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Recognition of Financial Assets

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

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Initial Measurement

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

Contractual cash flow characteristics (step 1)

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

AASB 9 – Financial Assets
The Business Model (step 2)

Classification Key Criteria:

a. The entity's business model for managing the financial assets and

b. How does the entity intend to obtain the benefit from the financial asset

   1. Hold to collect cash flows? or
   2. Collect cash flows and sale ?

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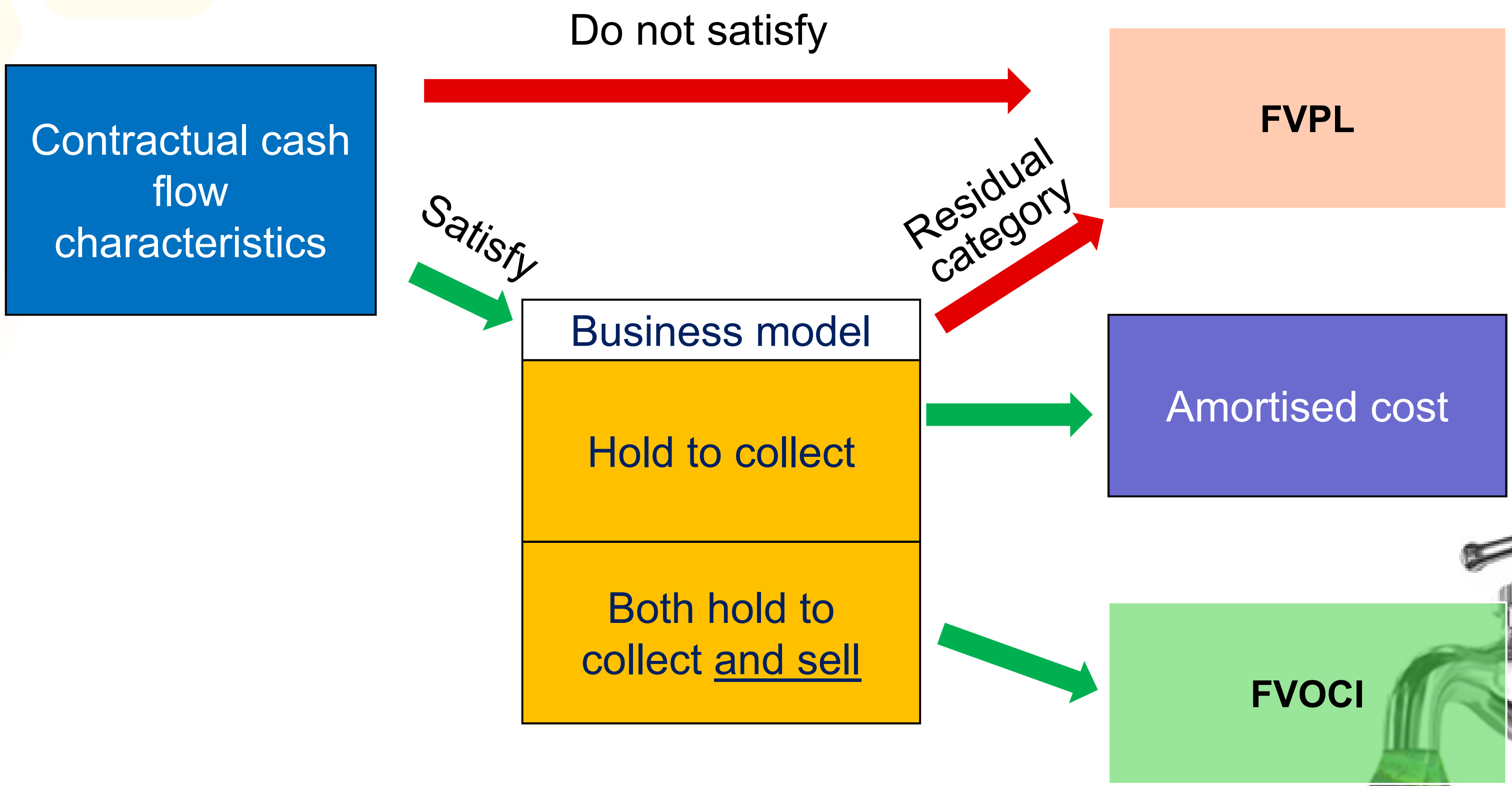
AASB 9 – Financial Assets
The Business Model

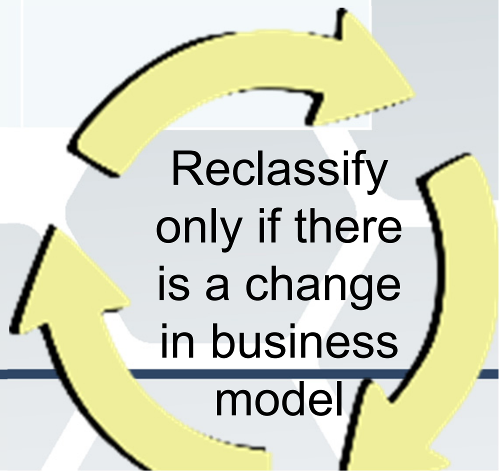


Reclassification applies to all business models

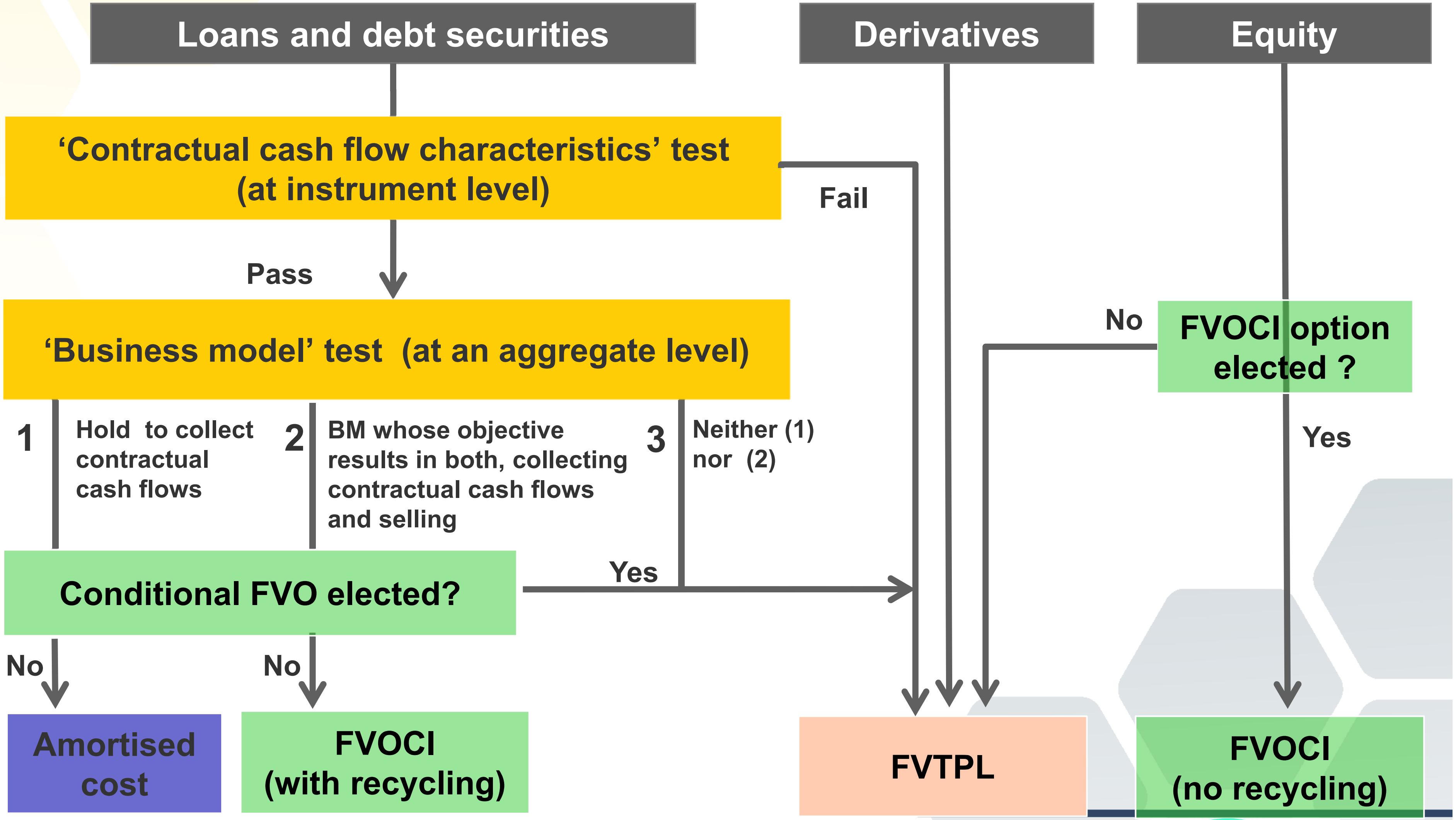
Types of Asset Business Models

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

Business Models	Key features	Measure at
Held-to-collect	• Entity holds assets to collect contractual cash flows • Sales are incidental to the objective (e.g. Trade Receivables, loans..)	Amortised cost
Held both to collect and for sale	• Both collecting contractual cash flows and sales are integral to achieving the objective of the business model (e.g. Debt instruments)	FVOCI
Others	• Assets are neither held-to-collect nor held to collect and for sale (e.g. Shares held for trading)	FVTPL



Criteria for classification and measurement



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

Statement of financial position

Fair Value

Profit or loss

Dividends

Other Comprehensive Income

Changes in fair value and foreign exchange component

Amounts accumulated never reclassified to P&L

Classification & Measurement – Debt Instrument Illustrative Example

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

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

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

AASB 9 Classification = Amortised Cost

Classification & Measurement – Debt Instrument Illustrative Example

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

The instrument was previously classified as AFS.

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

AASB 9 Classification = FVOCI (Debt)

AASB 9 – Financial Liabilities

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

except for:

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

Only change for financial liabilities designated at FVTP&L

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

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AASB 9 - Impairment

At each reporting date assess:

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

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AASB 9 – Impairment General rule

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

- Financial Assets at amortised cost
- Financial assets at FVOCI (meeting both the contractual CF test and business model test)

Debt securities. Receivables, Loans

- Leases receivable
- Contract assets
- Loan commitments
- Financial guarantee contracts

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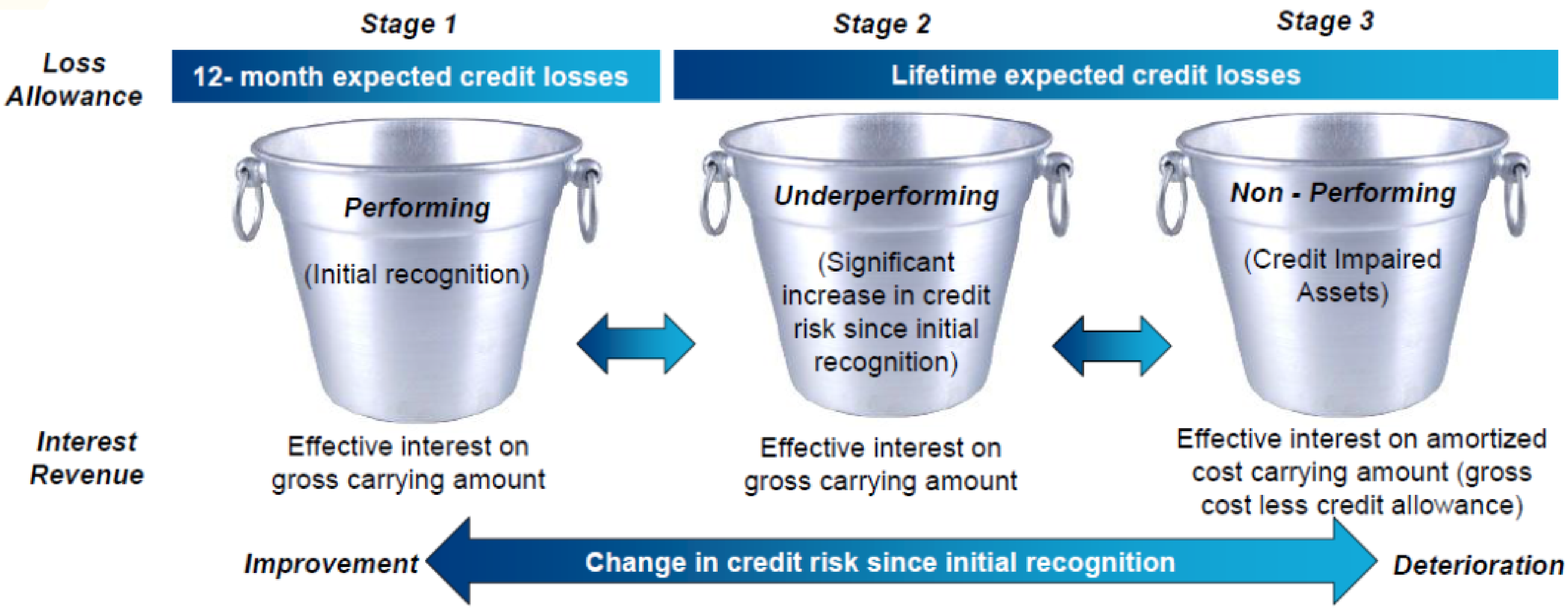
Summary of Expected Credit Loss Model *(General Approach)*



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AASB 9 – Simplified Impairment

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

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AASB 9 – Simplified Impairment

Example provision matrix:

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

Historical & Forward - looking

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

AASB 9 – Write-offs

- Directly reduce carrying amount where no reasonable expectation of recovering a financial asset (entirety or proportion).

