



Tasmanian
Audit Office

Client Information Session

General Government and other Not-for-profit sector

10 May 2024

Acknowledgement of Aboriginal People and Country



Tasmanian
Government

Agenda

Time	Presenter	Topic
09:30 – 09:40	Martin Thompson and Jonathan Wassell	Introduction
09:40 – 10:05	Stephen Morrison	Recap on 2023 audit findings and audit focus areas for 2024
10:05 – 10:25	Janine McGuinness	Current and upcoming audits
10 mins	Break	
10:40 – 10:50	David Bond	Going concern and considerations for public sector entities
10:50 – 11:10	Jeff Tongs	Overview of current reporting matters, fair value accounting and other considerations
11:10 – 11:20	Jonathan Wassell	Auditor access to information
11:20 – 11:30	Jonathan Wassell	Questions and close

Housekeeping

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

Deputy Auditor-General

Jonathan Wassell

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

Chat Monitor

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

Auditor-General

Martin Thompson

- Background.



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Recap on 2023 audit findings and 2024 audit focus areas

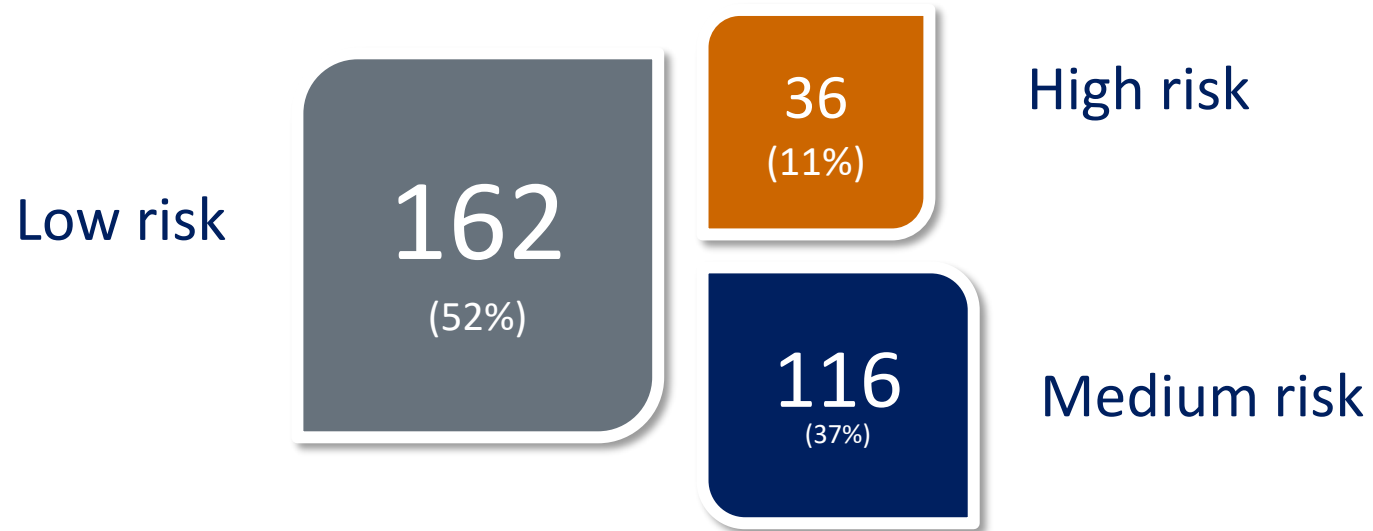
Stephen Morrison

Topics

- Findings and observations from 2023 audit cycle:
 - Rating, classification and sector
 - Focus areas – Revenue and General IT Controls
 - Unresolved prior year findings
 - Internal audit findings
 - Misstatements
 - Prior period errors.
- Audit focus areas for 2024 audit cycle

New 2023 findings (by risk rating)

- 314 new findings in 31 December 2022 and 30 June 2023 financial statement audits.



New 2023 findings (by classification)

Non-compliance with
laws or regulations

3

(1%)

212

(68%)

Internal control

Other significant
matters

3

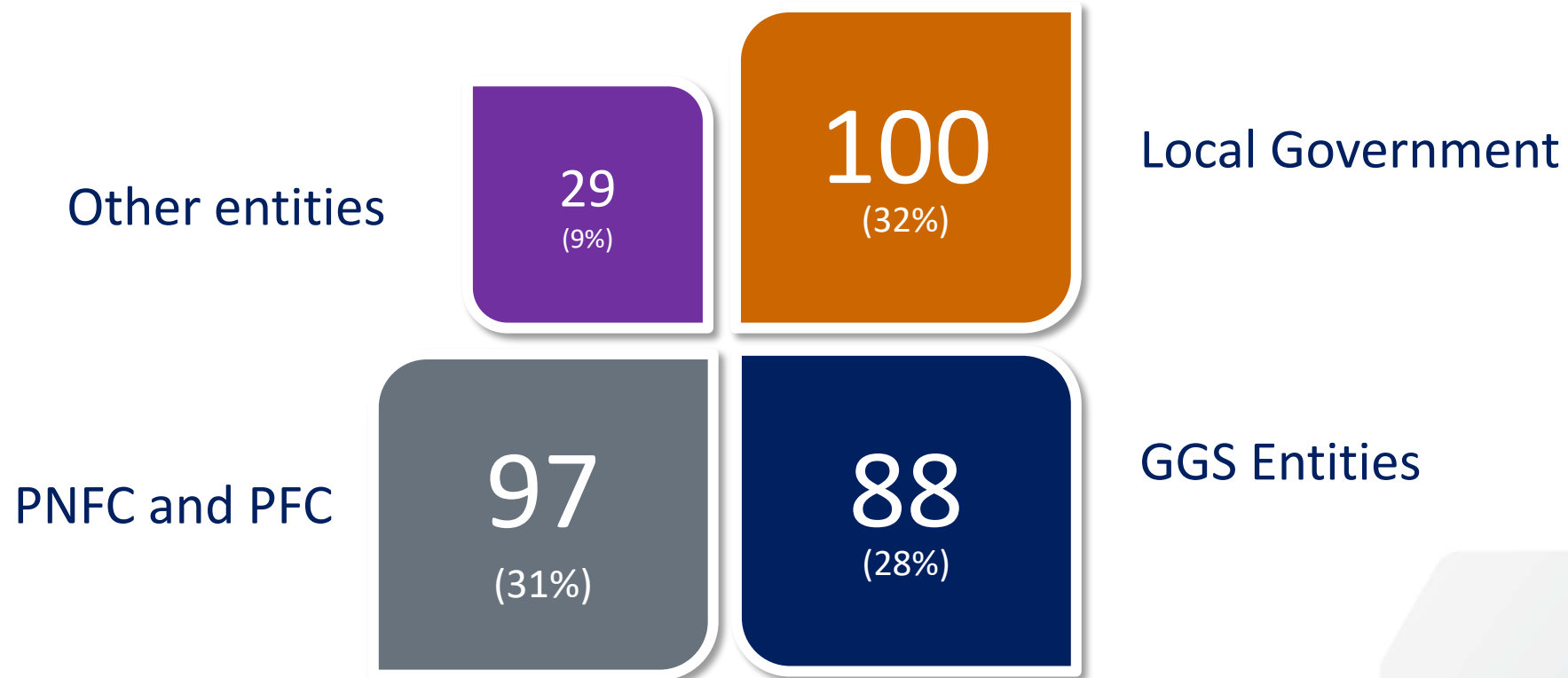
(1%)

