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Client technical audit update

28 February 2023

Queensland Audit Office

Better public services

Welcome

Michelle Reardon
Assistant Auditor-General

Today's agenda

9:35–10:15 am
Strengthening internal controls in a changing environment
Michelle Reardon, Assistant Auditor-General

10:15–10:30 am
Documentation considerations to support CRC valuations
Charles Strickland, Senior Director

10:30–10:45 am
Key learnings from recent reports to parliament and upcoming reports of interest
Patrick Flemming, Assistant Auditor-General

10:45–11:45 am
Technical update
Greg Hall, Principal Accountant, Queensland Treasury
Fanny Lau, Manager, Queensland Treasury
David Hardidge, Director, QAO

11:45–12:00 pm
Discussion and questions

12:00–12:30 pm
Refreshments

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Strengthening internal controls in a changing environment

Michelle Reardon, Assistant Auditor-General

Queensland Audit Office

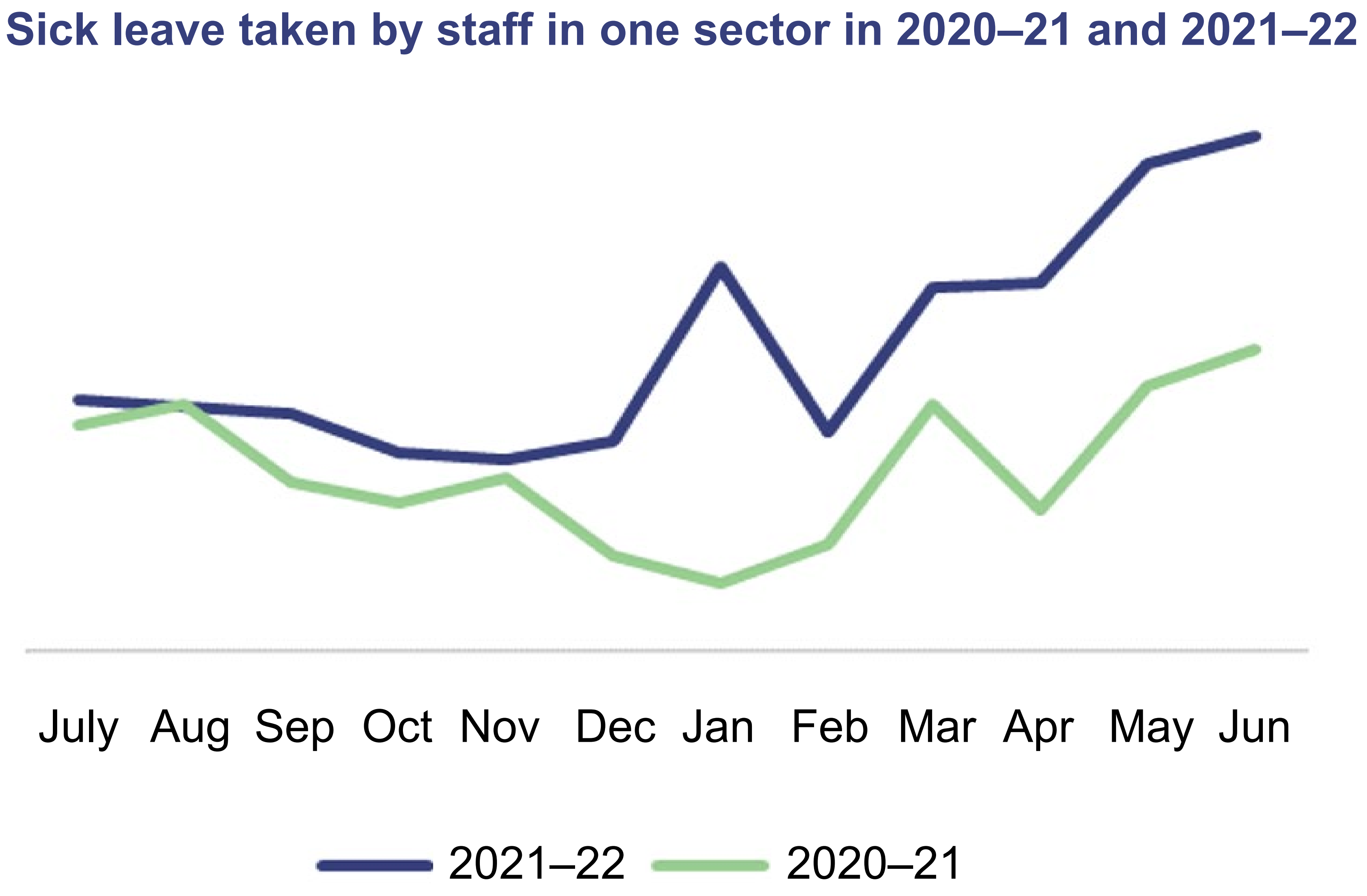
Better public services

Maturities

'We are what we repeatedly do. Excellence, then, is not an act, but a habit.'

– Aristotle

Increase in sick leave hours



Workforce pressures

Ageing workforce

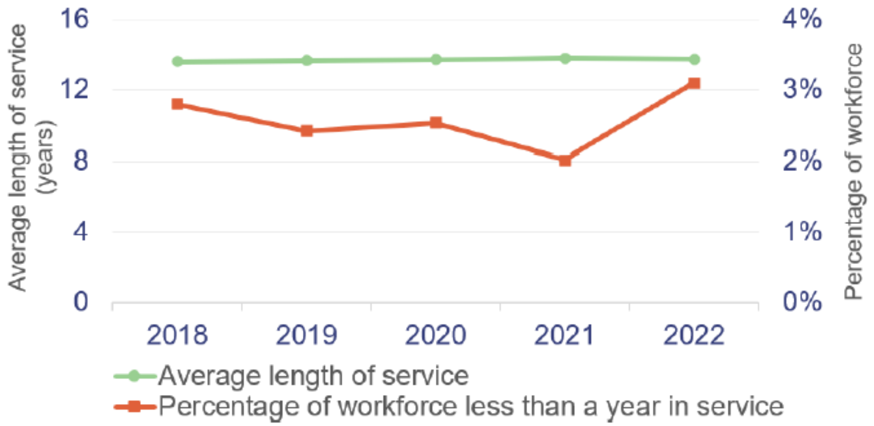
Proportion of workforce aged 29 years and under has remained stable while those aged 60 and over is increasing.