- There is a rebuttable presumption that entities should not set a default greater than 90 days without reasonable and supportable evidence for the alternative.

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Classification & measurement: overview

ASSETS

AASB 139 – Categories	AASB 139 – Measurement	AASB 9 – Measurement categories
Held-to-Maturity (bonds) Loans & receivables	**Amortised cost** *(with split accounting)*	**Amortised cost**
Available-For-Sale (Equites & bonds)	**Fair Value / OCI recyclable** *(with split accounting)*	**Fair Value / OCI recyclable** (loans & bonds) **Fair Value / OCI non-recyclable** (measurement option for equities)
Fair Value Option Trading	**Fair Value / P&L**	**Fair Value / P&L**

New classification criteria

LIABILITIES

AASB 139 – Categories	AASB 139 – Measurement	AASB 9 – Measurement categories
Fair Value Option Trading	**Fair Value / P&L**	**Fair Value / P&L** *(FVO: own credit-risk in non-recyclable OCI)*
Amortised cost		**Amortised cost**

AASB 9 – Transition

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

New disclosure requirements

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

(Remember – AASB 7 *Financial Instruments: Disclosures* applies)

Reconciliation of financial instruments on adoption of AASB 9

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

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

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

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

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

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

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

AASB 108.28 (f)(i)
AASB 7.42L

Policies for current year and comparative

E.g. Receivables recognition and Impairment…

Recognition and Measurement

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

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

Subsequent measurement under AASB 9 (from 1 July 2018)

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

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

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

Impairment under AASB 9 (from 1 July 2018)

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

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

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

Receivables are subject to an annual review for impairment. These are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected.

The entity first assesses whether impairment exists individually for receivables that are individually significant, or collectively for those that are not individually significant. Further, receivables are assessed for impairment on a collective basis if they were assessed not to be impaired individually.

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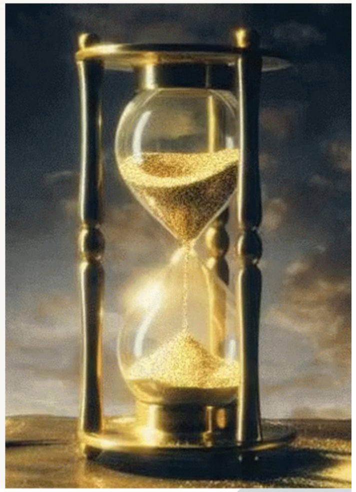

Disclosure Update

Template updated by Advisory Panel

2019 Executive Remuneration

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

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

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AASB 15 – Revenue
AASB 1058 – Revenue for Not-for-Profit

Core Principle:

- The recognition of revenue for the transfer of goods and services, at a value that reflects the consideration to which the entity expects to be entitled, in return for meeting performance obligations

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AASB 15
The 5 Revenue Steps

Step 1
Identify the Contract

Step 2
Identify the separate performance obligations

Step 3
Determine the transaction price

Step 4
Allocate transaction price to performance obligations

Step 5
Recognise revenue when each performance obligation is satisfied

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Step 1 – Identify the contract
Contract criteria (AASB 15:9)

Step 1
Identify the Contract

Contracts with customers must meet ALL of these criteria

- The contract is approved and the parties are committed to their obligations
- The entity can identify each party’s rights and payment terms
- The contract has commercial substance
- Collection of consideration is probable

If each party has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties) → no contract for the purposes of AASB 15

Step 2 – Identify the performance obligations

Step 1
Identify the Contract

Step 2
Identify the separate performance obligations

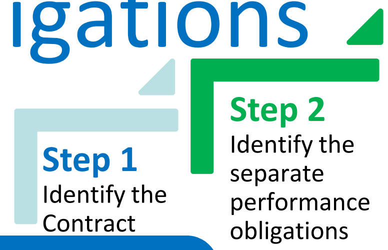
A **performance obligation** is a promise in a contract with a customer to transfer a **distinct** good or service (or bundle of goods or services), or a series of substantially similar distinct goods or services with the same pattern of transfer to the customer

Some examples of promised goods or services:

- sale of goods produced by an entity (eg inventory)
- resale of goods purchased by an entity (eg merchandise or product)
- resale of rights to goods or services purchased by an entity (eg electricity)
- performing a contractually agreed-upon task for the customer (eg cleaning services)
- granting a licence

Step 2 – Identify the performance obligations

Distinct good or service



1. Customer can benefit from good or service (ie capable of being distinct)

- On its own; (para 27a)or
- Together with other readily available goods or services (including goods or services previously acquired from entity)

And

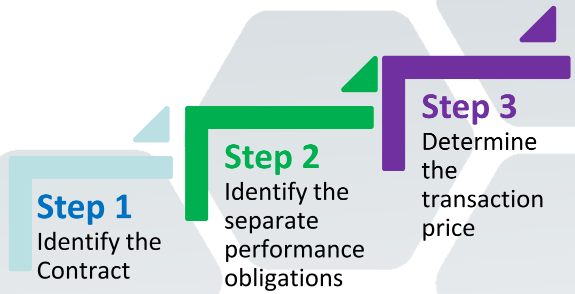
2. Promised good or service is separable from other promises (ie distinct in the context of the contract) (para 29)

- No significant service of integrating the good or service
- Good or service does not significantly modify or customise another good or service in the contract
- Good or service is not highly dependent on or highly interrelated with other goods or services

Step 3 - Determine the Transaction Price

The amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods or services to a customer

- Relative stand-alone selling price
- Non-cash consideration measured at fair value
- Adjust for significant financing benefit to customer
- Estimate of variable consideration.



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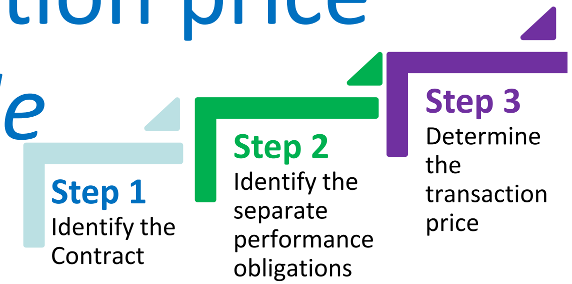
Step 3 – Determining the transaction price

Constraining estimates of variable consideration



Include estimate of variable consideration in the transaction price only to extent it is *highly probable a significant reversal of revenue will not occur* when uncertainty is resolved (para 56)

Entity's expectations of revenue reversal assessed using indicators, e.g.: Para 57

– Factors outside entity's influence (market, 3rd-party actions etc)

– Length of time before uncertainty resolved

– Entity's level of experience with similar types of contracts

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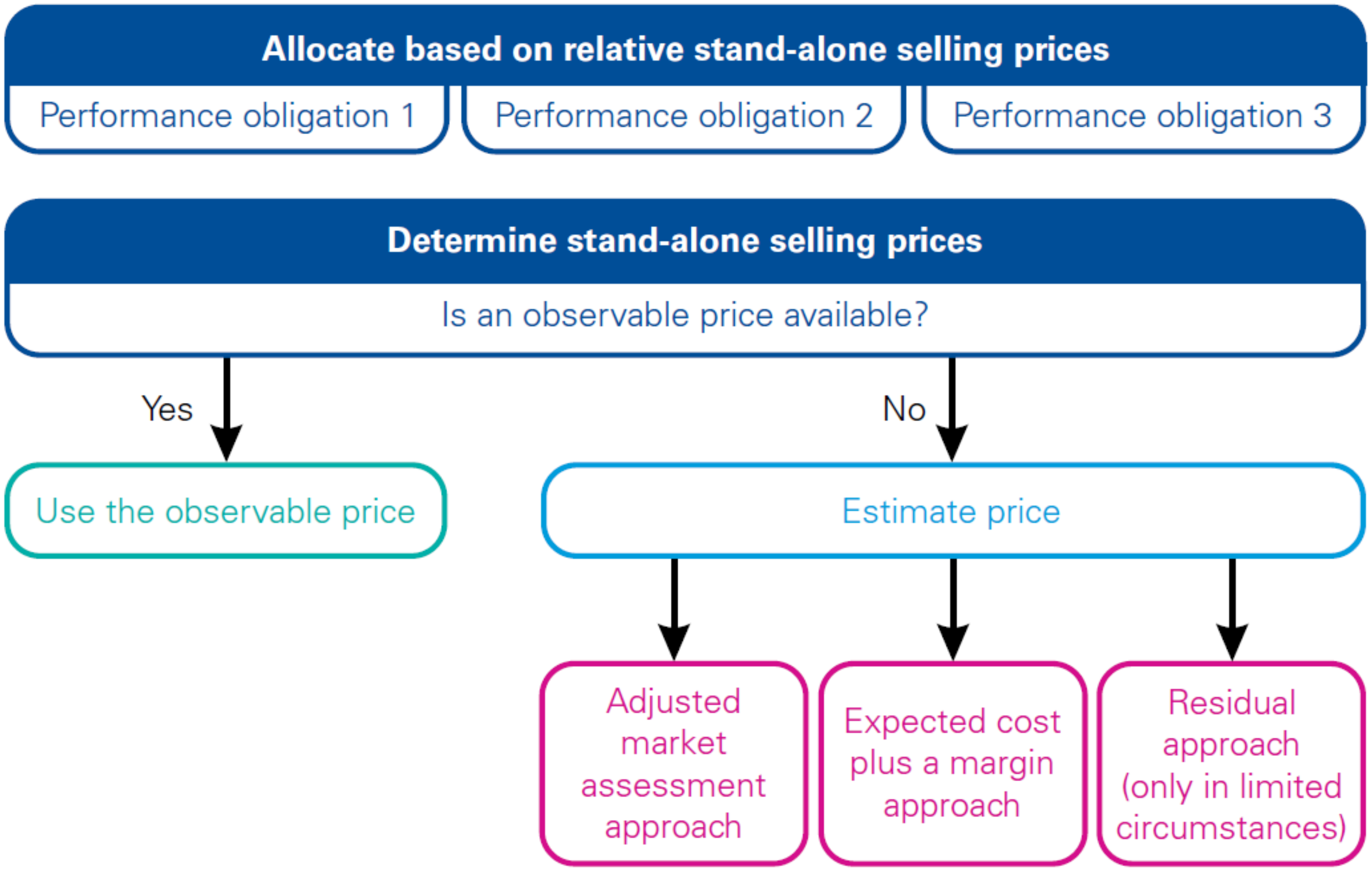
Step 4 - Allocating performance obligations based on stand alone selling prices

Step 4
Allocate transaction price to performance obligations

- Transaction price is allocated to each performance obligation in proportion to stand-alone price.