96

(31%)

Financial reporting

New 2023 findings (by sector)



New 2023 findings (focus area)

- Revenue control findings:
 - Lack of documentation for revenue transactions
 - Internal controls not operating as intended
 - Revenue recognition not in accordance with Australian Accounting Standards
 - Revenue and contract liabilities not supported by contractual agreements.

New 2023 findings (focus area)

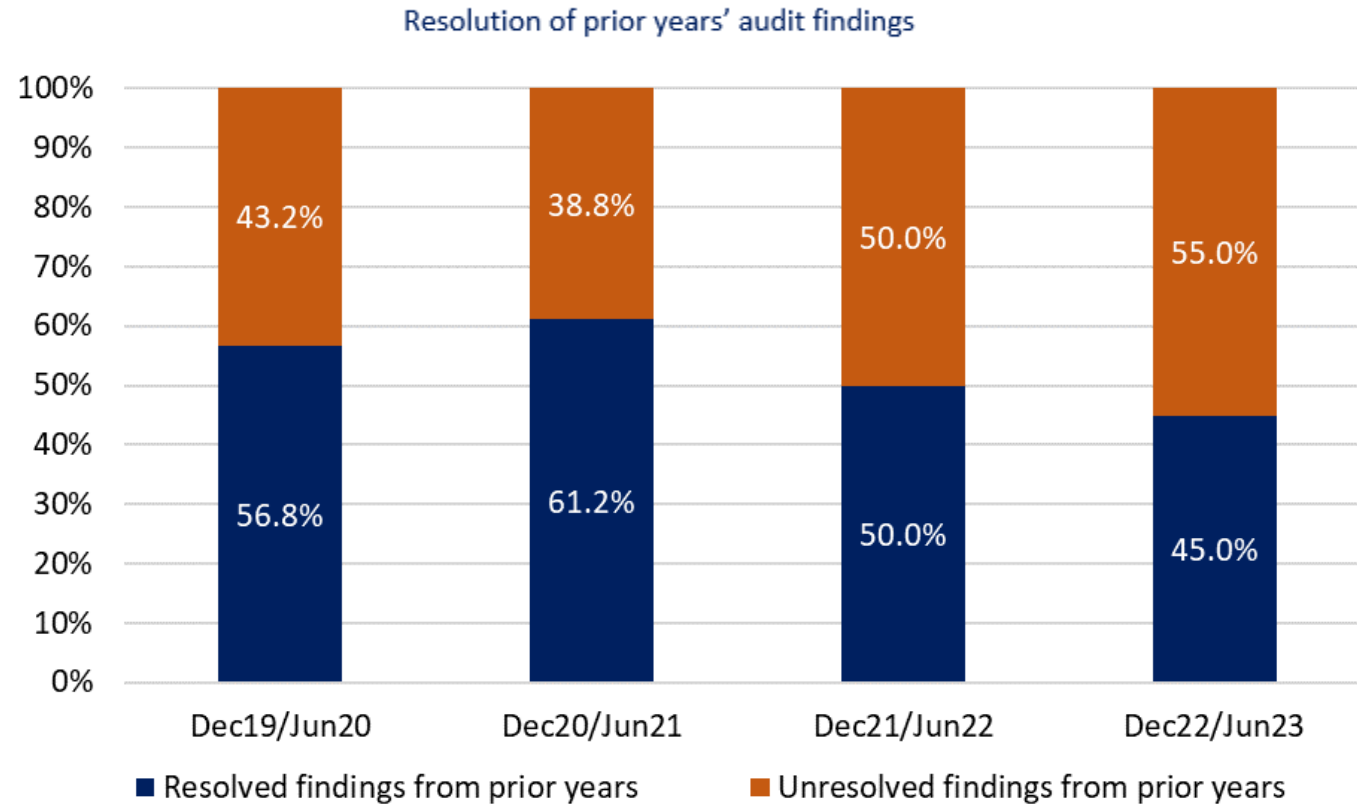
- General IT control findings:
 - Lack of strategic documentation for risk areas such as cybersecurity, password, and change management.
 - Inconsistencies between Security Policy, actual system parameters, and Password Guide.
 - Organisations not meeting basic requirements of Essential 8 security guidelines, especially password/passphrase requirements and effective management of privileged and generic users.
 - Failure to keep operational policies current and appropriate to current environments and technologies.
 - Ineffective liaison between HR and IT for on and off boarding users in a timely manner.

New 2023 findings (focus area)

- General IT control findings (continued):
 - Business Continuity Plans tend to be narrow in scope, not considered in context of the entire organisation. Additionally, evidence on testing these plans is lacking.
 - Service Level Agreements are absent, vendor centric, and/or poorly defined in scope and responsibility. Outsourced services are seen incorrectly as a transfer of risk responsibility.
 - The length of time that critical policy documents remain in draft.
 - Poor change control policies and procedures for business as usual and major activities.

