



**Tasmanian**  
Audit Office

## Client Information Session

Local Government  
8 May 2024

# Acknowledgement of Aboriginal People and Country

# Agenda

Time	Presenter	Topic
09:30 – 09:40	<b>Martin Thompson and Jonathan Wassell</b>	Introduction
09:40 – 10:05	<b>Stephen Morrison</b>	Recap on 2023 audit findings and audit focus areas for 2024
10:05 – 10:25	<b>Janine McGuinness</b>	Current and upcoming audits
10:25 – 10:35	<b>Break</b>	
10:40 – 11:00	<b>David Bond</b>	Going concern and considerations for public sector entities and fair value of assets
11:00 – 11:20	<b>Jeff Tongs</b>	Overview of current reporting matters, fair value accounting and other considerations
11:20 – 11:30	<b>Jonathan Wassell</b>	Auditor access to information
11:30 – 11:40	<b>Martin Thompson</b>	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.

## Chat Monitor

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



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## Recap on 2023 audit findings and 2024 audit focus areas

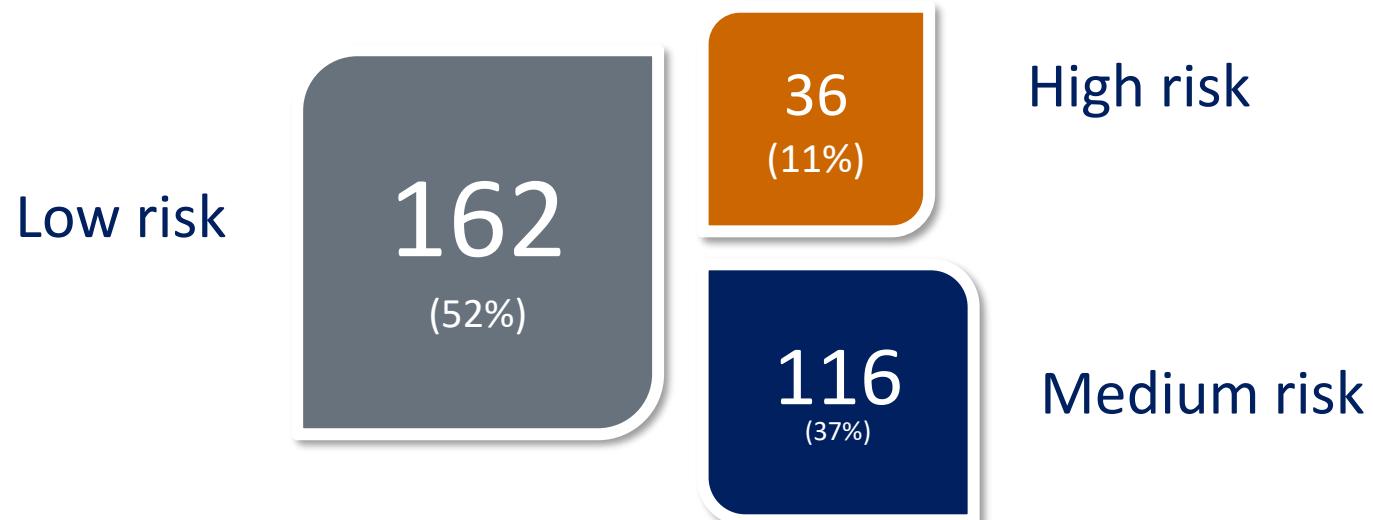
Stephen Morrison

# 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

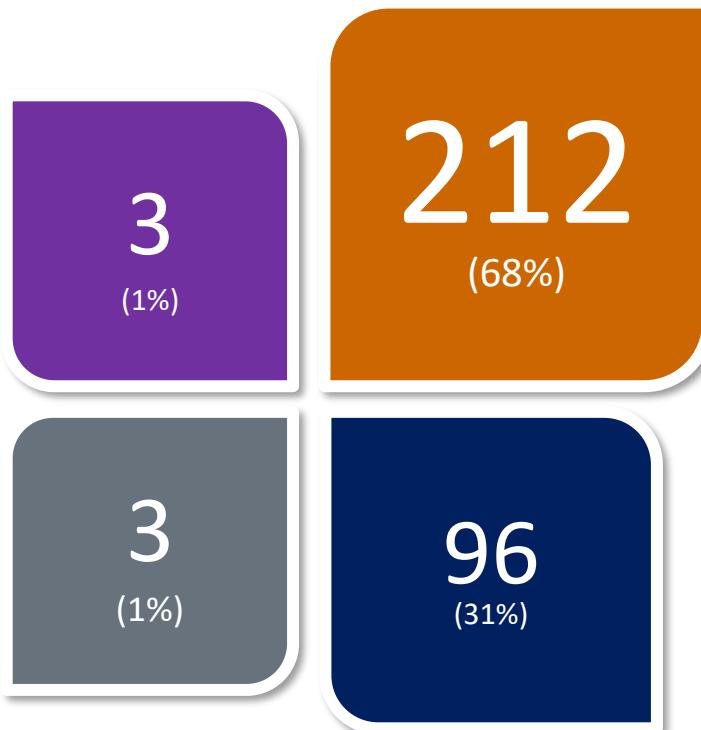
# New 2023 findings (by risk rating)