Step 4 – Allocating the transaction price to performance obligations

Step 4
Allocate transaction price to performance obligations

- Where stand-alone selling price is not directly observable: estimate the amount using one of the following approaches: (para 79)

Adjusted market assessment approach	Evaluate the market in which goods or services are sold and estimate the price that customers in the market would be willing to pay
Expected cost plus a margin approach	Forecast the expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service
Residual approach (limited applicability)	The total transaction price less the sum of the observable stand-alone selling prices of other goods or services promised in the contract

Step 4 – Allocating the transaction price to performance obligations

Step 4
Allocate transaction price to performance obligations

Allocation discount

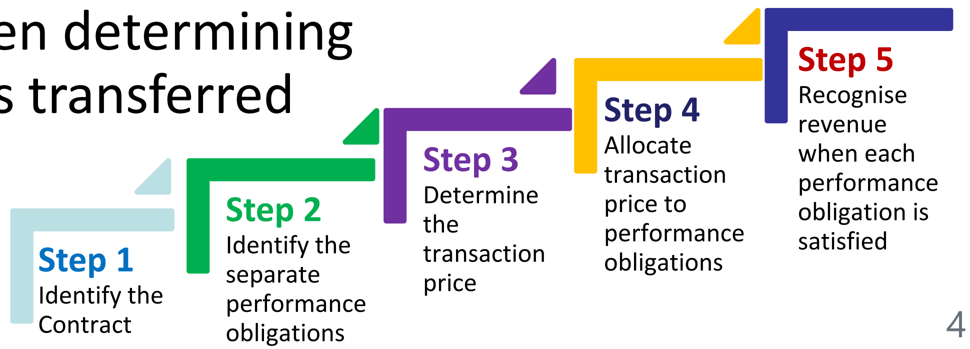
- A discount is where the price for the bundle is less than the sum of the stand-alone price of individual performance obligations
- Allocate discount proportionately to all performance obligations in the contract, (except when they relate to one or more but not all)

Allocate variable considerations

- Allocation can be to entire contract or specific parts
- Allocate variable consideration to a performance obligation if :
  - The terms of the variable payment relate specifically to satisfying the performance obligation
  - This allocation would faithfully depict the consideration entity expects for transferring the goods or services to the customer

Step 5- Recognise revenue when (or as) the entity satisfies a performance obligation

- When the customer obtains control of the good or service
- Control transfers ‘over time’ or at a ‘point in time’
  – First, determine if control transfers over time
    - If control transfers over time, select a single input or output method to measure progress for a particular performance obligation
    - Apply consistent method for all similar arrangements
  – If control does not transfer over time, default is point in time
    - Indicators provided to assist when determining the point in time when control is transferred



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Step 5 - *Continued..*

- Revenue is recognised **<u>over time</u>** when: (para 35)

- Customer simultaneously receives and consumes all of the benefits as the entity performs obligations (traditional service arrangements e.g. cleaning and security services).
- Performance creates or enhances an asset that the customer controls (e.g. construction contracts where the customer controls the work-in-progress throughout the arrangement).
- Performance does not create an asset with an alternate use and entity has enforceable right to payment for performance to date (e.g. legal services – payment reflects work performed including a reasonable profit margin).

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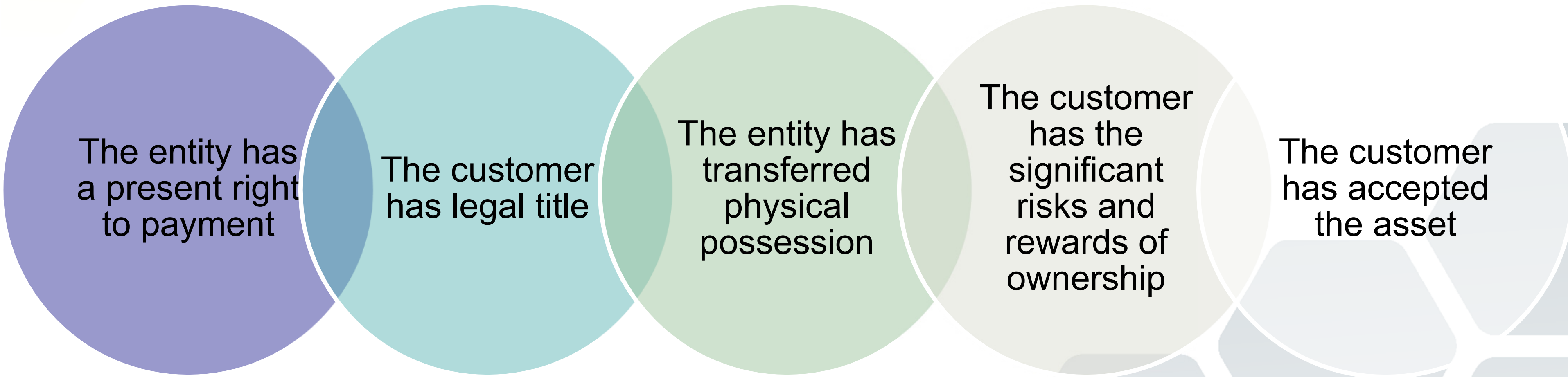
Step 5 – Recognition of revenue *(continued)*

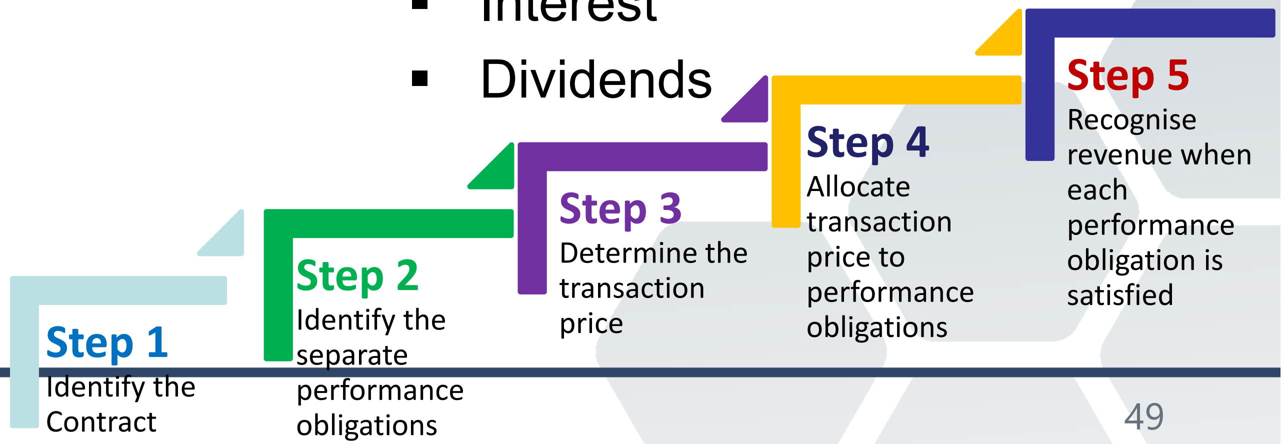
➢ If not over time, then **point in** time…. (para 38)

- Recognise revenue when control transfers
- Indicators of the transfer of control of a good or service *include*:



Revenue and Income Sources

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



Allocation based on a stand-alone selling price

Example

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

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

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

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Allocation based on a stand-alone selling price

Example

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

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

AASB 15 – Transition is Retrospective

Two approaches allowed:

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

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AASB 15 – Disclosures

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

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AASB 1058 Income of Not-for-profit Entities

Process:

1. Determine if AASB 15 applies and if it does the NFP applies AASB 15
2. If AASB 15 does not apply then the NFP considers if AASB 1058 applies:

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AASB 1058 *Income of Not-for-Profit Entities* – Objective

Establishes principles that apply to:

(a) transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the NFP to further its objectives

(b) the receipt of volunteer services.

AASB 1058 – Key Areas

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

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

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AASB 1058 – Grants

Example

Example:

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

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

AASB 1058 – Grants

Example

Example - journal entries:

	Debit	Credit
Initial recognition - 31 May X8		
Cash	2,400,000	
Contract Liability		2,400,000
Year 2 – 20X9		
Contract Liability	2,400,000	
Expenses	2,400,000	
Cash		2,400,000
Income		2,400,000

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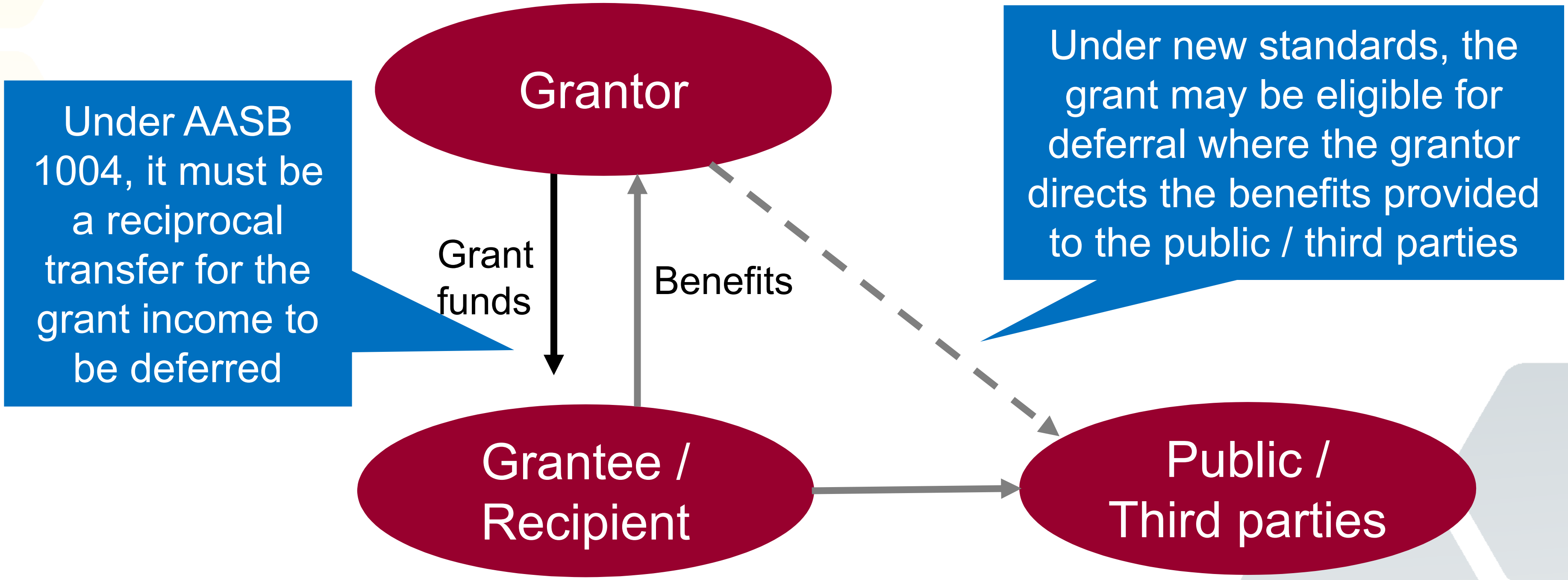
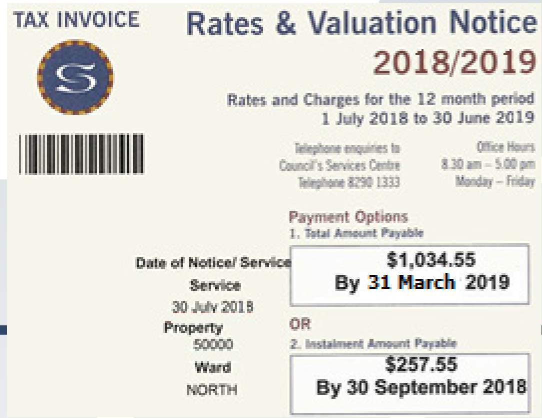
Revenue Recognition Changes
Accounting for Grant Income



AASB 1058 – Non-contractual Income arising from Statutory Requirements

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



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AASB 1058 – Peppercorn Leases

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

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AASB 1058 – Peppercorn Leases

Example

Example:

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

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AASB 1058 – Peppercorn Leases

Example

Example:

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

Treatment on transition:

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

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

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

  NFPs lessees to elect:

  - FV per *AASB 13 Fair Value Measurement*; **or**
  - Cost in accordance with AASB 16

- option applies **both** on transition and new leases

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

Additional qualitative and quantitative disclosures:

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

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AASB 1058 – Volunteer Services