Age group	% 2018 workforce	% 2022 workforce	Movement
29 years and under	10.9%	10.8%	
60 years and over	10.3%	11.9%	

Length of service

The average length of service has been consistent since 2018. In 2022 it was 13.7 years.

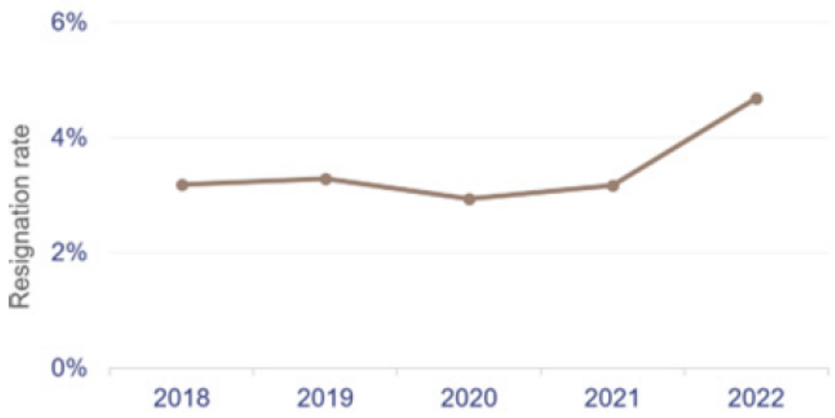
The proportion of the workforce staying in the public sector for less than a year has increased from 2.8% in 2018 to 3.1% in 2022.



Rising resignations

The rate of resignations has increased from 3.2% in 2018 to 4.7% in 2022.

From 1 July 2021 to 30 June 2022, 10,517 permanent workers resigned from the public sector.



Source: Compiled by Queensland Audit Office using MOHRI data.

Challenges faced by entities

Higher sick leave	Low unemployment	Higher turnover

- Change in staff performing internal controls
- Employees with less time to perform internal controls

Challenges faced by entities

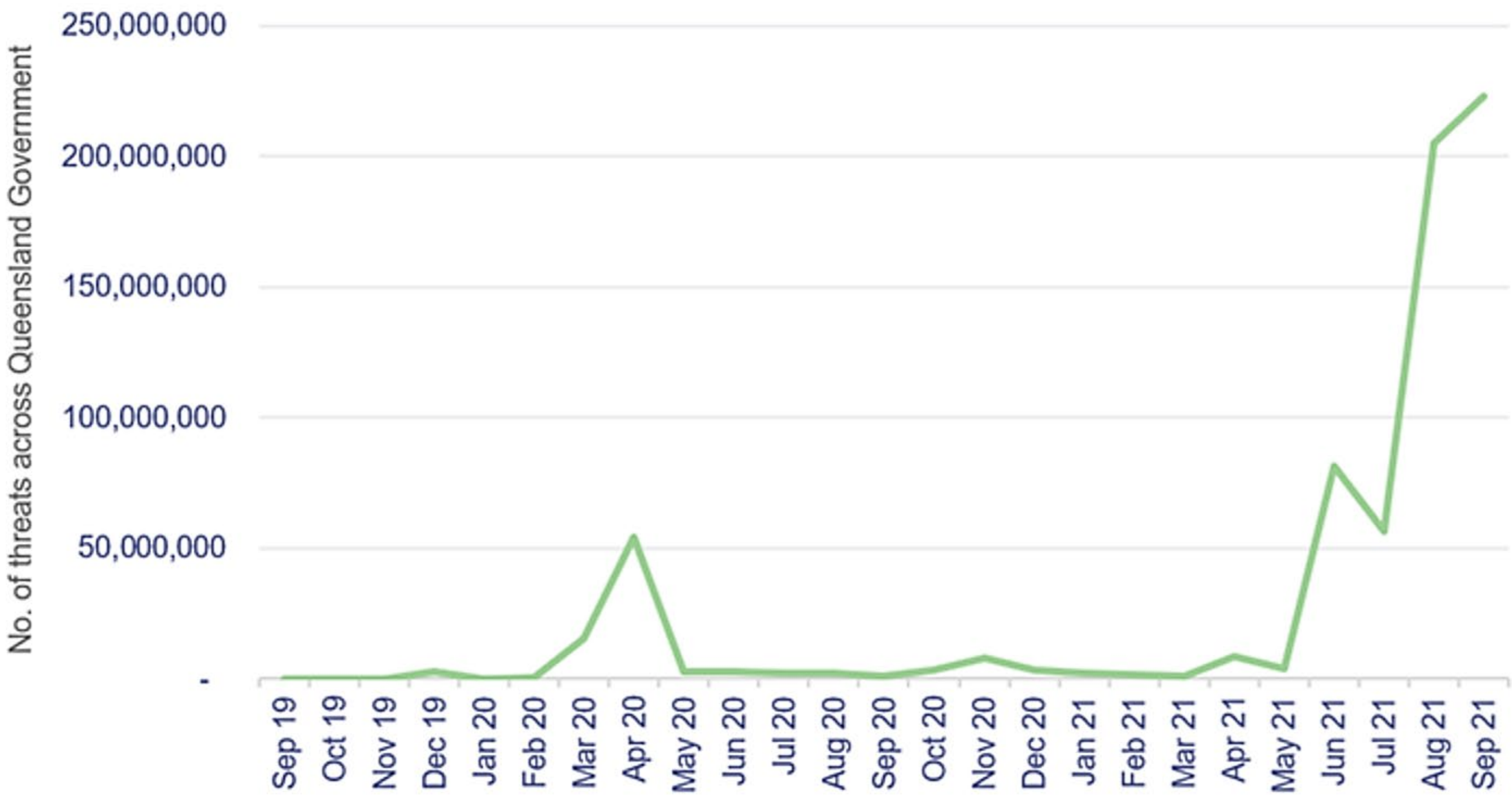
Higher sick leave	Low unemployment	Higher turnover
Higher inflation and interest rates	Supply chain delays	