- 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



Internal control

Other significant  
matters

Financial reporting

# New 2023 findings (by sector)

Other entities

29  
(9%)

100  
(32%)

PNFC and PFC

97  
(31%)

88  
(28%)

Local Government

GGS Entities

# 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)

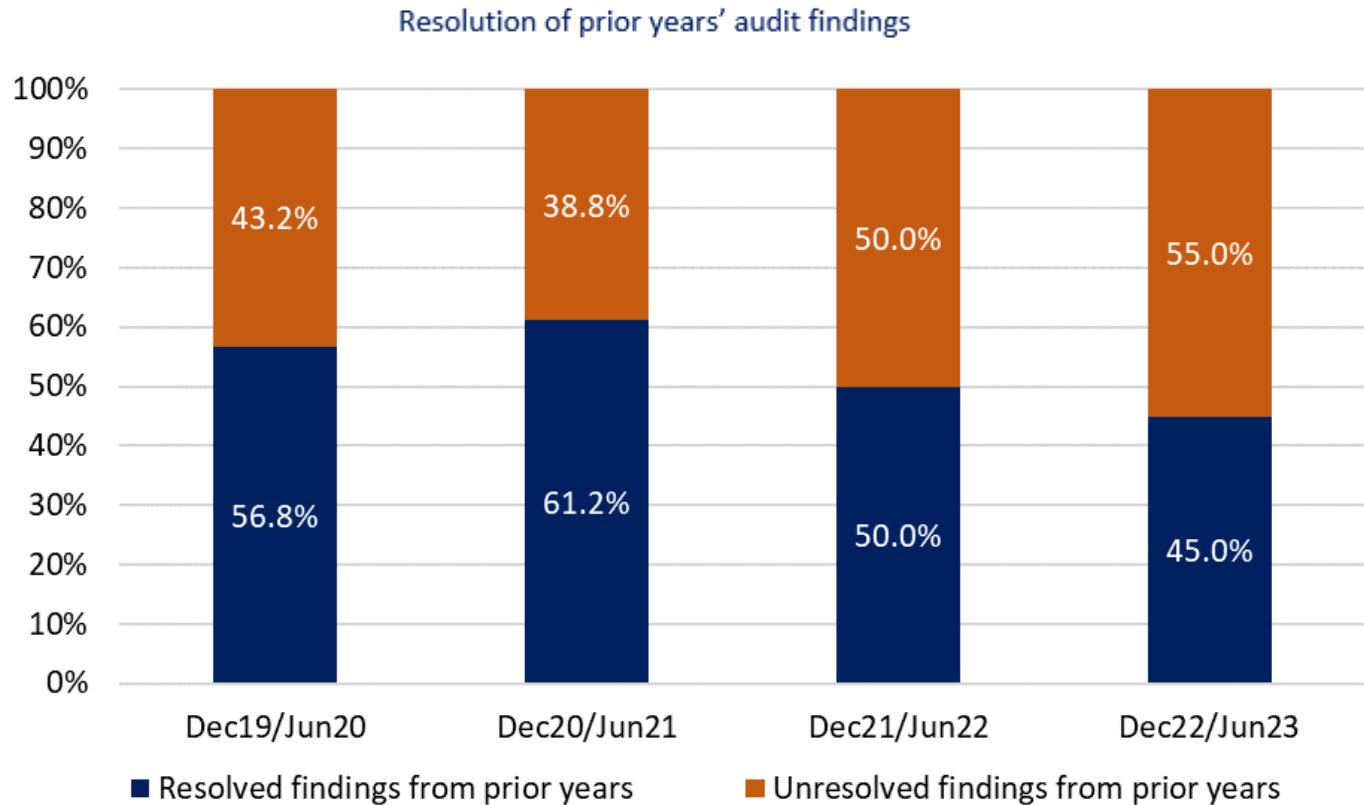
- General IT control findings:
  - Lack of strategic documentation for risk areas such as cybersecurity, password, and change management.
  - Inconsistencies between Security Policy, actual system parameters, and Password Guide.
  - Organisations not meeting basic requirements of Essential 8 security 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.