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

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AASB 16 Leases

Stephen Morrison
Assistant Auditor-General Financial Audit

Definition

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

All contracts create rights and obligations

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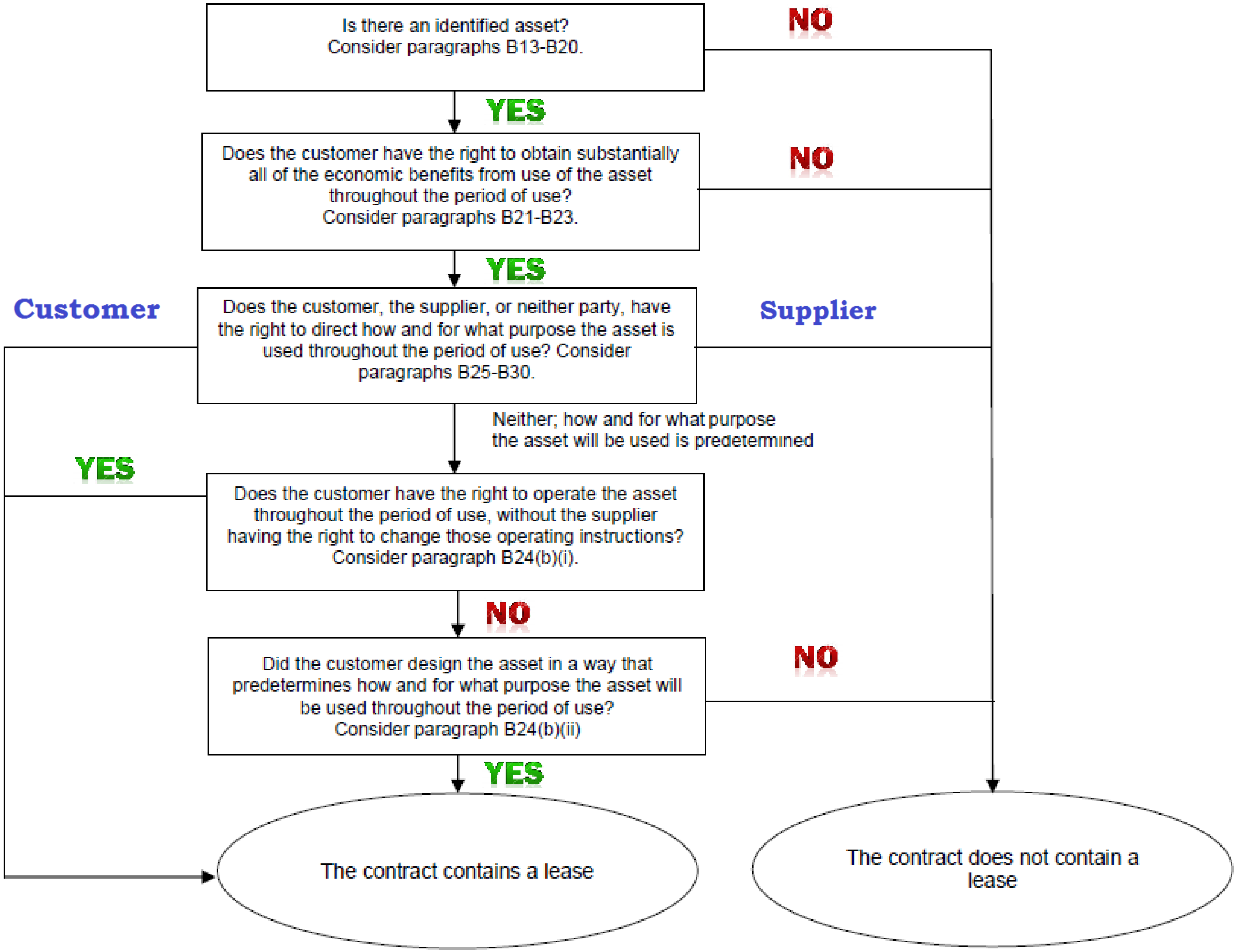
So what does this mean?

- Need to review contracts to identify potential leases
- Determine rights and obligations
- Does the contract:
  - Have an identifiable asset (there may be more than one)
  - Provide the right for the customer to obtain all of the economic benefits from using the asset over the period of the contract
  - Provide the customer with the right to direct how and what purpose the asset is used for
- If yes – generally considered to be a lease
- If no – contract unlikely to be a lease


Is there an identified asset?
Consider paragraphs B13-B20.
NO
YES
Does the customer have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use?
Consider paragraphs B21-B23.
NO
YES
Customer
Does the customer, the supplier, or neither party, have the right to direct how and for what purpose the asset is used throughout the period of use? Consider paragraphs B25-B30.
Supplier
Neither; how and for what purpose the asset will be used is predetermined
YES
Does the customer have the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions?
Consider paragraph B24(b)(i).
NO
Did the customer design the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use?
Consider paragraph B24(b)(ii)
NO
YES
The contract contains a lease
The contract does not contain a lease

Exclusions

Not required to be included in lease liabilities

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

Excluded from lease liabilities

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

- Disclosure requirements apply (p53)

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Lessee Model

- Assets & liabilities on the balance sheet, initially measured at the present value of unavoidable lease payments
- Amortisation of lease assets and interest on lease liabilities over the lease term

  (Assets – typically straight-line basis)
- Separate the total amount of cash paid into:
  - Principal portion (presented within financing activities)
  - Interest (either operating or financing activities).

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Presentation Impacts

Statement of Financial Position		
• Right-of-use asset • Lease liability	Either by:	➢ Separate line items, or ➢ In the relevant Notes and link

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

Statement of Cash Flows	
• Cash payment on the principal	➢ Financing Activity
• Short-term, low-value and variable lease payments not included in liability measurement	➢ Operating Activity
• Interest portion	➢ Apply AASB 107 *St' of Cash Flows*

Recognition – Lease Liability

- Initial recognition at commencement date:

Present value of:

the lease payments not paid

+

Residual value guarantees

-

Lease incentives receivable

+

Exercisable Options (reasonably certain)

Recognition – Right to Use Asset

- Initial recognition:

Lease liability as calculated previously

+

Lease payments made before commencement date

-

Lease incentives received

+

Initial direct costs of Lessee

+

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

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Example 1 - Recognition

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

Example 1 - Recognition

- Liability

  + Rent $236,000 ($48,000 x 5 years less $4,000 paid)
  + Option $240,000 ($48,000 x 5 years)
  + Residual value $0
  - Lease Incentive Receivable ($5,000)
  Total $471,000 (to be discounted to Present Value)

- Asset

  + Lease liability $471,000 (to be discounted to Present Value)
  + Lease paid before commencement $4,000
  - Lease Incentive Received ($15,000)
  + Legal Fees $2,000
  + Make Good $20,000 (to be calculated and discounted under AASB 137)
  Total $482,000

Example

Example 2

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

Example

Example 2

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

Totals **$16,349** ⟷ **$133,651**

$150,000

Example

Example 2

	Year 1		Year 2		Year 3	
Opening Journal						
DR Right-of-use-asset	133,651					
CR Lease Liability		133,651				
Yearly Journal	**Year 1**		**Year 2**		**Year 3**	
DR Interest Expense	8,019		5,500		2,830	
DR Lease Liability	41,981		44,500		47,170	
CR Bank		- 50,000		- 50,000		- 50,000
Dr Amortisation Expense	44,550		44,550		44,550	
Cr Accumulated Amortisation		- 44,550		- 44,550		- 44,550
Statement of Financial Position						
DR Right-of-Use-Asset	133,651		133,651		133,651	
Cr Accumulated Amortisation	- 44,550		- 89,101		- 133,651	
($133,651/ 3 years = $44,550)	89,101		44,550		-	
CR Lease Liability		- 133,651		- 91,670		- 47,170
DR Lease Liability		41,981		44,500		47,170
		- 91,670		- 47,170		-

Example

Example 2

Statement of Comprehensive Income	Year 1	Year 2	Year 3
Interest Expense	8,019	5,500	2,830
Amortisation Expense	44,550	44,550	44,550
	52,569	50,050	47,380

Statement of Cash Flows			
Interest Expense	8,019	5,550	2,830
Financing Cash Flow *(Principal Repayment)*	41,981	44,500	47,170
	50,000	50,000	50,000

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81

Example
Lease Expenses
55000
50000
45000
40000
35000
30000
0
20
40
60
80
100
120
140
Interest Expense and Depreciation
(AASB 16)
Existing Lease Payments

Other Considerations

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

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Example 3 Lease re-measurement

Example

(for example, CPI rent increase)

		1-Jul-10		1-Jul-11
	1-Jul-10	1,000,000		
	1-Jul-11	1,000,000	1-Jul-11	1,020,000
	1-Jul-12	1,000,000	1-Jul-12	1,020,000
	1-Jul-13	1,000,000	1-Jul-13	1,020,000
	1-Jul-14	1,000,000	1-Jul-14	1,020,000
	1-Jul-15	1,000,000	1-Jul-15	1,020,000
	1-Jul-16	1,000,000	1-Jul-16	1,020,000
	1-Jul-17	1,000,000	1-Jul-17	1,020,000
	1-Jul-18	1,000,000	1-Jul-18	1,020,000
	1-Jul-19	1,000,000	1-Jul-19	1,020,000
NPV 5%	1-Jul-10	7,848,186		
NPV 5%	30-Jun-11	7,231,114	$144,623	7,375,737

Changed rent

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Example

Example 3 Lease re-measurement

(for example, CPI rent increase)

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

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Lease Modifications

Eg: Lessee has 10yr lease for 2 floors office space. In year 6 an additional floor becomes available in the market.

A separate lease if both: *(Para 44)*

(a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(b) Increase in consideration for the lease is commensurate with the stand-alone price of the additional RoUA to reflect the circumstances of the particular contract.

Example

Lease Modifications

Eg. *Lessee has 10 year lease for office space.*
At the end of year 6 the lessee and lessor agree to amend the original lease and extend it by 4 years.

Lessee remeasures the lease liability:

- *On an 8 year remaining lease term*
- *Recognises the difference between carrying amounts of the lease (before and after), as an adjustment to the right-of-use asset*

Example

Lease Modifications

Eg. *Lessee has 10 year lease for office space.*
At the end of year 6 the lessee and lessor agree to amend the original lease to reduce the office space from 2 floors to 1 floor.

Lessee remeasures the lease liability:

- *Decreasing carrying amount of RoUA to reflect partial or full termination of the lease*
- *Recognise any gain or loss in the profit or loss*

Disclosures

a) amortisation charge for right-of-use assets by class of underlying asset

b) interest expense on lease liabilities

c) the expense relating to short-term leases accounted for applying exemption. (This expense need not include the expense relating to leases with a lease term of one month or less)

d) the expense relating to leases of low-value assets accounted for applying exemption. (excluding short-term leases of low-value assets included in (c))

(Para 53)

Disclosures (Cont.)

e) the expense relating to variable lease payments not included in the measurement of lease liabilities

f) income from subleasing right-of-use assets

g) total cash outflow for leases

h) additions to right-of-use assets

i) gains or losses arising from sale and leaseback transactions

j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

AASB 16 – *Transition*

Full Retrospective — OR — **Cumulative Catch-up**

Full Retrospective

how?

Apply AASB 8
- Prepare statements as if AASB 16 had always been applied
- Restate comparative information
- Disclose effect on each line item

Benefits?

Better quality of reported information in transition year

Cumulative Catch-up

how?

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

Benefits?