Prior year findings

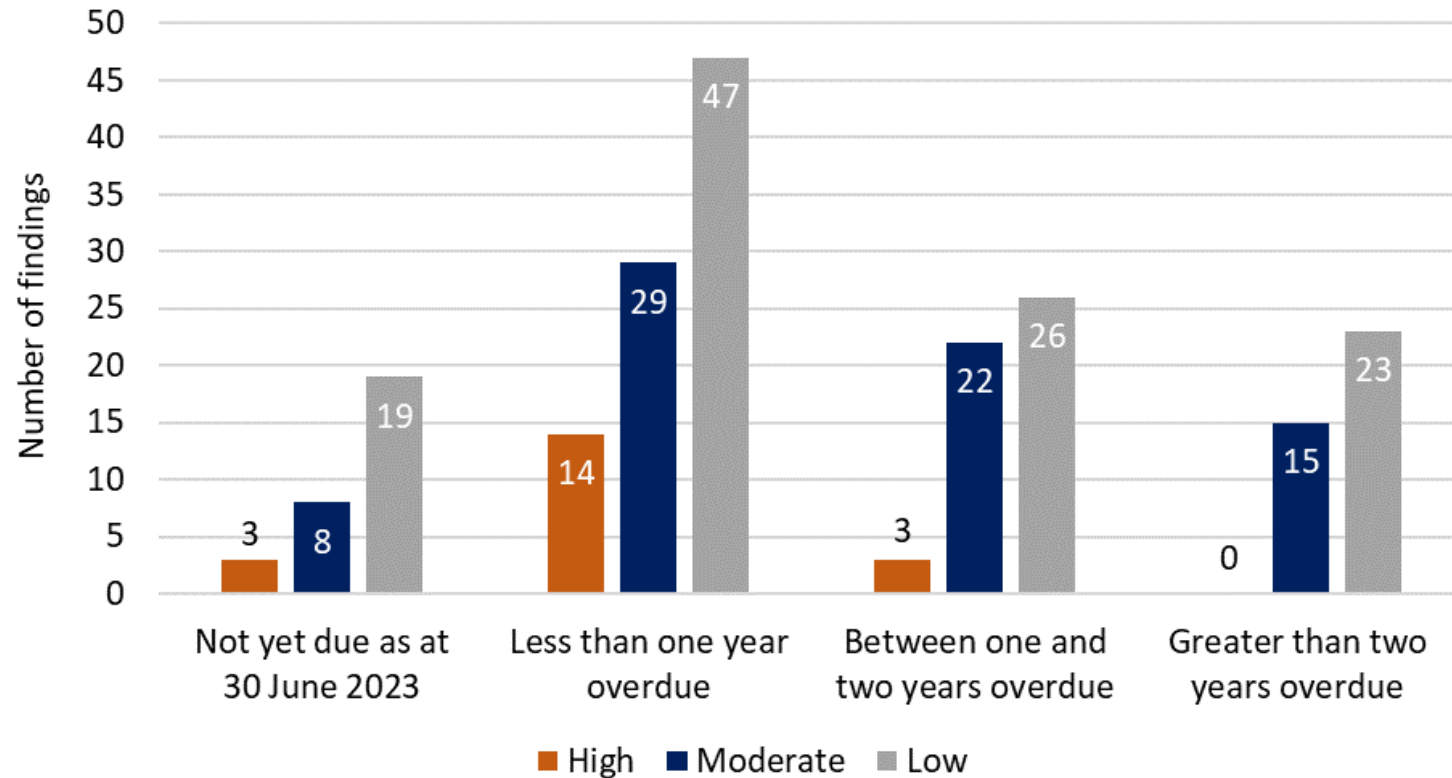
169
unresolved
prior year
findings



45% prior year findings resolved

Prior year findings

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

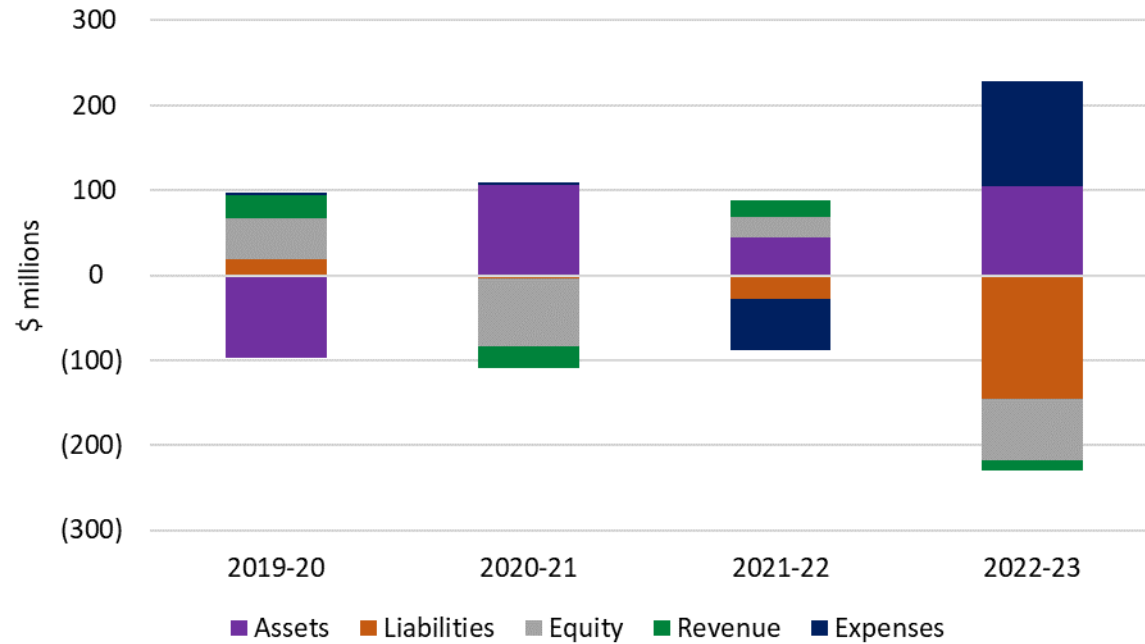


Internal audit findings

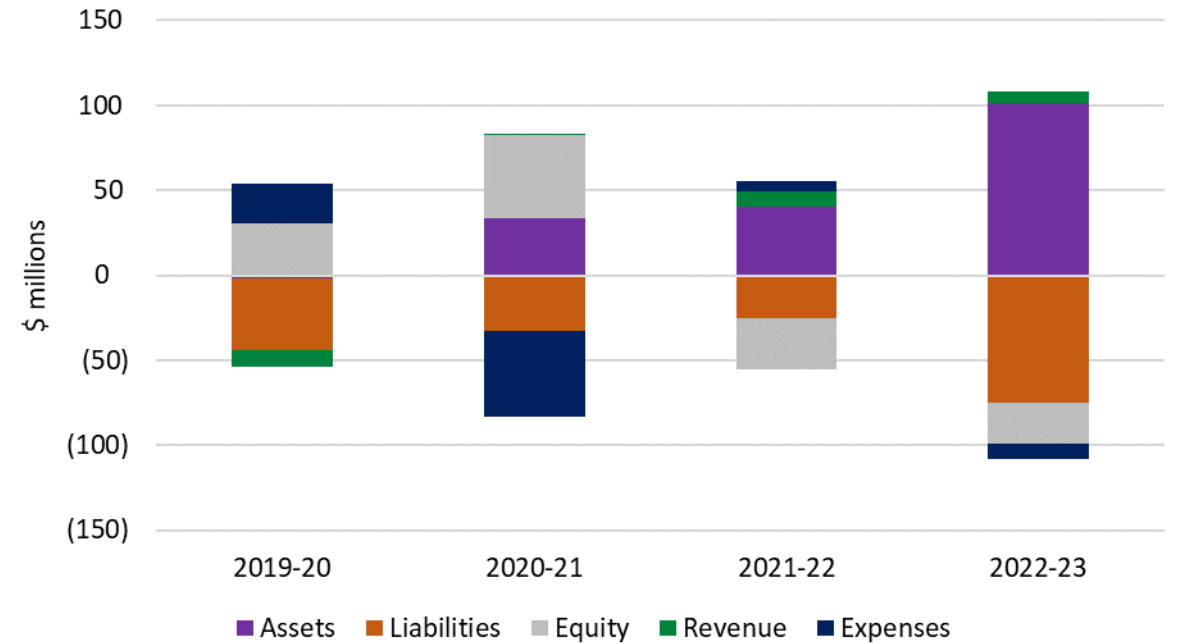
- For the 31 December 2022 and 30 June 2023 financial years:
 - 150 internal audit projects were completed with 333 findings reported