169  
unresolved  
prior year  
findings

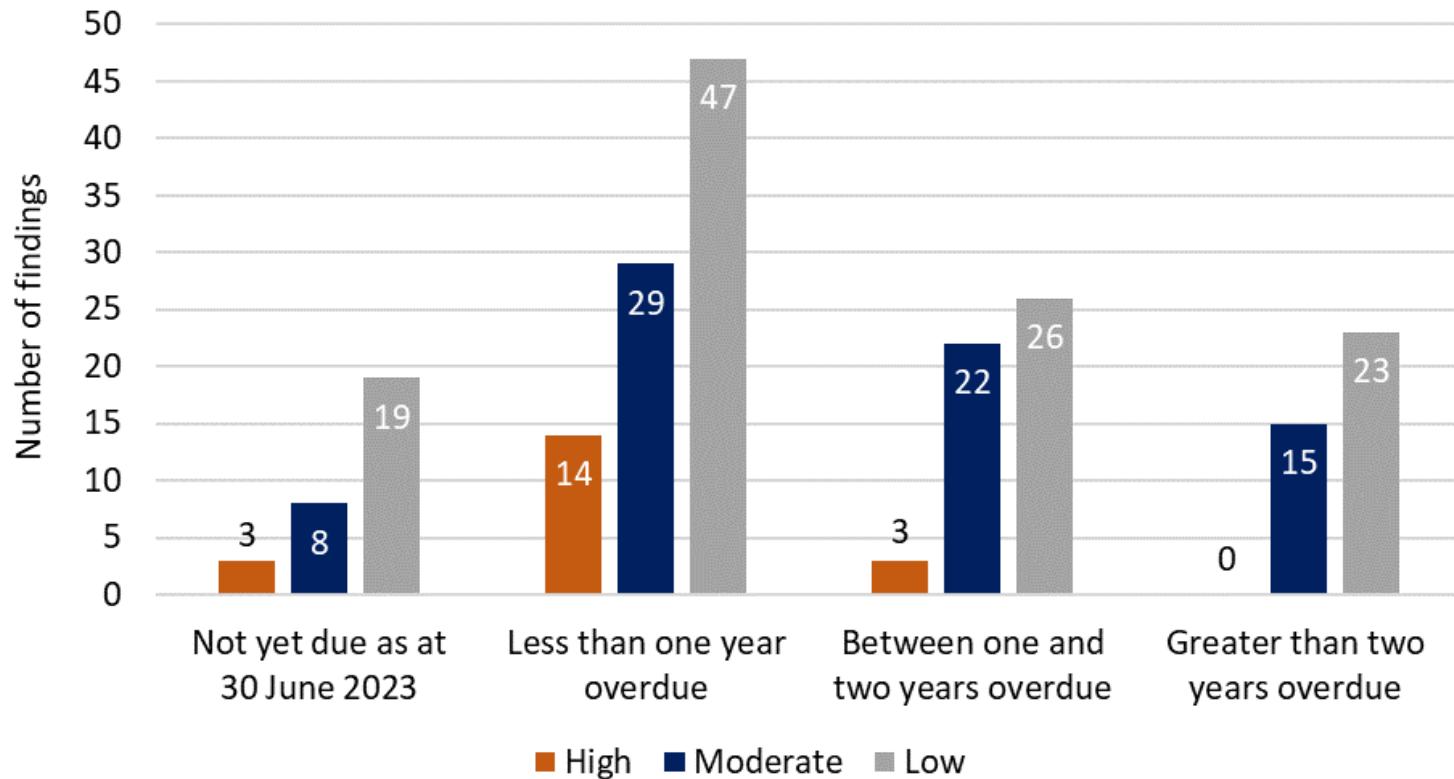
# Prior year findings



45% prior year findings resolved

# Prior year findings