Significant cost relief on transition

Draft Treasurer's Instruction FC 19 Leases

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

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Draft Treasurer's Instruction FC 19 Leases

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

Draft Treasurer's Instruction FC 19 Leases

- Transitional provisions
  - Low value and leases with remaining term <12 months to continue to be expensed
  - Lease with remaining term >12 months to be recognised on the balance sheet using partial retrospective recognition in accordance with paragraphs C7 to C13 of AASB 16
  - Deemed approval for existing leases

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Time for a break

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

Rod Whitehead

Auditor-General

Outline

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

Proposed ASA 315 future changes

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

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ASA 315 pilot project objectives

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

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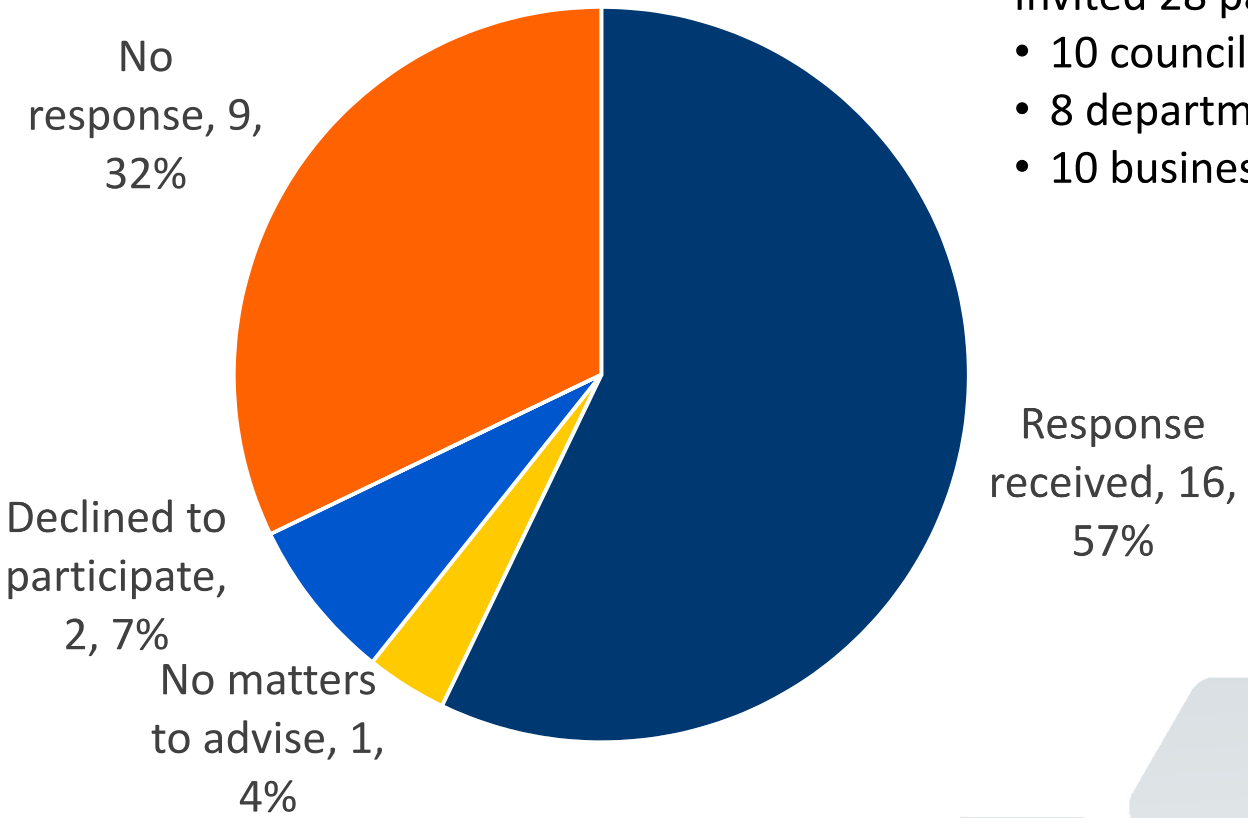
Pilot participants



Invited 28 participants:
- 10 councils
- 8 departments
- 10 businesses

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

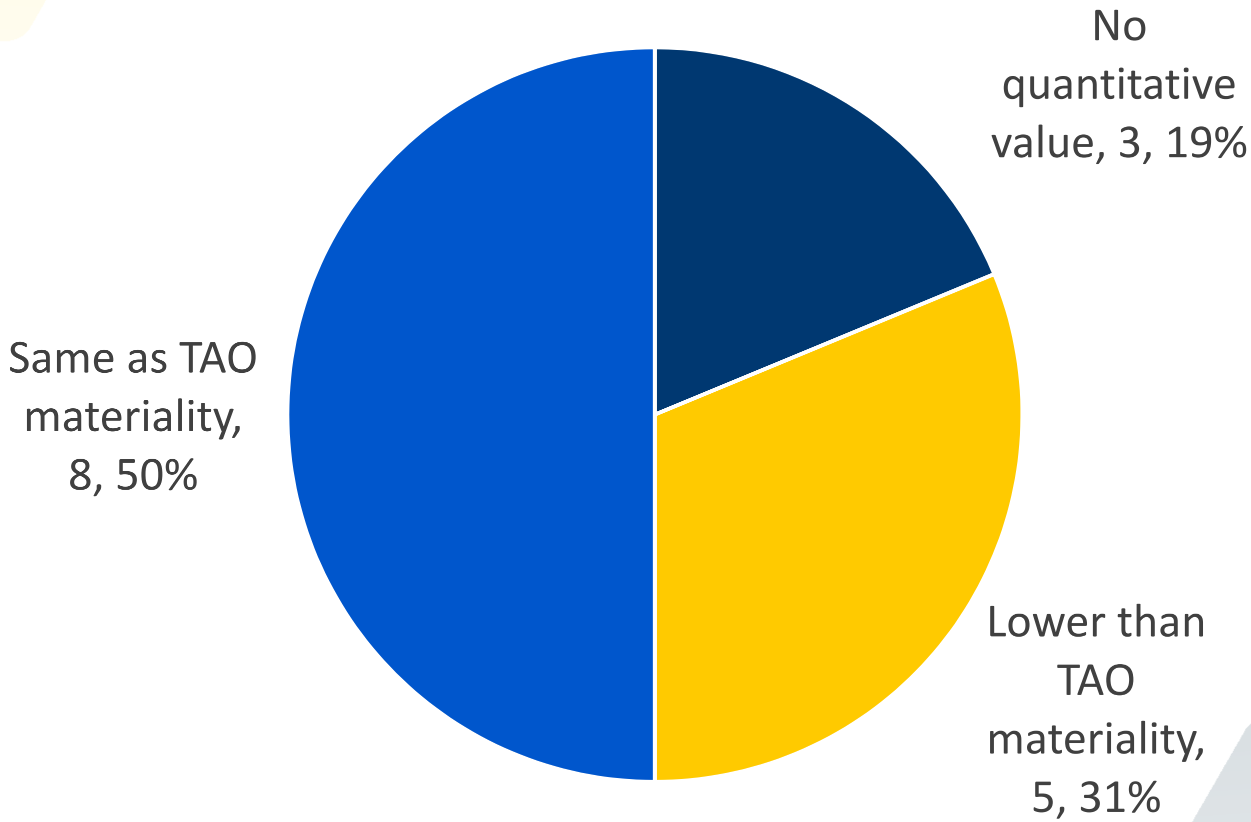
a) Management

b) Internal audit

Audit Committee/Panel, TCWG

External auditor

Materiality



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Materiality

- Should materiality be quantified?

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

- Should different materiality amounts be used?

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

Materiality

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

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

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

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

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

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

a) Management

b) Internal audit

Audit Committee/Panel, TCWG

External auditor

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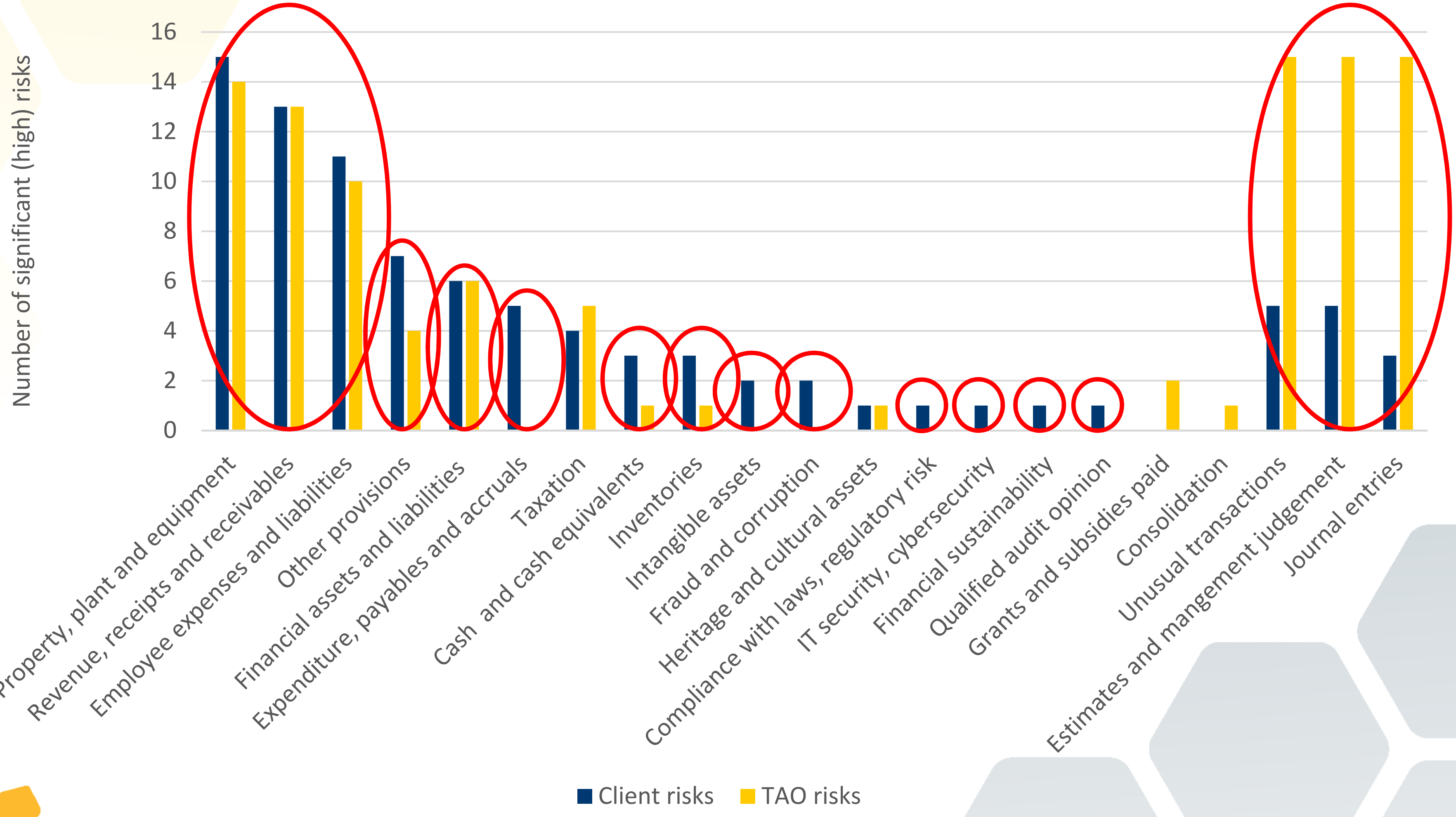
Risks of material misstatement



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Risks of material misstatement

Significant risks:

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

Risks of material misstatement

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

Possibly not significant risks:

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

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

a) Management

b) Internal audit

Audit Committee/Panel, TCWG

External auditor

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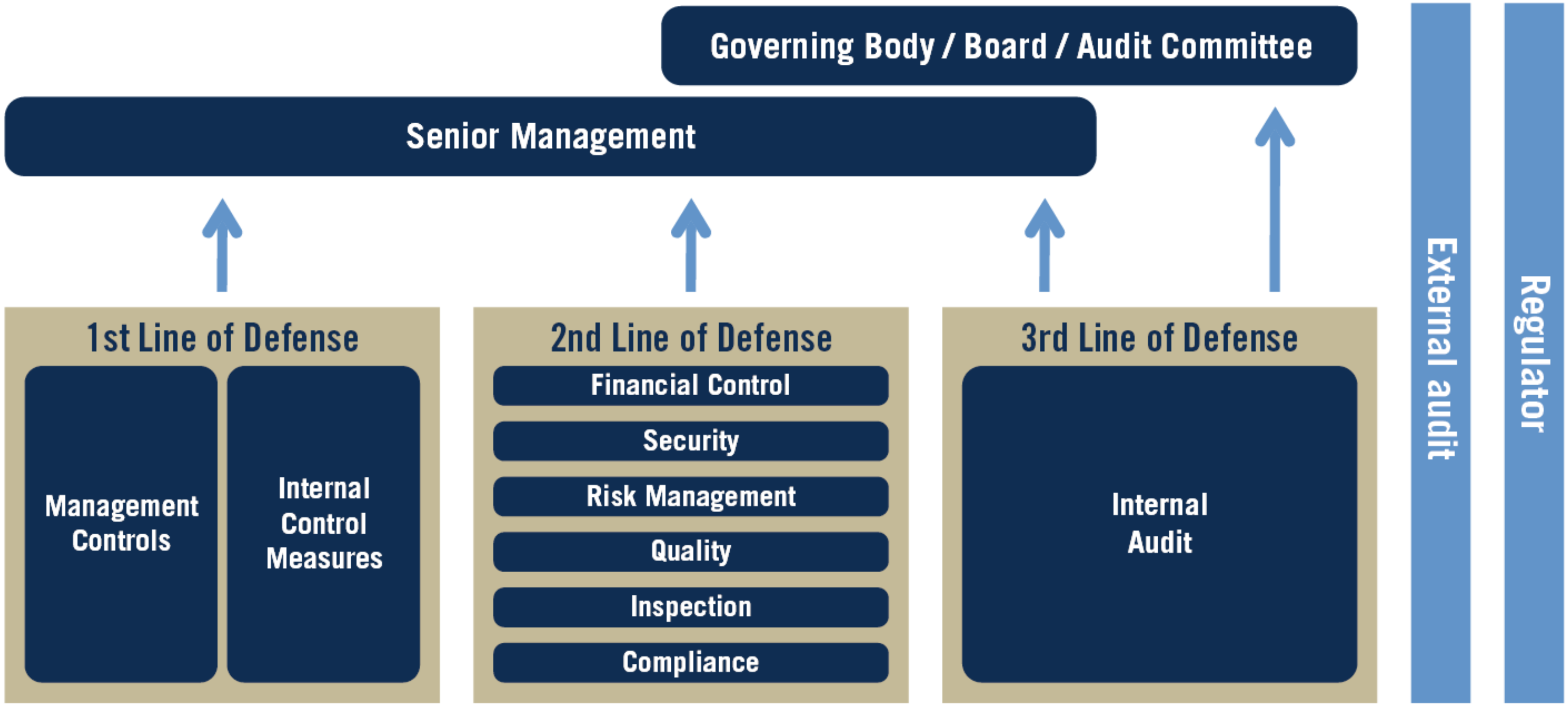
Controls