Challenges faced by entities

- Higher sick leave
- Low unemployment
- Higher turnover
- Higher inflation and interest rates
- Supply chain delays
- Increase in cyber attacks

Increase in malware threats

Malware threats increased between 2019 and 2021



Source: CITEC through whole-of-government internet gateway monitoring.

Cyber security

Cyber crime reports increased across Australia in 2021–22

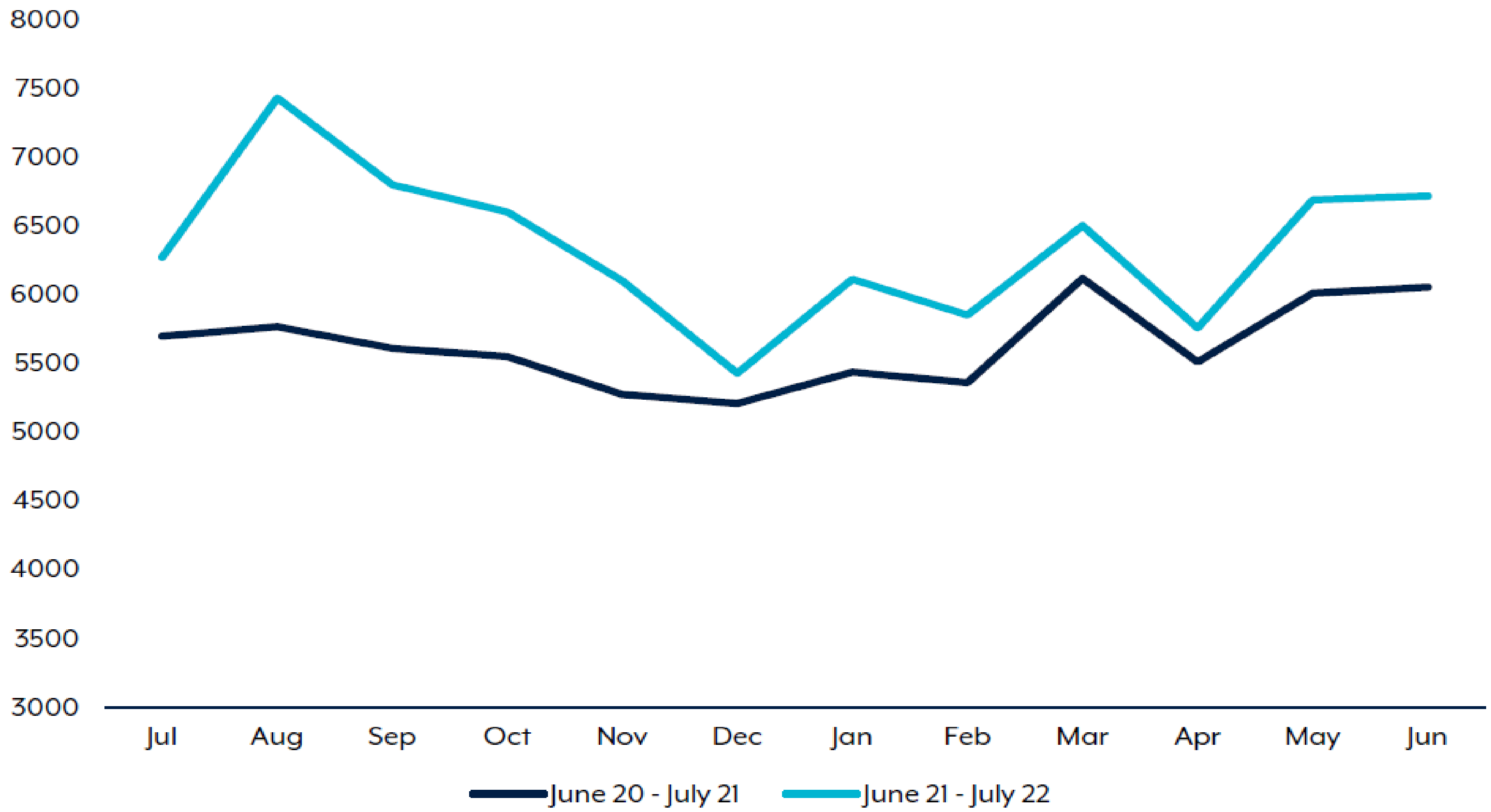


Figure 1: Cybercrime reports by month for 2021–22 financial year compared with 2020–21 financial year

[ACSC Annual Cyber Threat Report 2021–22 | Cyber.gov.au, Australian Cyber Security Centre]