 - 43 were rated as high risk issues.
- Key themes from the 43 high rated findings had concerns in the following areas:
 - Governance
 - Risk management
 - Compliance
 - Process efficiency
 - Infrastructure.

Misstatements

Corrected misstatements



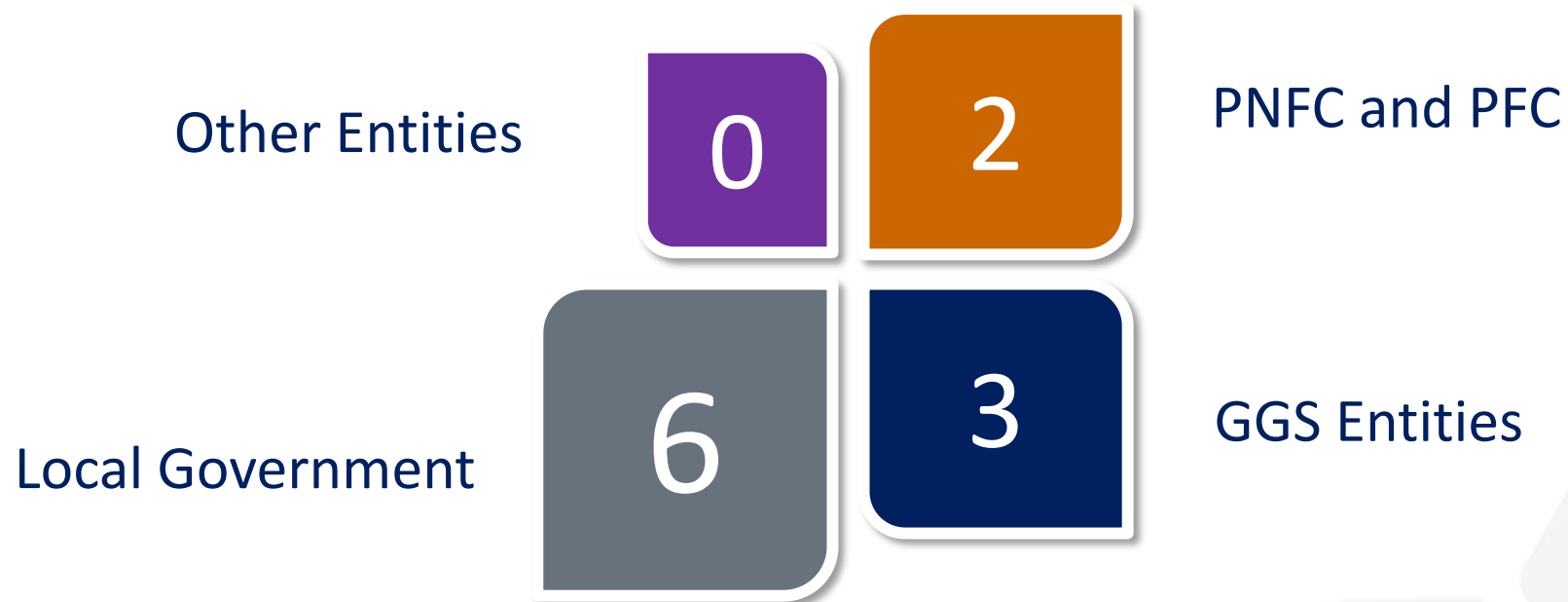
Uncorrected misstatements



Note: Positive numbers are debits and negative balances are credits, and the sum of debits and credits net to nil.