The Three Lines of Defense Model



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Controls – 'good'

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

Controls – ‘better’

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

Controls – 'hmm…'

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

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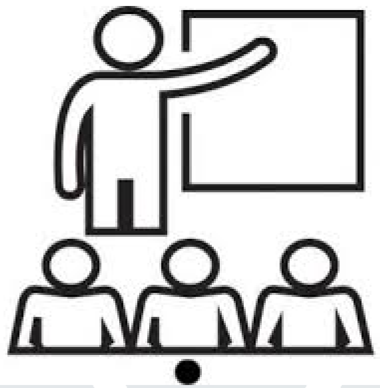
Audit Update

Ric De Santi
Deputy Auditor-General

Outline

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



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Report of the Auditor-General
No. 6 of 2018-19

Auditor-General's Report on the Financial Statements of State entities

Volume 4

Audit Summary 2017-18

November 2018

Strive • Lead • Excel | To Make a Difference

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Financial statement audits 2018

42 Local government entities

36 General government sector entities[1]

17 Government businesses (including TasWater)

19 Other entities

38 Other legislation including *Audit Act 2008*

18 *Financial Management and Audit Act 1990*

39 *Local Government Act 1993*

6 *Government Business Enterprises Act 1995*

13 *Corporations Act 2001*

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Outcomes of audits

114
Audits

110
Unmodified opinions

1
Audit not completed

1
Unmodified opinion with emphasis of matter paragraph

2
Qualified opinions

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Audit findings

FINDINGS FROM 30 JUNE 2018 AUDITS

2018		2017	
136	**133**	**187**	**119**
Audit matters raised[1]	Audit matters raised in prior periods assessed as unresolved	Audit matters raised[2]	Audit matters raised in prior periods assessed as unresolved

1. *30 June 2018 audits.*
2. *30 June 2017 and 31 December 2017 audits.*

2018 Audit Findings by area

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

2018 Audit Findings by sector

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

PPE valuation – Common challenges

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

Other matters

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

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Audit focus 2018-19

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

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Further future changes

- New audit methodology and technology platform.
- Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*

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Are subsidiaries State entities?

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

So what does this all mean?

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Are subsidiaries State entities?

State entity

(includes subsidiaries set up under Corporations Act or local government trust, partnership or other body controlled, single and joint authorities)

Subsidiary of a State entity

(Auditor-General the auditor of a subsidiary of a State entity unless he determines otherwise)

Audited subsidiary of a State entity

(a subsidiary of a State entity where the Auditor-General is the auditor)

Non-audited subsidiary of a State entity

(all subsidiaries of State entities where the Auditor-General makes a determination he is not auditor)

Accountable Authority

(State entities and audited subsidiaries of State entities must have)

No financial statement reporting, submission or audit requirements

Accountable authorities - submit financial statements

(to Auditor General within 45 days after the end of each financial year)

Audit of State entity dispensed with

Audit of State entity *not* dispensed with

Audit of audited subsidiaries of a State entity - no dispensation available

Auditor-General to audit the financial statements (within 45 days of submission)

Financial statement preparation, submission and audit obligations

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

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

Tasmanian Audit Office

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

Here's what you can do to help prevent frauds

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

Useful resources

Tasmanian Audit Office:

Guide to Using our Reports

- Guide to the Auditor-General's Report on the Financial Statements of State Entities

Client Reference Information:

Change to Submission of Financial Statement Requirements 2018

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

Other Client Information

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

Useful resources

Presentations, Seminars and Information Sessions

Client Seminar 2018

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

Information Session for Senior Management and Members of Audit Committees 2018

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

www.audit.tas.gov.au/resources/

Useful resources

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

LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Comprehensive Income Statements - 2016-17

Council	Operating Revenue * $'000s	Non-Operating Revenue * $'000s	Total Revenue $'000s	Operating Expenditure $'000s	Non-Operating Expenditure ** $'000s	Total Expenditure $'000s	Underlying Surplus/ (Deficit) $'000s	Net Surplus/ (Deficit) $'000s
Urban medium								
Clarence	63 015	11 980	74 995	58 212	0	58 212	4 803	16 783
Glenorchy	54 002	4 378	58 380	53 399	5 656	59 055	603	(675)
Hobart	126 006	7 381	133 387	124 869	0	124 869	1 137	8 518
Kingborough	38 510	5 613	44 123	38 886	231	39 117	(376)	5 006
Launceston	103 102	135 536	238 638	101 841	5 612	107 453	1 261	131 185
UM Total 2016-17	384 635	164 888	549 523	377 207	11 499	388 706	7 428	160 817
UM Average per Council 2016-17	76 927	32 978	109 905	75 441	2 300	77 741	1486	32 163
Urban small								
Brighton	14 359	3 416	17 775	14 349	0	14 349	10	3 426
Burnie	35 541	4 851	40 392	36 485	5 333	41 818	(944)	(1 426)
Central Coast	26 416	6 163	32 579	24 988	233	25 221	1428	7358
Devonport	39 773	7 600	47 373	38 548	737	39 285	1 225	8 088
West Tamar	24 433	34 469	58 902	22 331	826	23 157	2 102	35 745
US Total 2016-17	140 522	56 499	197 021	136 701	7 129	143 830	3 821	53 191
US Average per Council 2016-17	28 104	11 300	39 404	27 340	1426	28 766	764	10 638
Rural agricultural, very large								
Derwent Valley	12 951	1 709	14 660	11 858	0	11 858	1093	2802
Huon Valley	24 136	2 691	26 827	23 129	0	23 129	1007	3 698
Meander Valley	19 325	5 748	25 073	17 836	708	18 544	1489	6 529
Northern Midlands	17 096	4 608	21 704	17 774	793	18 567	(678)	3 137
Sorell	17 177	3 579	20 756	17 128	0	17 128	49	3 628
Waratah-Wynyard	17 615	3 737	21 352	17 481	443	17 924	134	3428
RAVL Total 2016-17	108 300	22 072	130 372	105 206	1 944	107 150	3 094	23 222
RAVL Average per Council 2016-17	18 050	3 679	21 729	17 534	324	17 858	516	3 870
Rural agricultural, large								
Break O'Day	13 757	2 742	16 499	13 145	458	13 603	612	2 896
Circular Head	14 122	3 627	17 749	13 837	163	14 000	285	3 749
Dorset	12 609	3 768	16 377	10 964	293	11 257	1 645	5 120
George Town	10 622	1 620	12 242	11 735	(128)	11 607	(1 113)	635
Kentish	9 436	7 317	16 753	9 336	2 701	12 037	100	4716
Latrobe	12 418	3 813	16 231	11 902	139	12 041	516	4190
Southern Midlands	10 233	3 460	13 693	10 211	0	10 211	22	3482
RAL Total 2016-17	83 197	26 347	109 544	81 130	3 626	84 756	2067	24 788
RAL Average per Council 2016-17	11 885	3 764	15 649	11 590	518	12 108	295	3541
Rural agricultural, small and medium								
Central Highlands	6 550	2 693	9 243	6 430	62	6 492	120	2 751
Flinders	4 331	1 411	5 742	5 456	0	5 456	(1 125)	286
Glamorgan Spring Bay	12 495	5 574	18 069	12 109	0	12 109	386	5960
King Island	6 387	1 552	7 939	7 214	0	7 214	(827)	725
Tasman	6 386	975	7 361	5 482	0	5 482	904	1 879
West Coast	10 764	1 548	12 312	10 211	253	10 464	553	1 848
RASM Total 2016-17	46 913	13 753	60 666	46 902	315	47 217	11	13 449
RASM Average per Council 2016-17	7 819	2 292	10 111	7 817	53	7 870	2	2 242
Total 2016-17	763 567	283 559	1 047 126	747 146	24 513	771 659	16 421	275 467
Average per Council 2016-17	26 330	9 778	36 108	25 764	845	26 609	566	9 499

Tasmanian Audit Office

Tasmanian Audit Office

Student attendance and engagement: Years 7 to 10

Report of the Auditor-General

No.8 of 2018-19

Objective and scope of the audit

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

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

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

The audit covered:

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

1.


Tasmanian Audit Office

Report of the Auditor-General
No. 8 of 2018-19

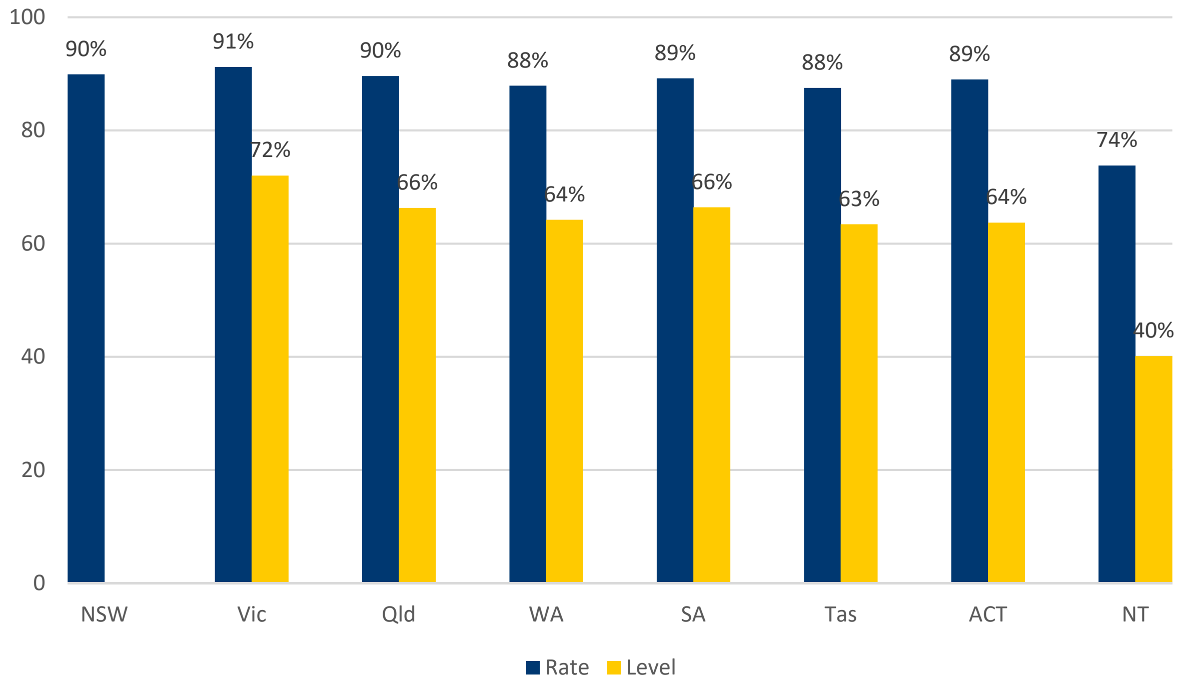
Student attendance and engagement: Years 7 to 10

March 2019

Strive • Lead • Excel | *To Make a Difference*

What does the attendance data show?