Cyber security

Queensland had the most cyber crime reports in 2021–22

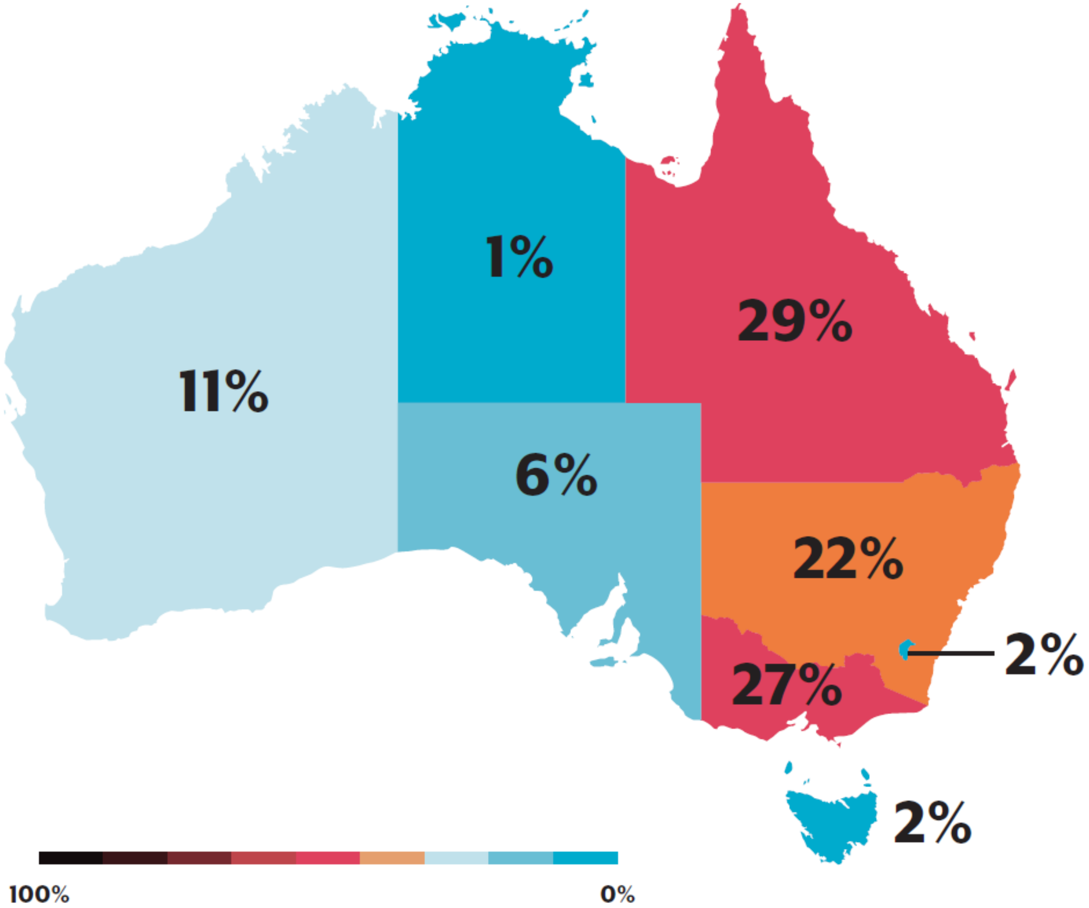


Figure 2: Breakdown of cybercrime reports by assigned jurisdiction for financial year 2021–22

Note: Assigned jurisdiction is the state or territory law enforcement agency assigned to each ReportCyber report. This may differ from the physical location of the victim.

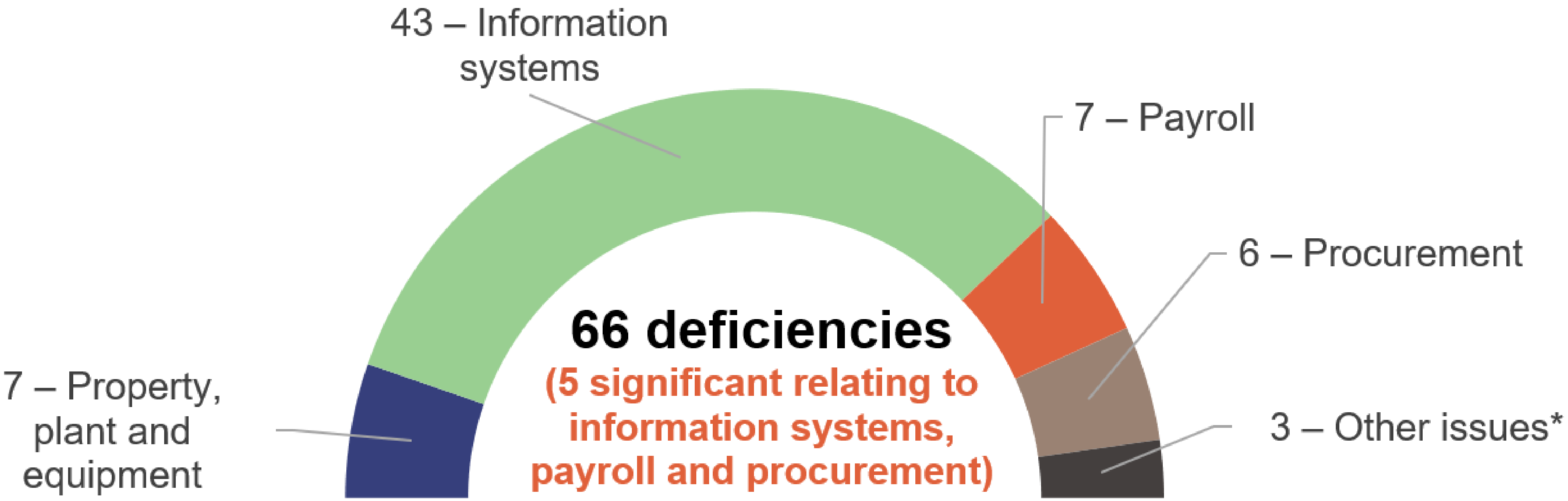
Critical risk area that needs to be monitored

What key questions need to be asked?