Prior period errors

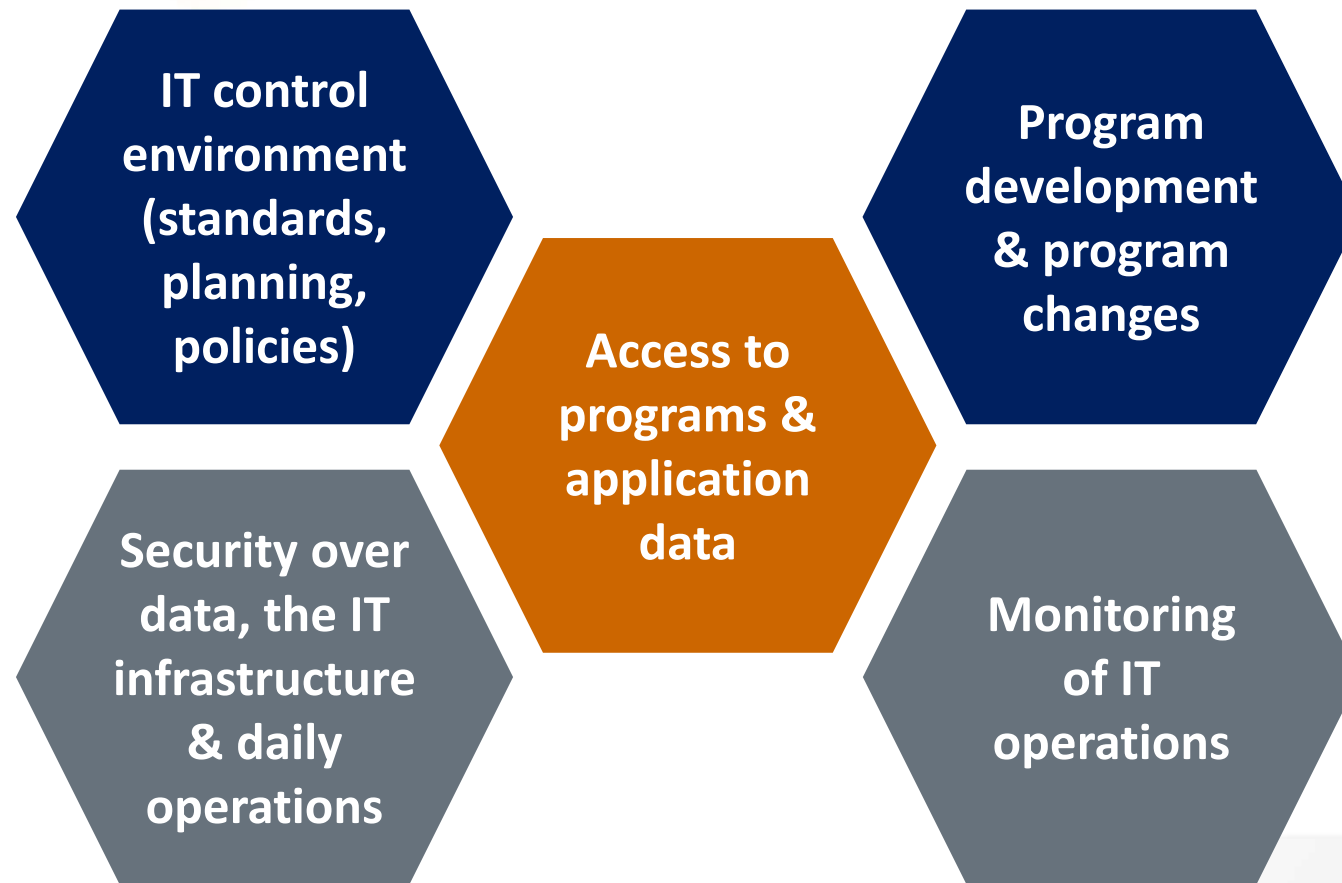
Eleven prior period errors were reported in the completed audits for 31 December 2022 and 30 June 2023, compared to 7 for the preceding year.