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



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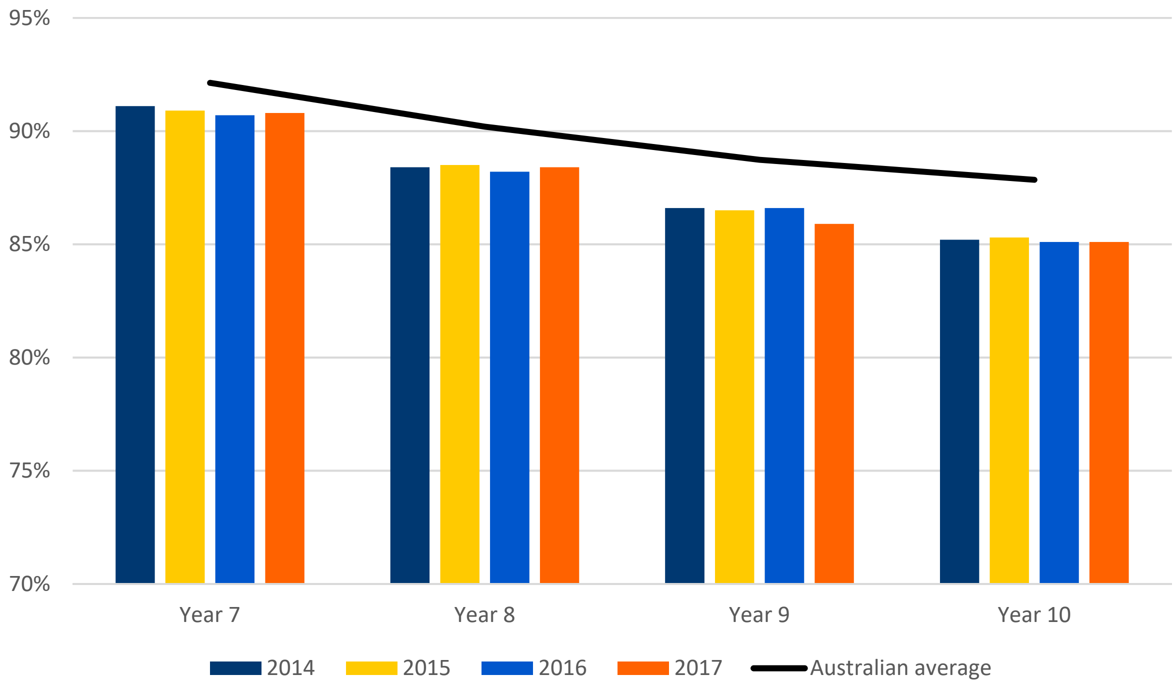
What does the attendance data show?

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



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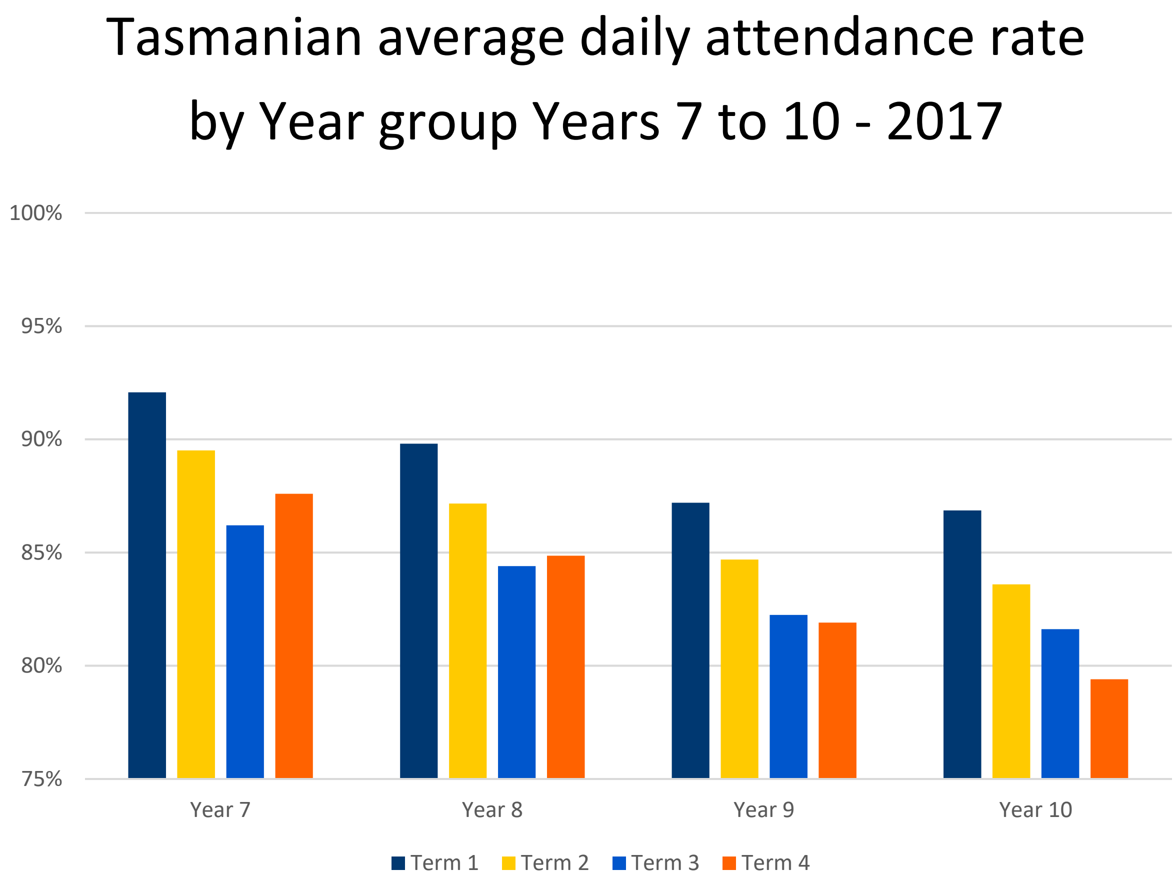
What does the attendance data show?



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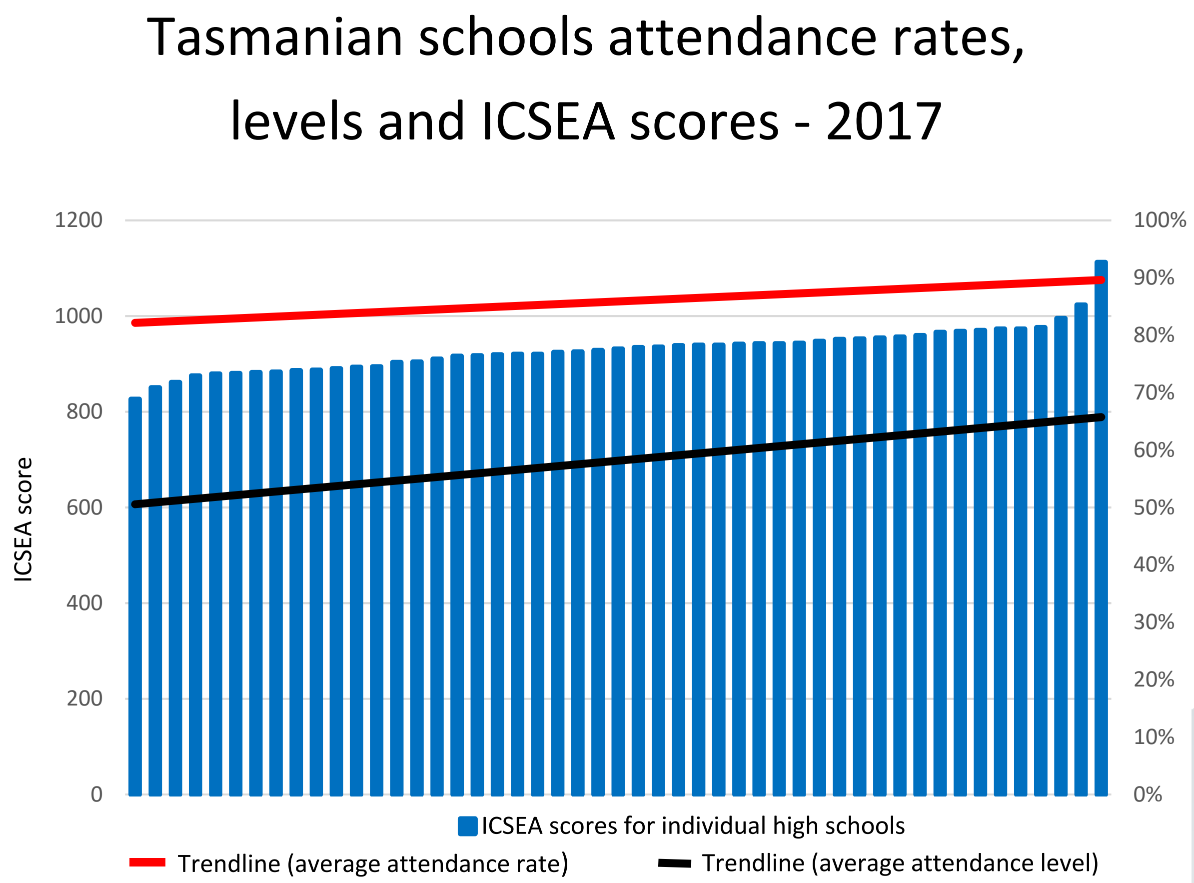
What does the attendance data show?



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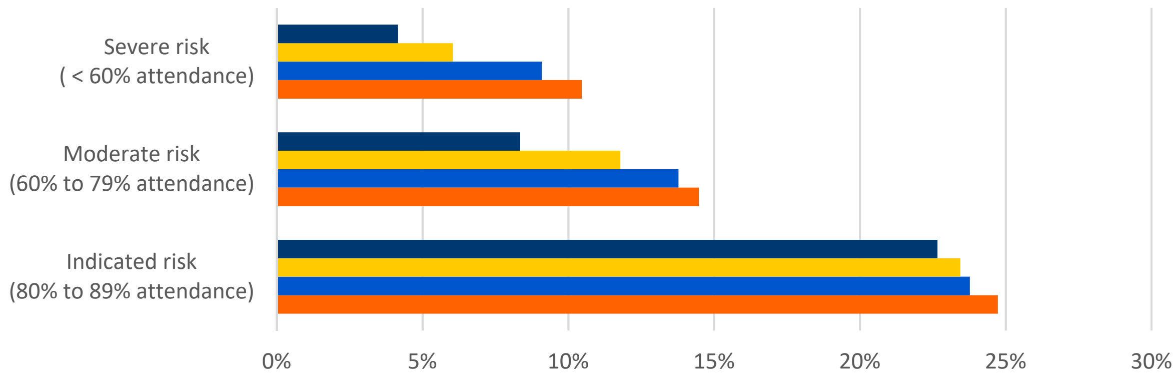
What does the attendance data show?

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



	Indicated risk (80% to 89% attendance)	Moderate risk (60% to 79% attendance)	Severe risk (< 60% attendance)
Year 7	22.7%	8.4%	4.2%
Year 8	23.4%	11.8%	6.0%
Year 9	23.8%	13.8%	9.1%
Year 10	24.7%	14.5%	10.5%

Year 7 Year 8 Year 9 Year 10

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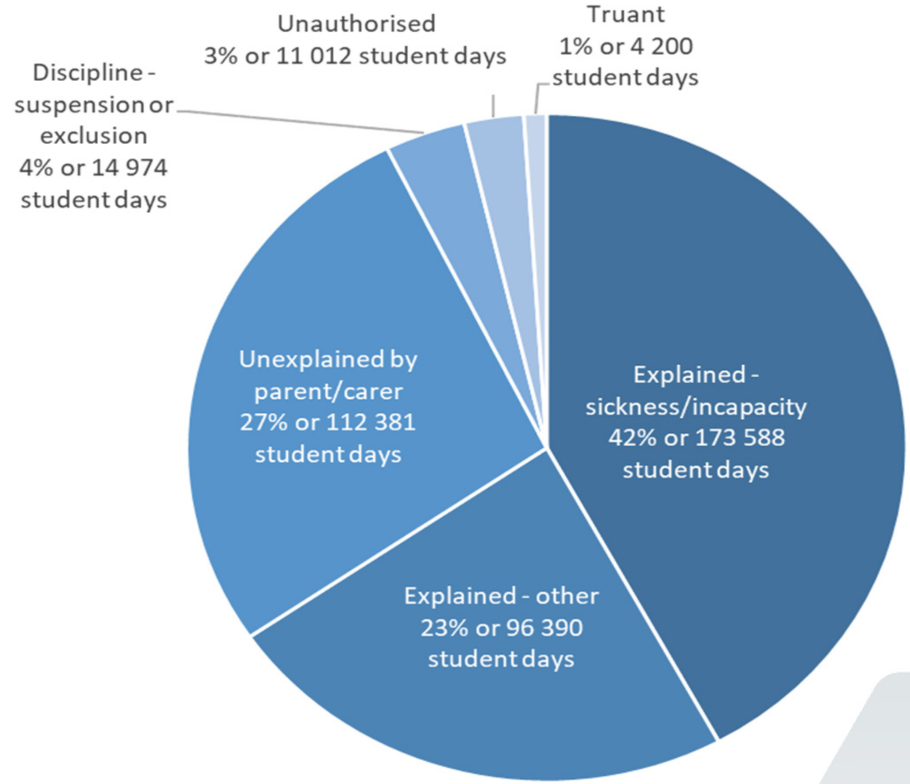
Is student attendance recorded, monitored, reported and analysed?