- What **information** are we collecting and when can we dispose of it?
- What are our ‘crown jewels’ and where are they located?
- Who has access to our critical assets, who is responsible for protecting them and how well are they protected?
- What are our compliance obligations and the implications if we are in breach of them?
- What is our **people strategy** around cyber security?
- Do we know what the consequences are for a major cyber incident at our entity?
- Do we know how to **respond** to a cyber security incident?

Issues reported in 2021–22

Department control deficiencies in 2021–22



47 councils had deficiencies in information systems in 2021–22

Outstanding issues taking over a year to resolve

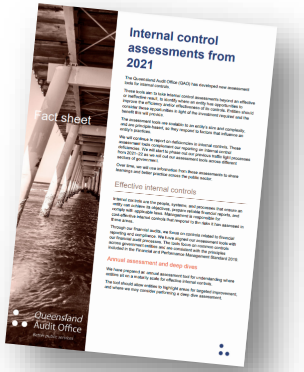
Internal controls

We are changing the way we make and report on our internal control assessments

No change in our requirements to:

- assess the design of internal controls relevant to the audit, and whether they have been implemented
- report any deficiencies to those charged with governance and management.

Fact sheets & better practice guides:
www.qao.qld.gov.au/reports-resources



Controls maturity model

- Annual assessment tool published late 2021
- Deep dives into key elements of internal control

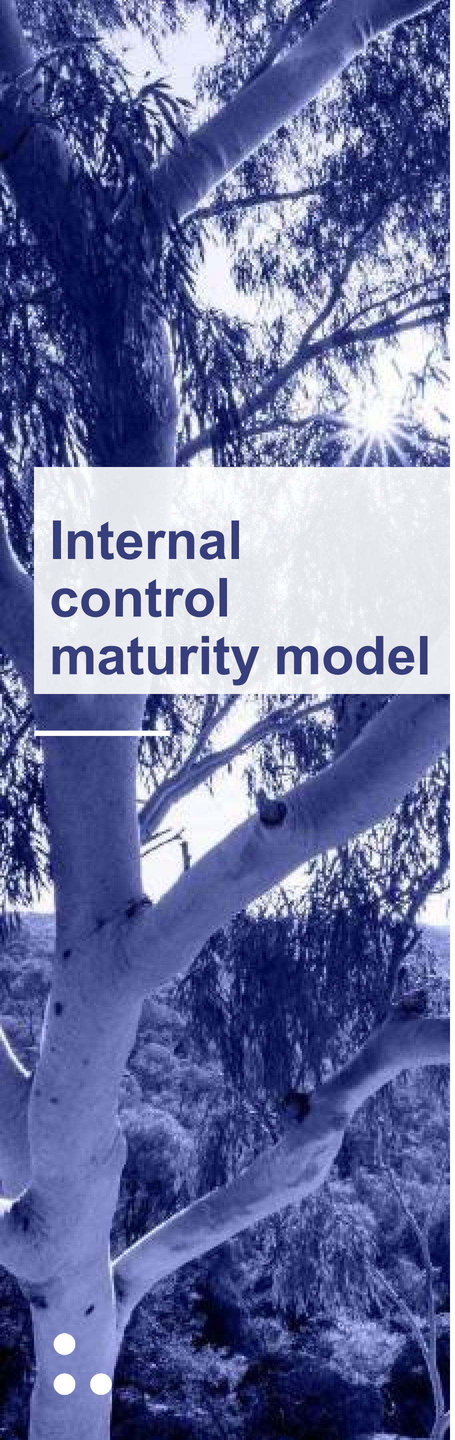
Key elements of effective internal control

Asset management | Change management | Culture | Financial statements | Governance | Grants management

Information systems | Monitoring | Procure-to-pay | Records management | Risk management

Four levels of maturity used across QAO tools

Developing → Established → Integrated → Optimised



Results of the annual assessment may also be used to inform our **forward work plan** – either deep dive programs or assurance engagements

Deep dives being reported in 2022–23

Local government

- Procure-to-pay at 6 councils

Departments

- Change management focusing on machinery of government changes at 4 departments
- *Improving grants management* (Report 2: 2022–23)