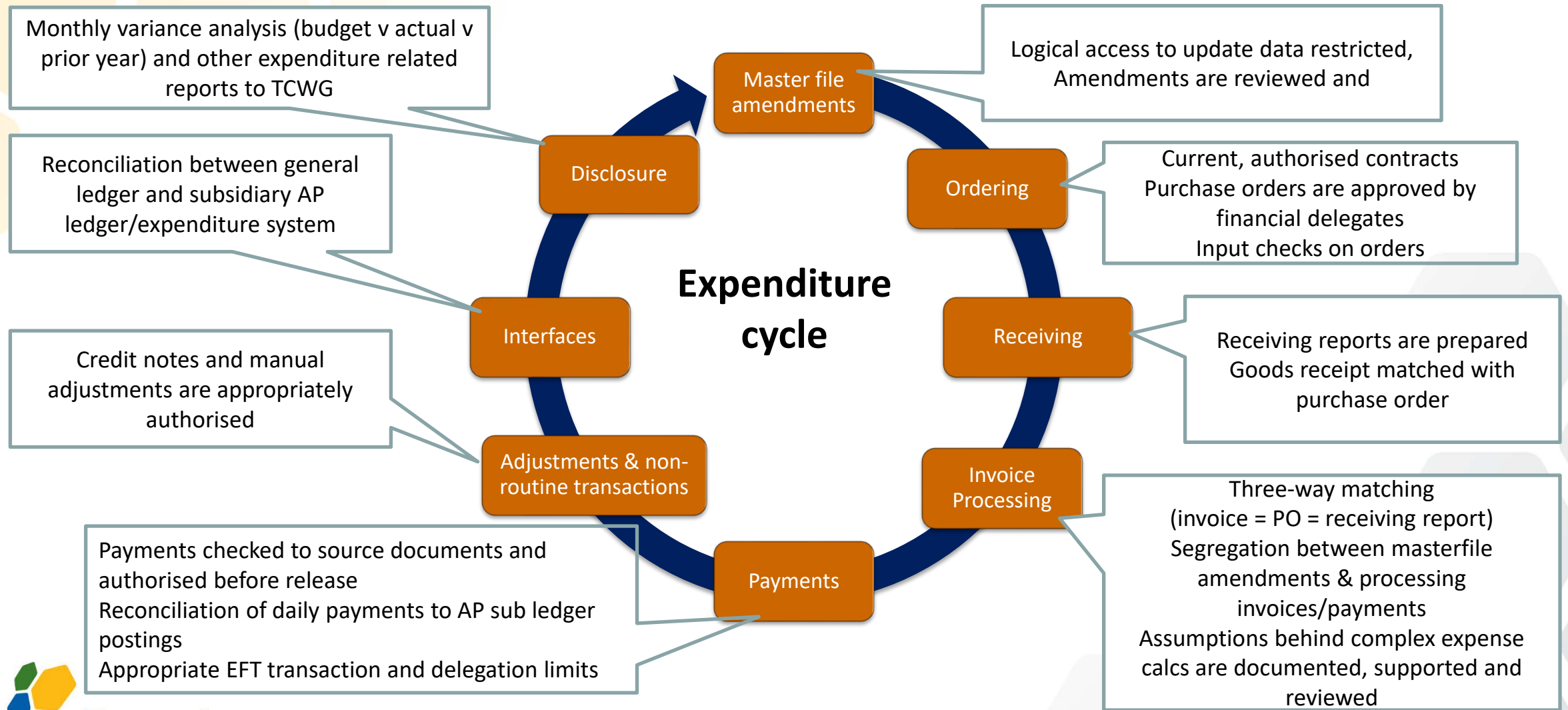
Internal control focus areas 2024

- General IT controls and application controls:
 - Continued focus.
- Expenditure controls:
 - Controls will generally be relevant to all entities
 - Size and complexity of the entity will impact on type and extent of controls.

Types of general IT controls



Controls in the expenditure transaction cycle



Other focus areas 2024

- Key Management Personnel disclosures:
 - Material by nature
 - What is and is not a termination
 - Differences between government businesses and government departments
 - Differences in tiers of reporting across State entities
 - Calculation of FBT.
- Continued focus on use of third party providers and management oversight.
- Transition of several entities from special purpose financial reporting to general purpose financial reporting.

Questions





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Current and upcoming audits

Janine McGuinness

Tabling soon

- Private Works in Councils – all 29 councils.
- Oral Health in Tasmania – Department of Health (Oral Health Tasmania).
- Management of Office Accommodation – Treasury.

Audits in progress

- Sentencing of Youth Offenders – DECYP (Ashley Youth Detention Centre), Department of Justice.
- Effectiveness of shared services arrangements in the General Government Sector – 3 arrangements across 6 entities.
- Funding of Community Sector Organisations – Department of Health.
- Management of Landfill – NRE Tas, EPA, councils.

The Annual Plan of Work

- To be presented to Parliament by 30 June 2024.
- Future audits include:
 - Supporting Students with a Disability in Schools – DECYP
 - Office of the Coordinator-General
 - Strategic management of port infrastructure – TasPorts
 - Road safety – Tasmania Police and State Growth.

Questions





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Break

10 minutes



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Going concern and considerations for public sector entities

David Bond

What is going concern?

- Going concern refers to the assumption that an organisation will continue its normal operations for the foreseeable future without the need to liquidate assets or cease operations.
- It's a fundamental principle in financial reporting, ensuring that financial statements reflect the entity's ability to meet its obligations and continue operating.
- AASB 101 para 25 and 26.
- ASA 570 Going Concern, most recently compiled on March 2023.

Why is it important to State entities?

- For state entities, maintaining a going concern status is crucial for delivering essential services to the public and fulfilling government responsibilities.
- It ensures stability, reliability, and continuity in service delivery, fostering public trust and confidence in the government's ability to function effectively.

Indicators of going concern issues

- It's essential to identify indicators that may suggest challenges to the entity's ability to continue as a going concern. These may include:
 - Persistent operating losses
 - Net current liabilities and/or total net liabilities
 - Liquidity constraints
 - Legal or regulatory issues
 - Dependence on external funding sources.

Responsibilities of Management

- Management play a vital role in ensuring the entity's going concern status. Responsibilities include:
 - Implementing effective financial management practices
 - Monitoring financial performance and risks
 - Taking timely corrective actions when necessary.

Responsibilities of Management

- ASA 570: Aus 13.1 In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall consider the relevant period as defined in paragraph Aus 13.2 of this Auditing Standard, which may be the same or may differ from that used by management to make its assessment as required by the applicable financial reporting framework. If management's assessment of the entity's ability to continue as a going concern covers less than the relevant period, the auditor shall request management to extend its assessment period to correspond to the relevant period used by the auditor. (Ref: Para. A11–A13)
- Aus 13.2 Relevant period means the period of approximately twelve months from the date of the auditor's current report to the expected date of the auditor's report for:
- (a) the next annual reporting date in the case of an annual financial report; or