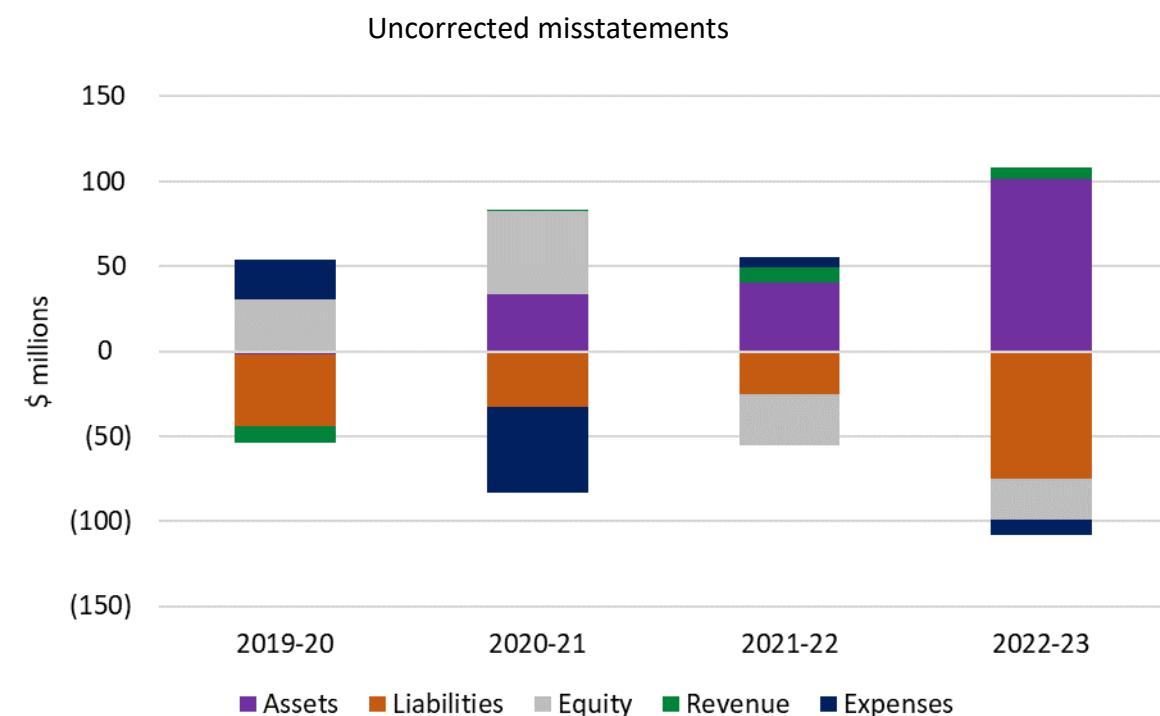
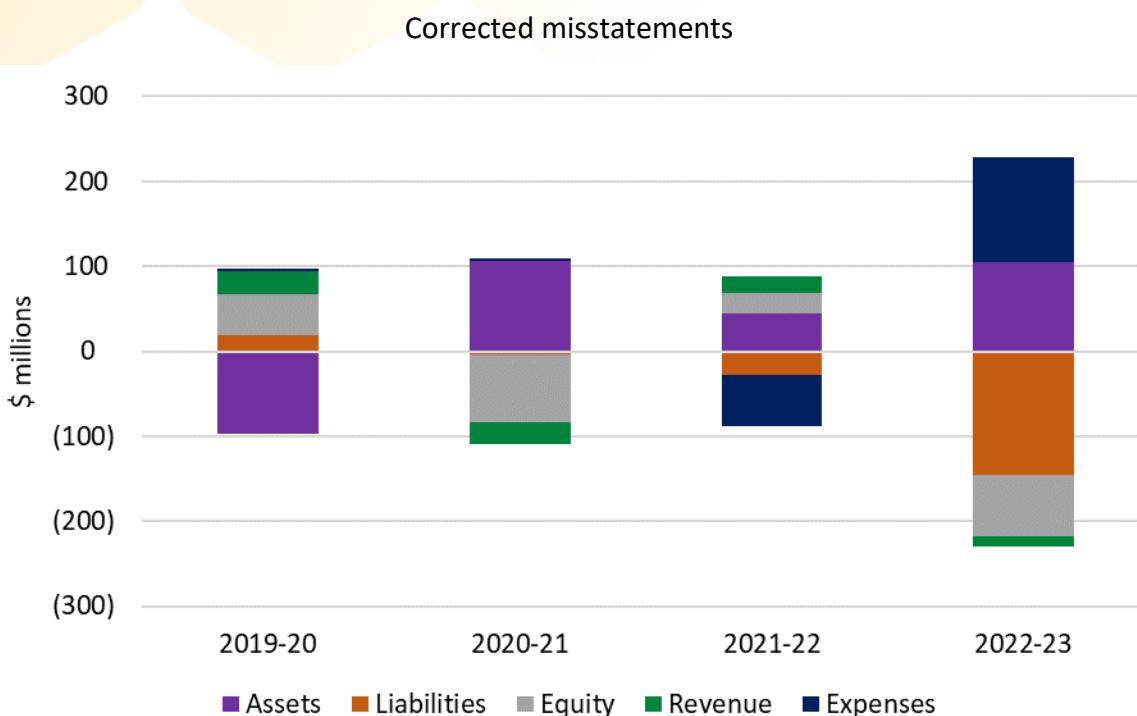
Previously reported findings (yet to be resolved from date corrective action was due) aging analysis