Universities

- Risk management

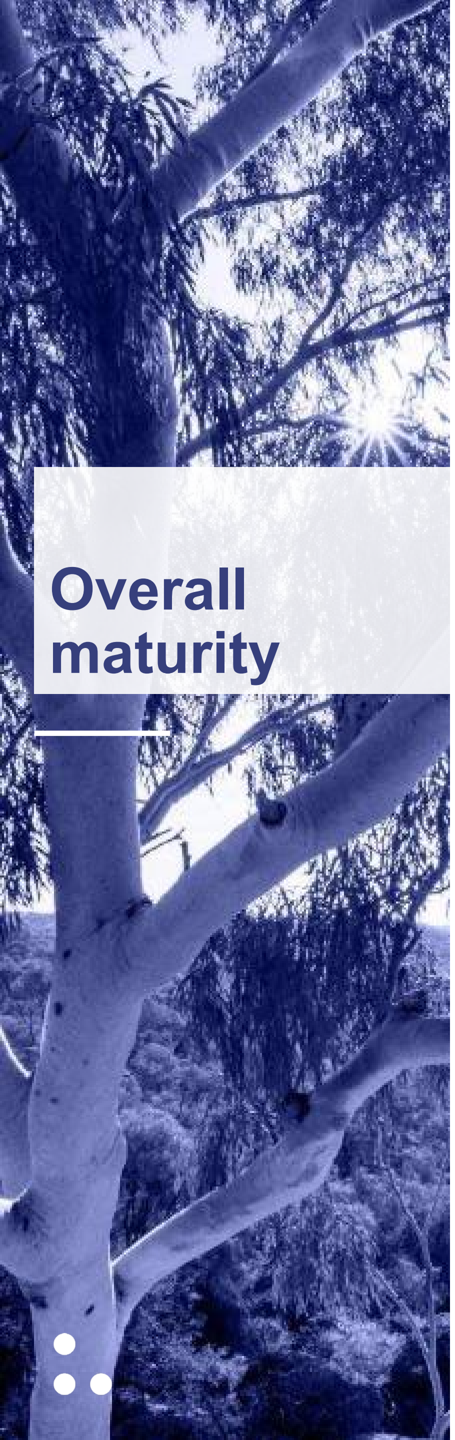
Future deep dives planned – from 2024

Local government

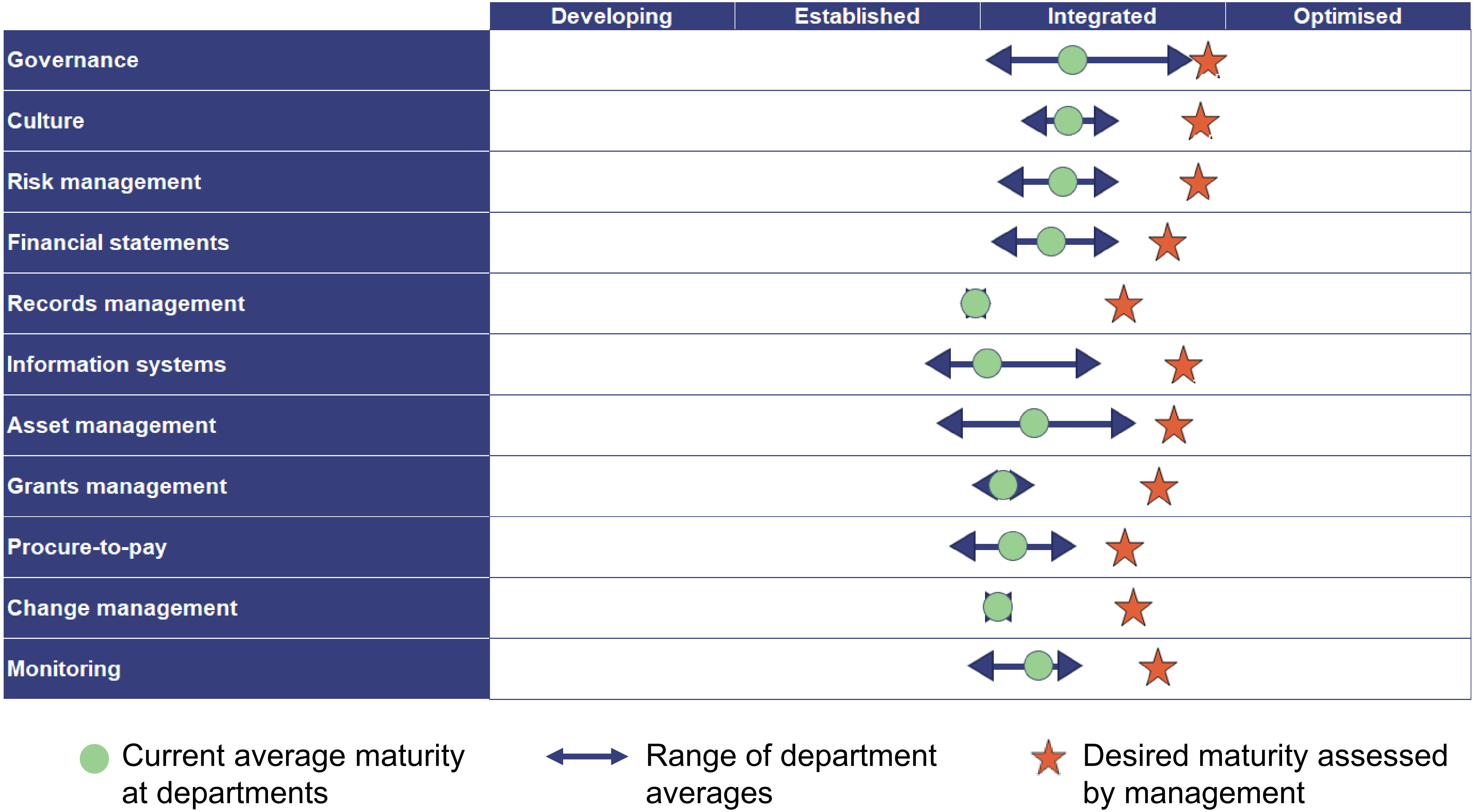
- Information systems at 6 councils