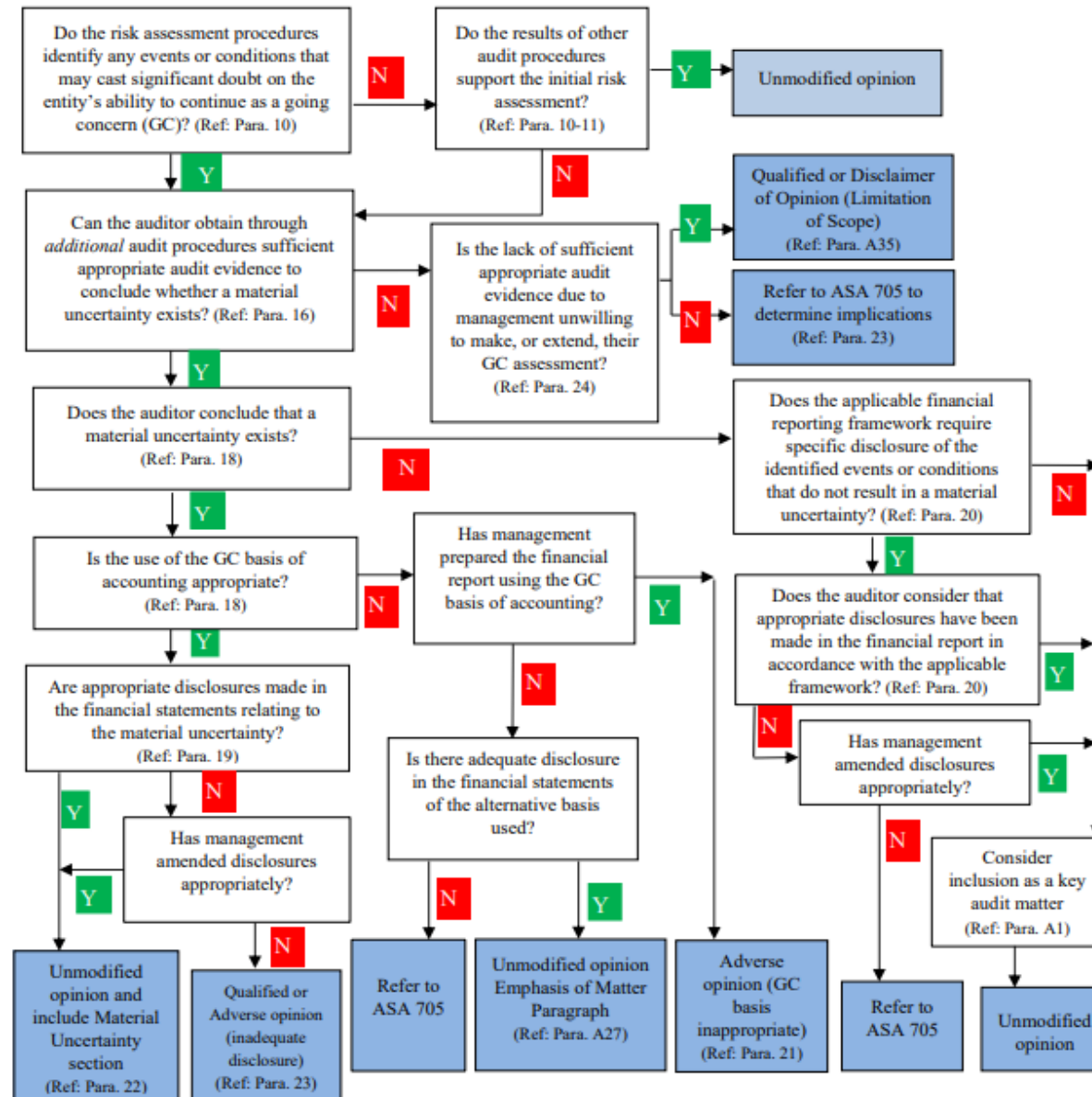
- Example:
 - Audit of 30 June 2024 financial statements
 - Expecting to sign opinion in September 2024
 - Next year's audit opinion is due to be signed in September 2025.

Audit evidence required

- Signed management representation letter with relevant paragraphs on going concern of the entity.
- Budgets for future years, including balance sheet, profit or loss and cash flow forecasts.
- Minutes of Board and/or Audit Committee meeting minutes.
- Appropriate disclosure in the financial statements.

ASA 570:

LINKING GOING CONCERN CONSIDERATIONS AND TYPES OF AUDIT OPINIONS



Conclusion

- In conclusion, maintaining a going concern status is critical for state entities to fulfill their obligations and serve the public effectively.
- By understanding the importance of going concern and taking proactive measures to address challenges, state entities can ensure financial sustainability and resilience.

Questions





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Overview of current reporting matters, fair value accounting and other considerations

Jeff Tongs

What is Changing

2023-24	On the Horizon	Over the Horizon
Accounting policy disclosures	Fair value measurement – public sector	Primary Financial Statements
Accounting estimates	Climate / sustainability reporting (private vs public)	Conceptual Framework (NFPs)
	Classification of liabilities as current or non-current	NFP Private Sector Financial Reporting Framework
	AASB 17 Insurance Contracts	Public Sector Financial Reporting Framework

New Standards – *effective 1 January 2023*

Amendment to AASs	Implications
AASB 2021-2	Disclosure of Accounting Policies and Definition of Accounting Estimates
AASB 2021-6	Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards
AASB 2022-7	Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standard

AASB 2021-2 *Disclosure of Accounting Policies and Definition of Accounting Estimates*

- Change from **significant** accounting policies to **material** policy information.
- Accounting policy information likely to be material if it relates to **material transactions**, other **events** or **conditions** and:
 - a) A change in accounting policy
 - b) Documentation of options chosen in the accounting standards
 - c) An accounting policy developed in the absence of an explicit accounting standard requirement
 - d) Significant judgement, assumptions involving estimates
 - e) Complex transaction and accounting policy need to explain treatment.

AASB Fair Value Measurement for Not-for-Profit Public Sector Entities (AASB 2022-10)

Application – prospectively, periods beginning on or after 1 January 2024.

AASB 13 is written primarily with a for-profit private sector focus using:

- A market or income approach – based on discounted cash flows
- A cost approach – 2 paragraphs
- Assumes it is common for assets to be bought and sold, and
- If you cannot identify specific market participants, you can work out what potential buyers would reasonably pay for the asset (hypothetical market participants).

Not-for-profit public sector entities

- Not common for assets to be bought and sold
- And the entity tends to be the sole supplier of a service.

Fair value measurement

Scope

Non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows.

Restrictions?

- Roads, schools, hospitals, land, land under infrastructure?

Various issues

- Market participant assumptions (AASB 13 definition fair value)
 - when there are no market participants
- Highest and best use
- Current location
- Borrowing cost
- Application of cost approach
- Greenfield versus brownfield?

Market participant assumptions

If don't have a market, then need to develop a fair value.

- Before AASB changes – market participant, hypothetical market participant assumptions would override entity assumptions.

If both:

- the market selling price of a comparable asset
- some market participant data required to measure the fair value of the asset are not observable.

an entity uses its own assumptions as a starting point in developing unobservable inputs.

If reasonably available information indicates that other market participants would use different data (need not undertake exhaustive efforts), cannot ignore that information.

- Example given – land.

When was current use not 'highest and best use'?

New standard – what you are currently doing unless:

- a) the asset is classified as held for sale or held for distribution to owners in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations; or
- b) it is highly probable that the asset will be used for an alternative purpose to its current use (and meets other conditions similar to those required under AASB 5).

Under both (a) and (b), highly probable will happen within one year, and appropriate approvals etc. already in place.

Implication - less time considering what a hypothetical market participant would do.