# 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.

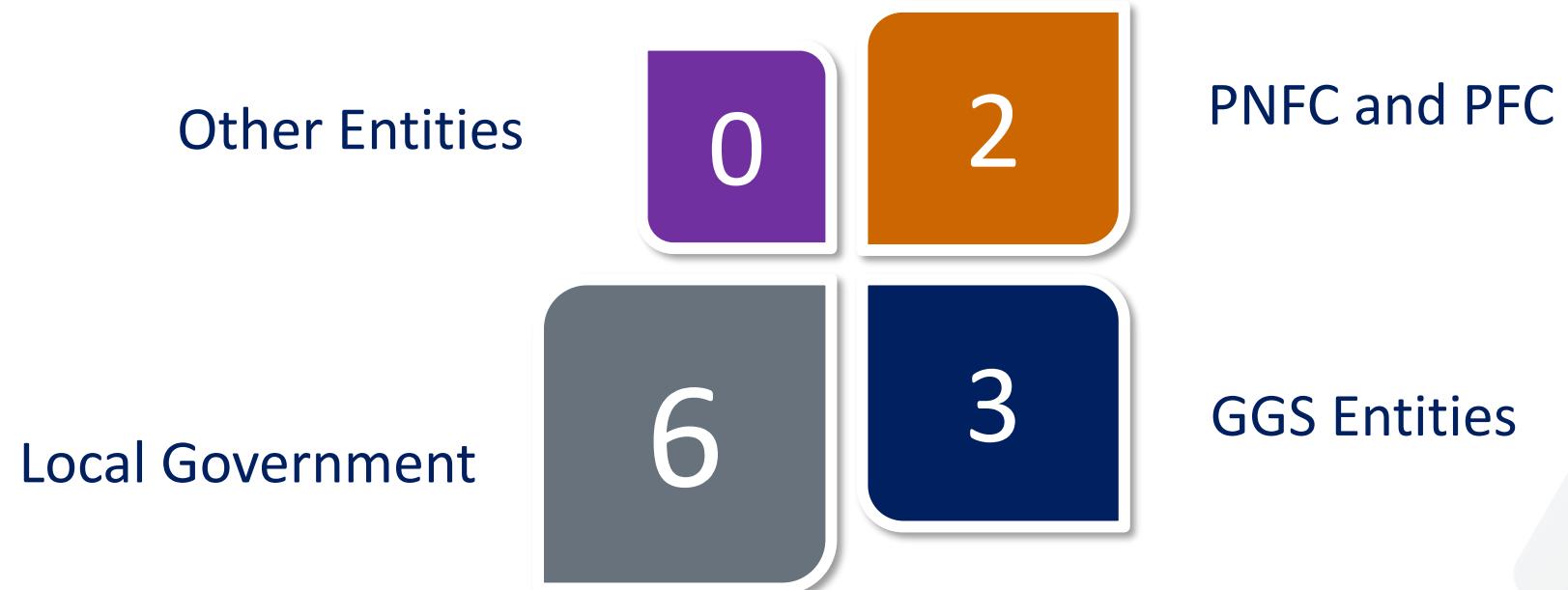
# Misstatements



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

**IT control environment  
(standards, planning, policies)**

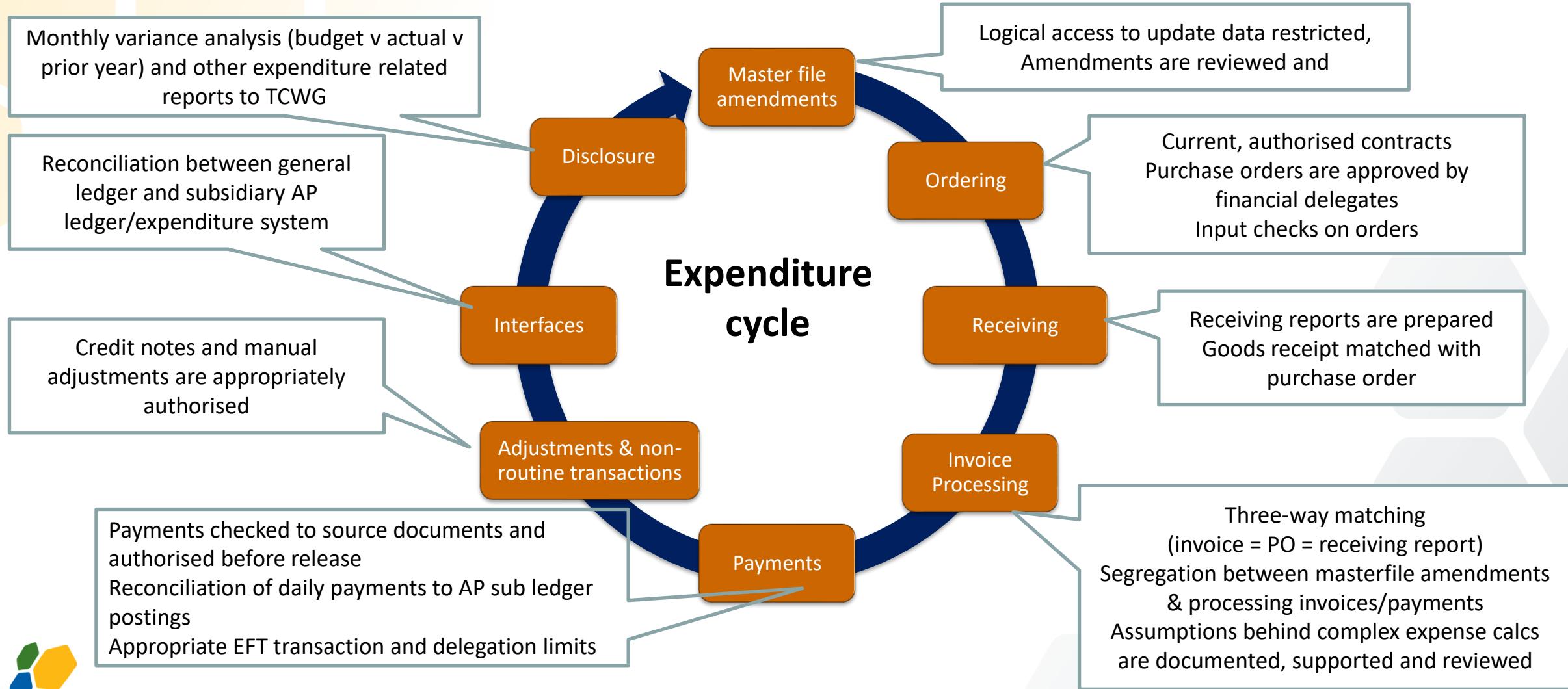
**Security over data, the IT infrastructure & daily operations**

**Access to programs & application data**

**Program development & program changes**

**Monitoring of IT operations**

# 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.



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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.



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**Break**

10.25am to 10.35am



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# Going concern and considerations for public sector entities and Fair Value of assets