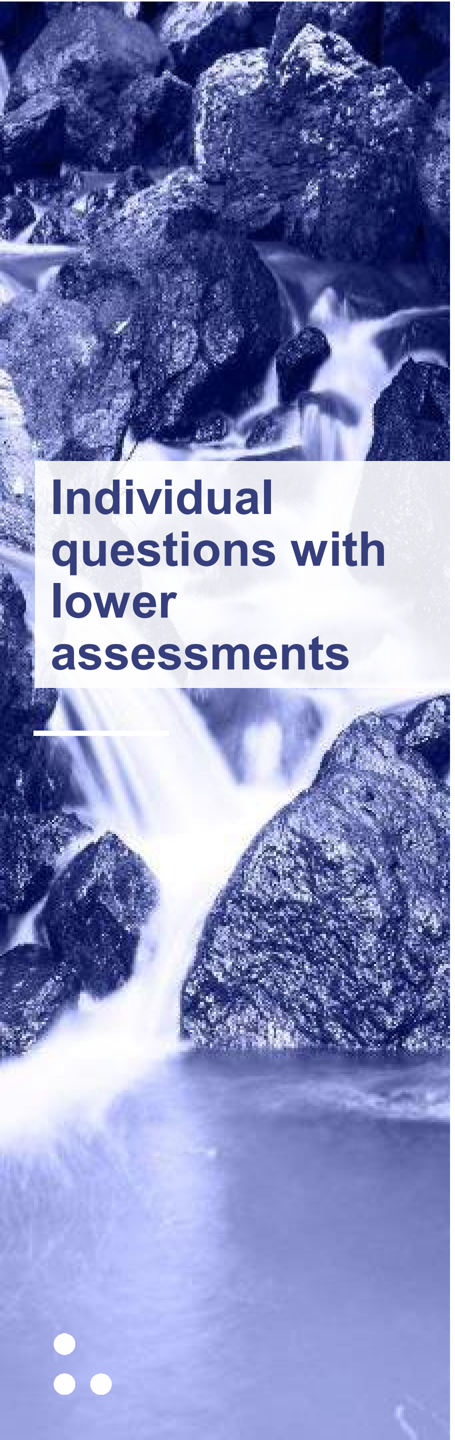
Departments

- Records management at 4 departments



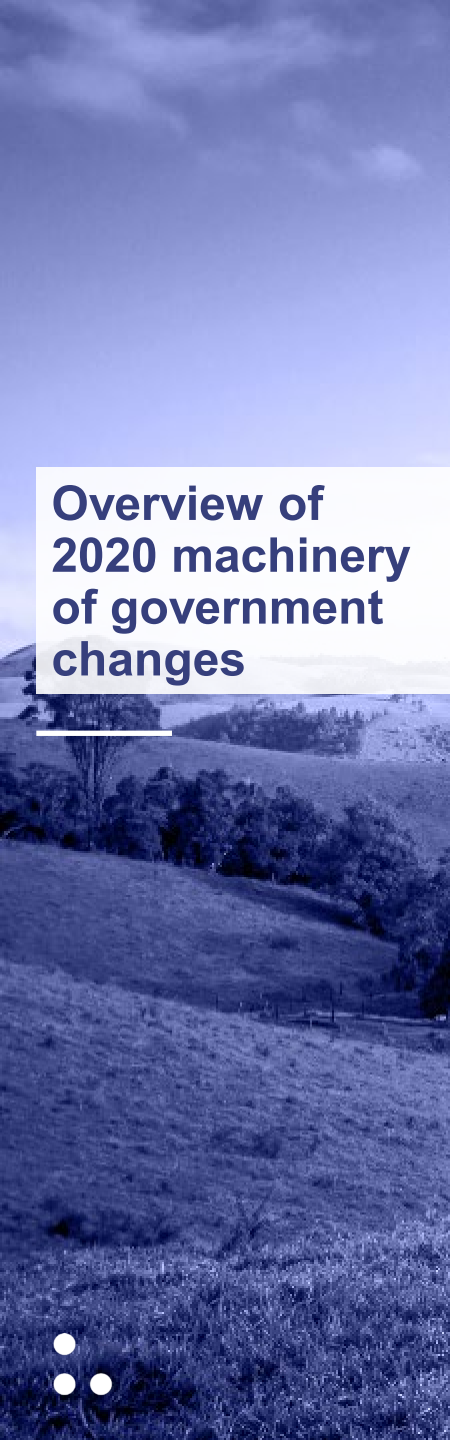
Overall maturity of department internal controls