Cost of reference asset

Cost of modern equivalent – adjust for:

- Engineering to a higher standard
- Obsolescence – functional, economic or physical deterioration

Own assumptions (broadly)

- Existing location
- As you would replace it

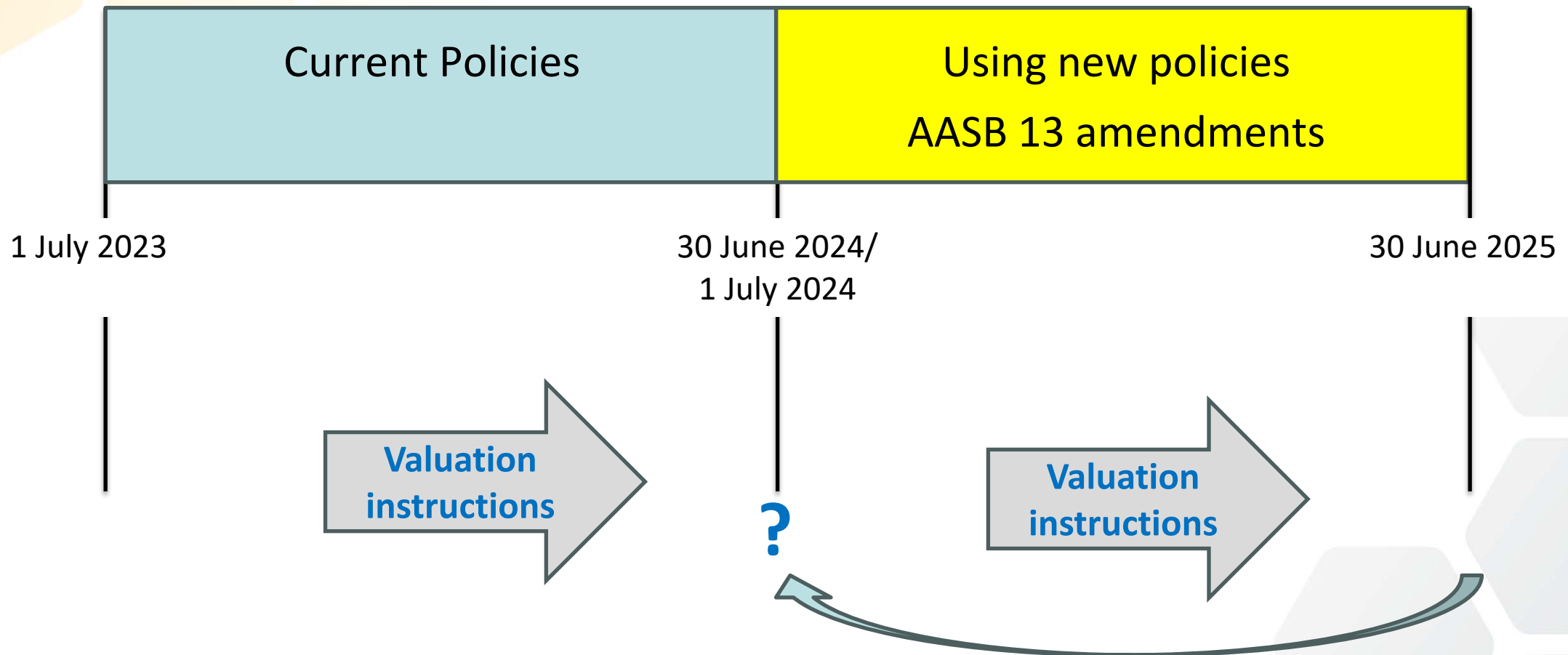
Greenfield versus brownfield?

- Restoration costs – someone else's assets (e.g. pipes)
- Disruption and site preparation cost

Borrowing costs

- Public sector not-for-profit – expense
- Fair value – hypothetical participant – include

Transition



Climate reporting



Commonwealth is introducing mandatory climate reporting in Australia

- Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 – was introduced into House of Representatives on 27 Mar 2024.
- Applies to all reporting under the Corporations Act or businesses registered under National Greenhouse and Energy Reporting Scheme (NGER) (*excl. ACNC Act – companies that are charities*).
- The specific content of new disclosure requirements will be set out in new Australian Sustainability Reporting Standards (ASRS), currently under development by the AASB. (*AASB ED SR1 (Applying ISSB S1 and S2 – closed 1 March 2024)*).
- Audit Requirements – phased transition by AuASB.

Group thresholds and reporting periods

Reporting period	Large entities (consolidated) meeting at least 2 or more criteria (@ EOFY)			NGER Reporters	Assets
	Revenue	Assets	Employees		
Group 1 - 1 January 2025	\$500 million or more	\$5 billion or more	500 or more	NGER Reporting	N/a
Group 2 - 1 July 2026	\$200 million or more	\$500 million or more	250 or more	NGER Registered	\$5 billion
Group 3 - 1 July 2027	\$50 million or more	\$25 million or more	100 or more	N/a	N/a

Departmental Financial Statements

- No Changes due to new accounting standards.
- Presentation Changes:
 - Assets with Work in Progress to be shown as a separate class at cost – *then transferred (Property Plant & Equipment, Infrastructure, Investment property, Intangibles)*
 - Fair valuation indexation - disclosure to describe the nature of the index, the rate applied and date or period of application.
 - Employee benefits policy and guidance update
(Consecutive nature of acting arrangements and Termination benefits includes accrued leave paid and disclosure of details)
 - Comparative information - Administrative restructuring & Correction of a prior year error
 - Other wording updates
 - GST clarification, included in accruals and commitments
 - Borrowings notes service concession liabilities.

All Financial Statements

- To Disclose or Not to Disclose
 - Beware clutter, consider materiality in disclosures
- Superannuation Guarantee Levy
 - from 1 July 2024 the rate will increase by 0.5% to 11.5%
- 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 (i.e. Secretary).

Amendments in
AASB 2021-2?

SGC is Now
↑ 11.5 %!

August						
Sun	Mon	Tue	Wed	Thr	Fri	Sat
				...	9	10
11	12	13	14	15	16	...

Questions





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Obtaining and protecting audit evidence

Jonathan Wassell

Auditor's powers to access information





Auditor's
powers to
obtain
information

Duty to provide information





Reasonable
excuse not to
provide
information

Provision and protection of information



Questions





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Thank you for attending
Final questions and close

Slides for the session and other client information
available at:

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