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:**

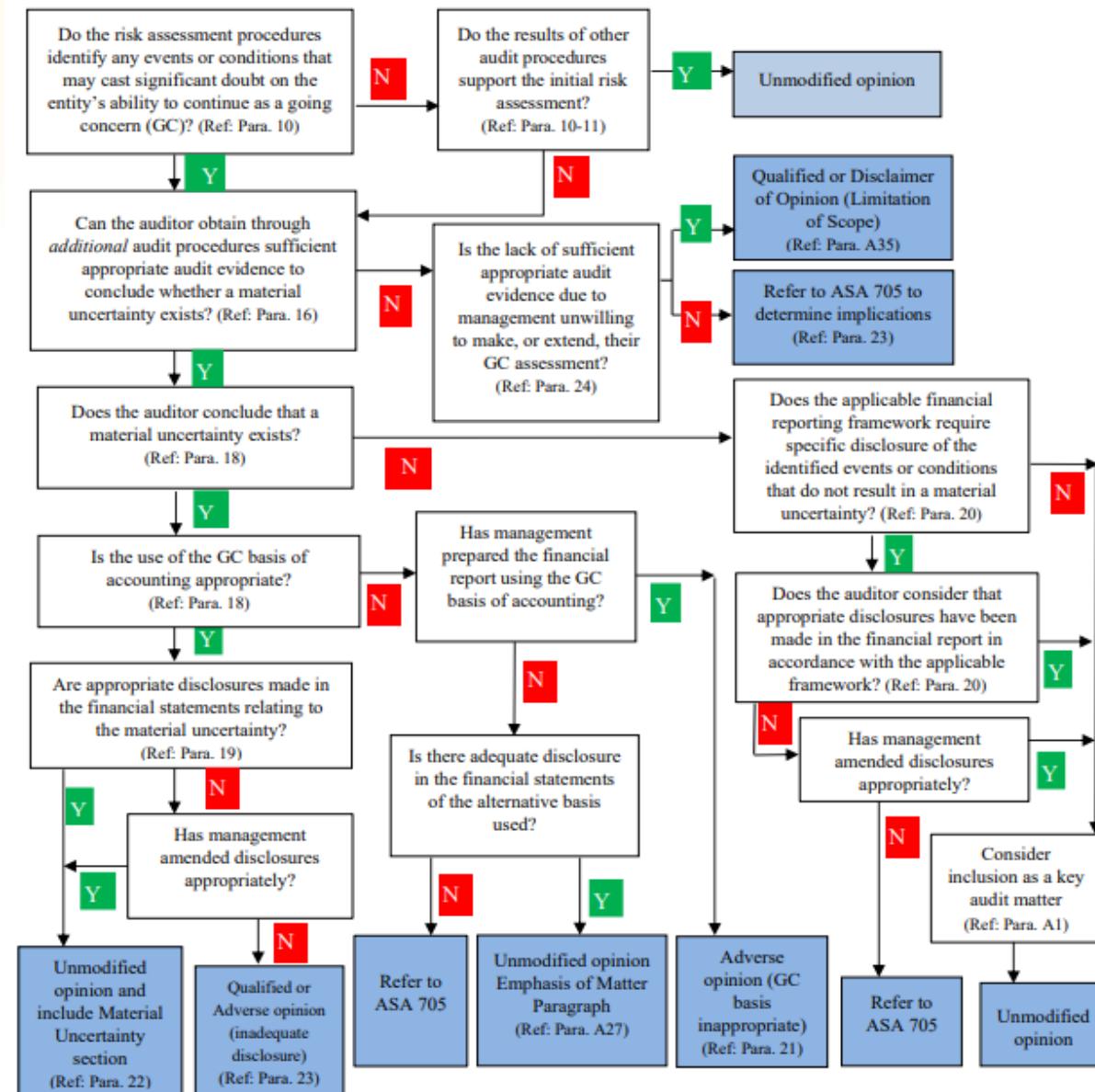
- Audit of 30 June 2024 financial statements
- Expecting to sign opinion in September 2024
- Next year's audit opinion is due to be signed in September 2025.

# 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.

## LINKING GOING CONCERN CONSIDERATIONS AND TYPES OF AUDIT OPINIONS

ASA 570:



# 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.

# Fair value of assets

- Revaluation is the process of assessing the current fair value of assets, which should be undertaken periodically and with sufficient regularity so that fair value does not differ materially from carrying amount.
- Revaluations ensure that assets are carried at their fair values, reflecting changes in market conditions, asset performance, and economic factors.

# Fair value of assets

AASB 116:

- 34 The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.
- 36 **If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.**

## Local Government Model Financial Report:

### Land

#### *Example disclosure only*

Land fair values were determined by a qualified independent valuer [include name and valuer details] effective 30 June 2021. Since that date to ensure the current values represent fair value, Council have applied an index of 2.5% as at 30 June 2022 and 2.5% as at 30 June 2023, using the XYZ Index/adjustment factor from ABC. The next full valuation is planned for 30 June 2024. Level 2 valuation inputs were used to value land in freehold title as well as land used for special purposes, which is restricted in use under current planning provisions. Sales prices of comparable land sites in close proximity are adjusted for differences in key attributes such as property size. All freehold land reserved for public open space is valued at a discount of X percent to market value based on legal precedents. The most significant input into this valuation approach is price per square metre.

# Fair value of assets

- Indexation involves adjusting asset values based on changes in relevant indices or benchmarks, such as inflation rates or market indices.
- Indexation ensures that asset values keep pace with changes in the broader economy, maintaining their relevance over time.

Irregular revaluations / indexation		
	Increment / (Decrement)	Fair Value
FY19	0	430
FY20	0	430
FY21	0	430
FY22	0	430
FY23	0	430
FY24	170	600

Regular revaluations / indexation			
	Increment / (Decrement)	Fair Value	
FY19	70	500	Reval.
FY20	10	510	Index.
FY21	14	524	Index.
FY22	13	537	Index.
FY23	15	552	Index.
FY24	48	600	Reval.



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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
	<i>AASB 17 Insurance Contracts</i>	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's 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 its*

- 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?