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



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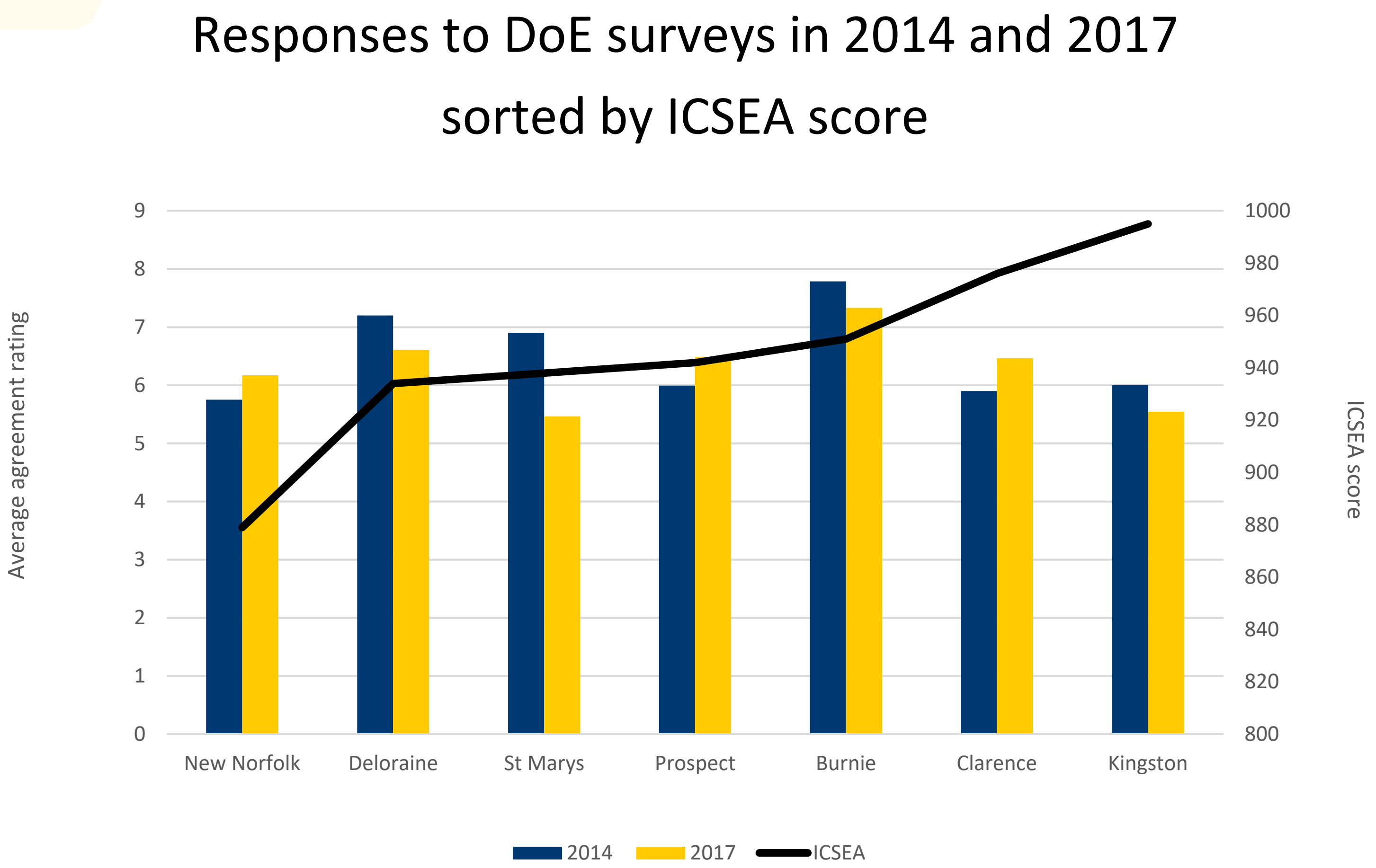
Does DoE support and measure improvement in student engagement?



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Main findings

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

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Main findings

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

Auditor-General conclusion

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

Recommendations

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

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

Tasmanian
Audit Office

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

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

Objective

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

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Scope

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

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Framework

- Existing model – Employment Direction 26 - *Managing Performance in the State Service* (ED 26).

- **Not** a compliance audit against ED 26 (which is currently under review).

- We formed an opinion through seeking feedback on quality of conversations, as well as the broader framework through a staged approach.

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Audit Approach

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

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

Initial assessment from experts on the ground.

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Audit Criteria

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

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

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

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

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

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Findings

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

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Findings

- Employees’ motivations:

What motivates you to go the ‘extra mile’?

Least motivating:

- Public recognition
- Private recognition
- Monetary reward

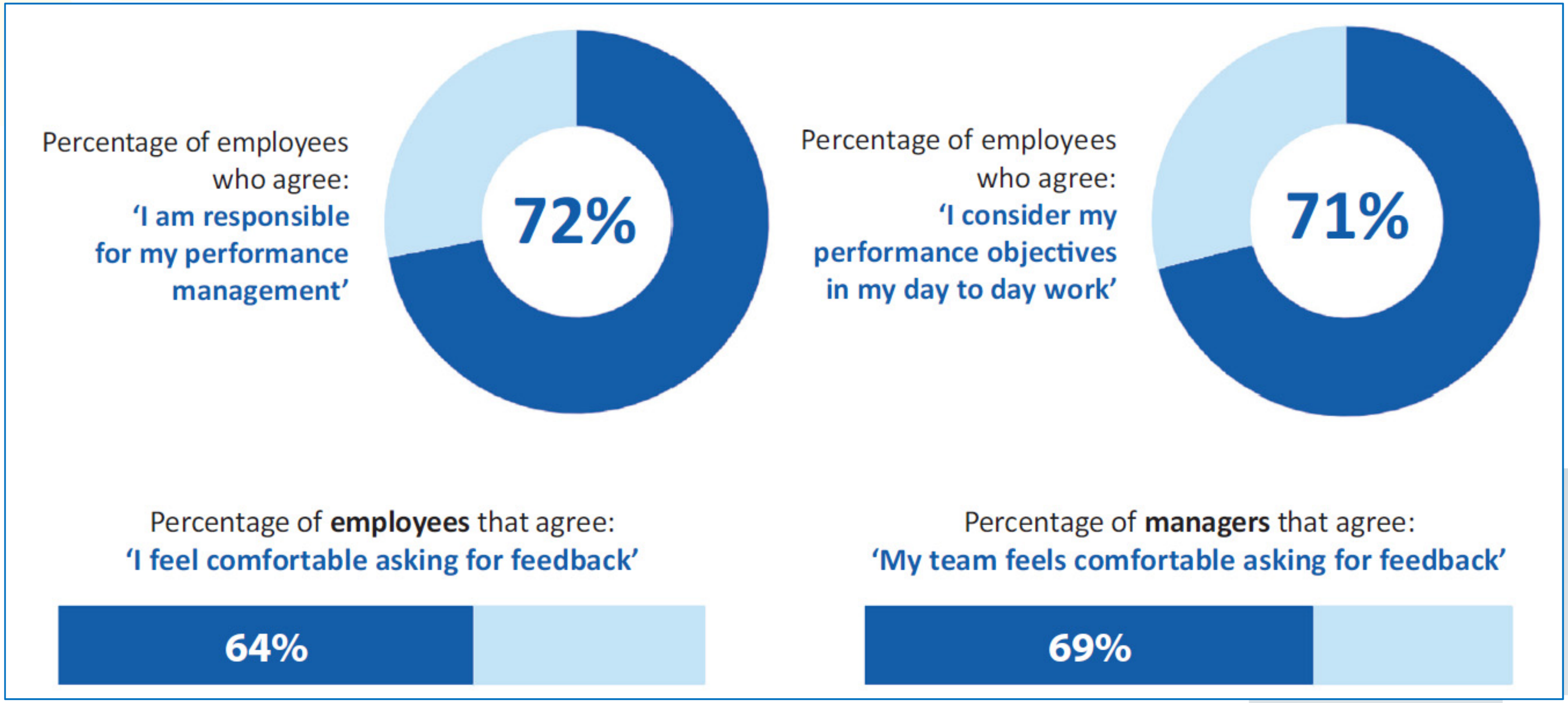
Most motivating:

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

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

Findings

- Two key foundational elements are in place:



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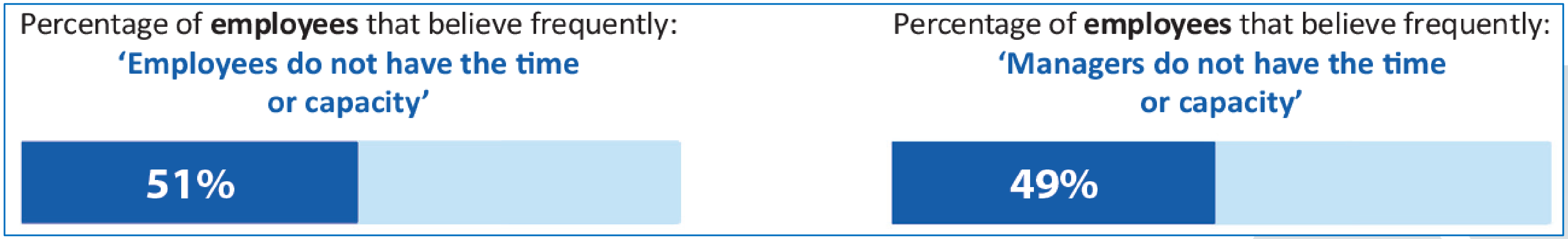
Findings

- Generally found conversations do result in agreed actions but follow up of actions not considered effective.

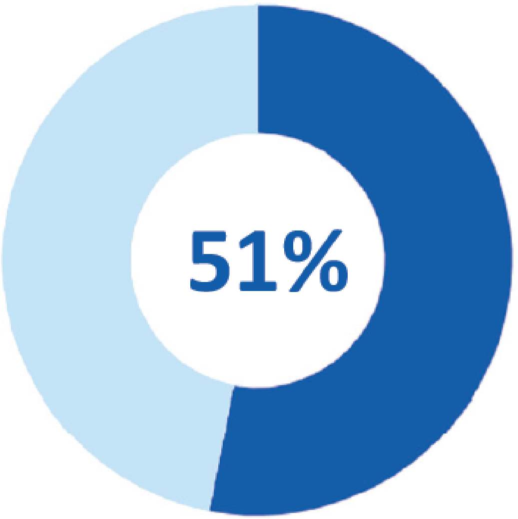
- Time and capacity also impact on conversation effectiveness:



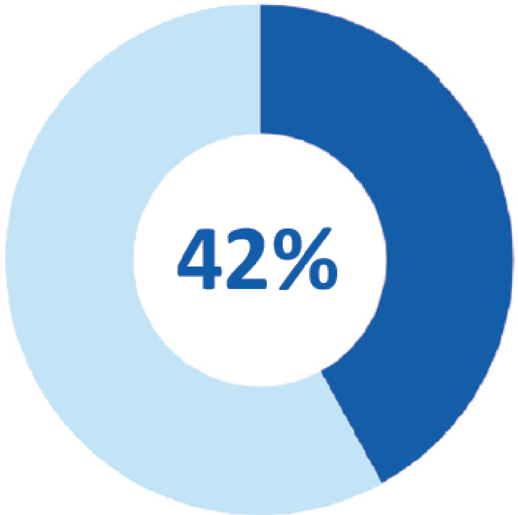
Findings

- Focus on compliance rather than employee development:

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



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



Findings

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

Audit Conclusion

Foundational elements in place for agencies to conduct conversations.

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

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Recommendation

Each agency:

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