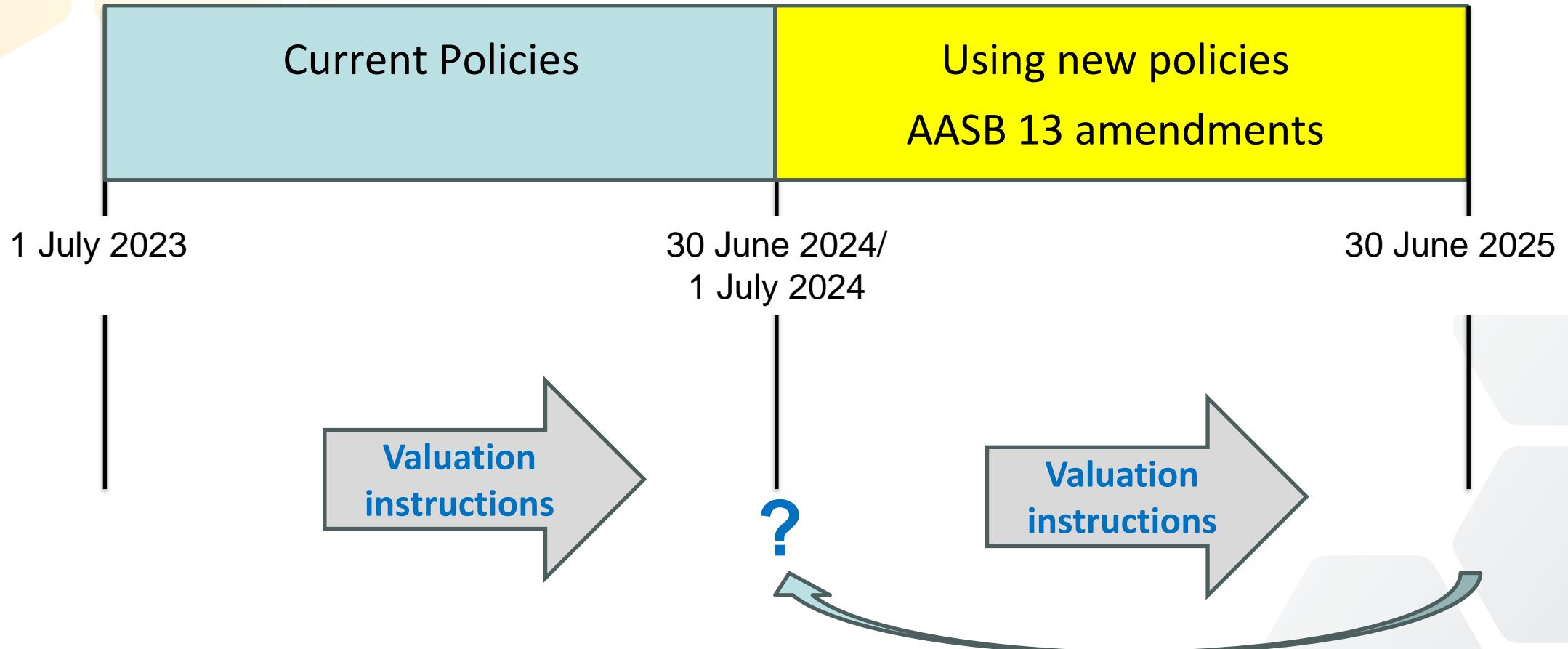
- Restoration costs – someone else's assets (e.g. pipes)
- Disruption and site preparation cost.

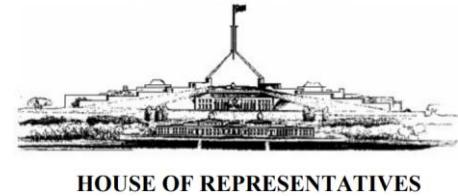
## Borrowing costs

- 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 (Appling 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		
<b>Group 1</b> - 1 January 2025	\$500 million or more	\$5 billion or more	500 or more	NGER Reporting	N/a
<b>Group 2</b> - 1 July 2026	\$200 million or more	\$500 million or more	250 or more	NGER Registered	\$5 billion
<b>Group 3</b> - 1 July 2027	\$50 million or more	\$25 million or more	100 or more	N/a	N/a

# 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
  - 14<sup>th</sup> Day in August
- Submission guidance on Website
  - Management certification option (+ Submission Checklist) prior to final certification by the accountable authority (i.e. General Manager).

SGC is Now  
11.5 %!



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



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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



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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](http://www.audit.tas.gov.au/client-reference-information)