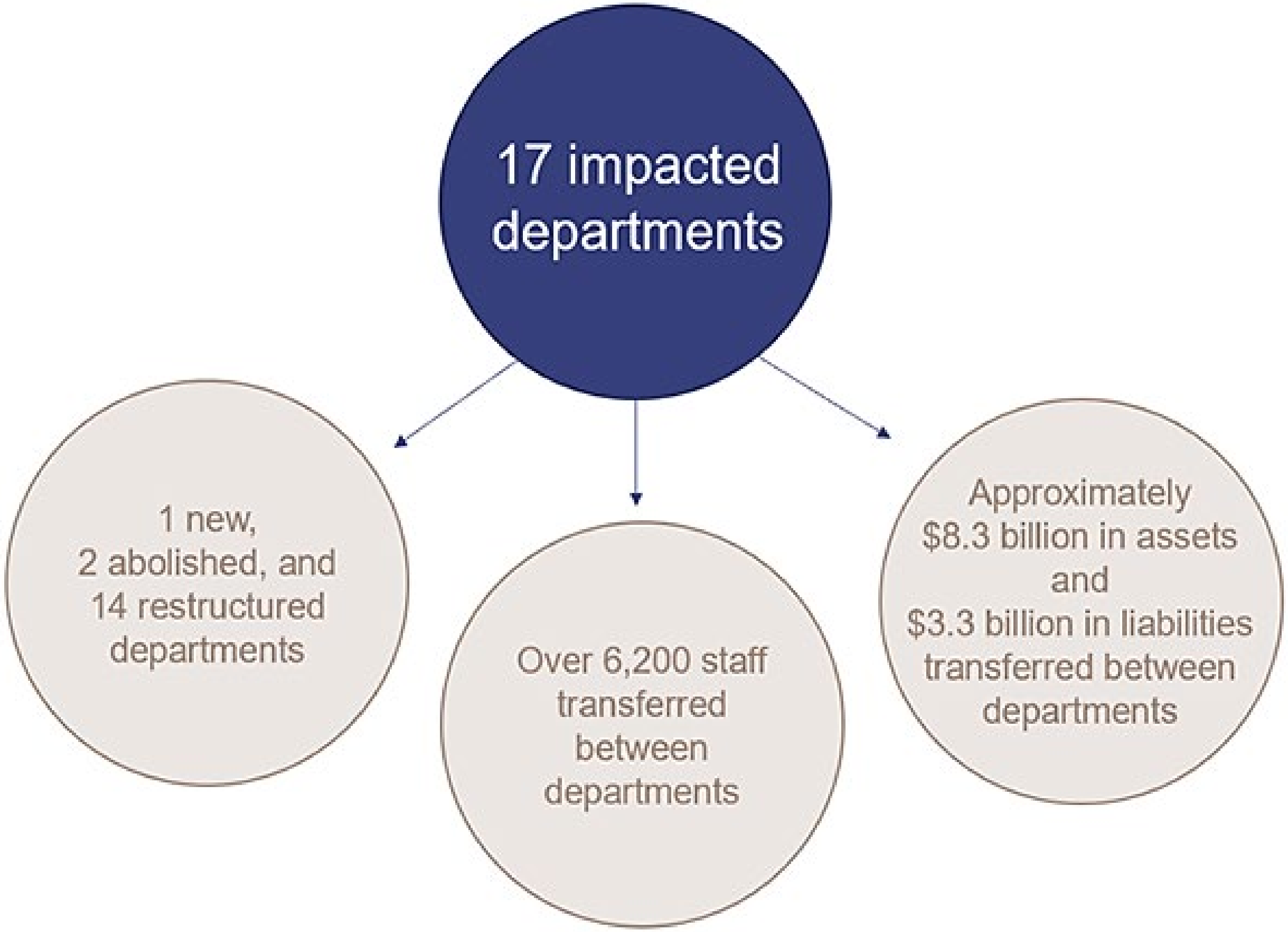


Individual questions with lower assessments

- **Governance** – HR policies and related procedures
- **Risk management** – Strategic and operational risk registers
- **Procure-to-pay** – Systems used for procurement, contract management and finance
- **Monitoring** – Compliance with its obligations under legislative and prescribed requirements



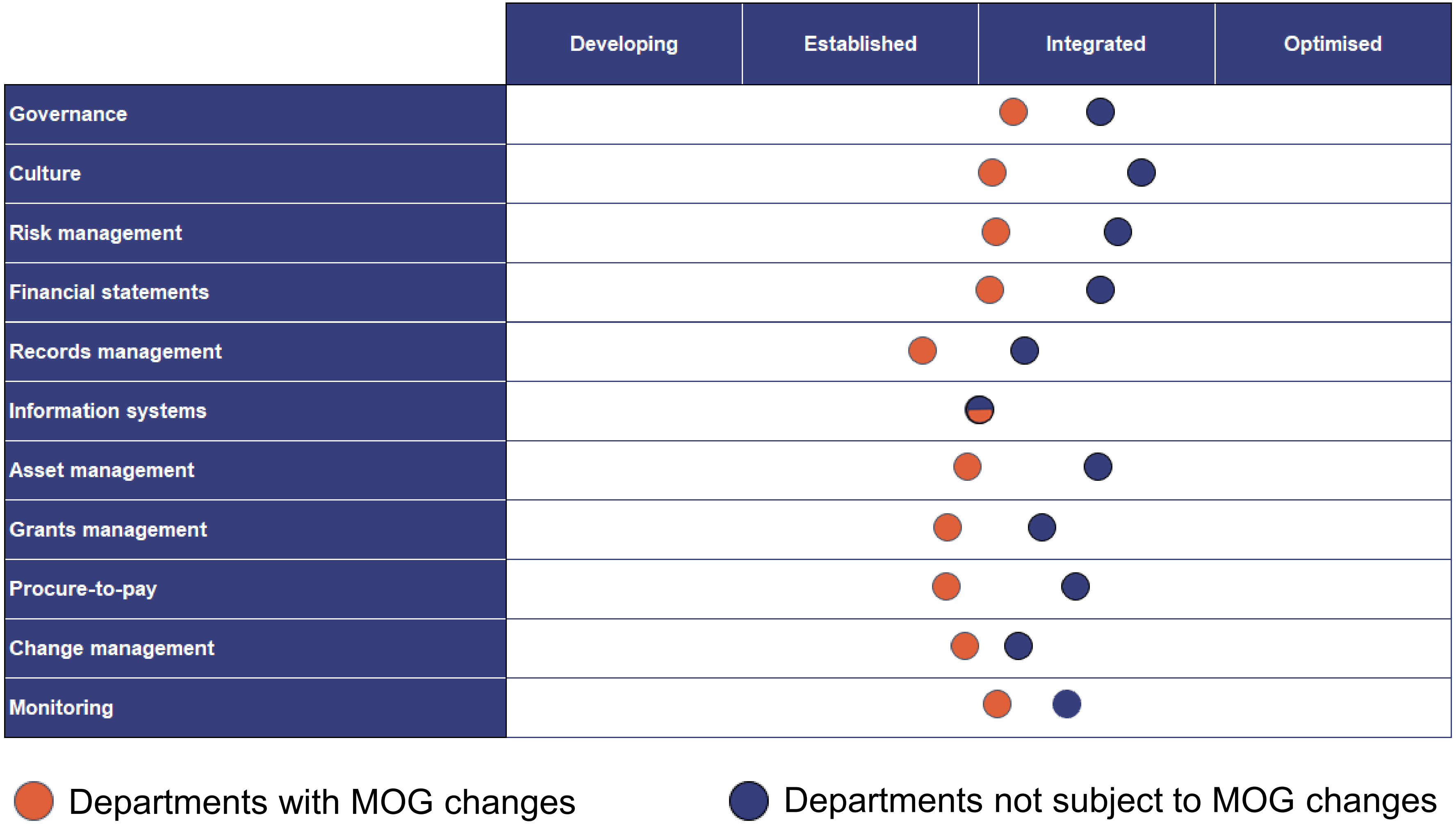
Overview of 2020 machinery of government changes



State entities 2021 (Report 14: 2021–22)
www.qao.qld.gov.au/reports-resources/reports-parliament/state-entities-2021

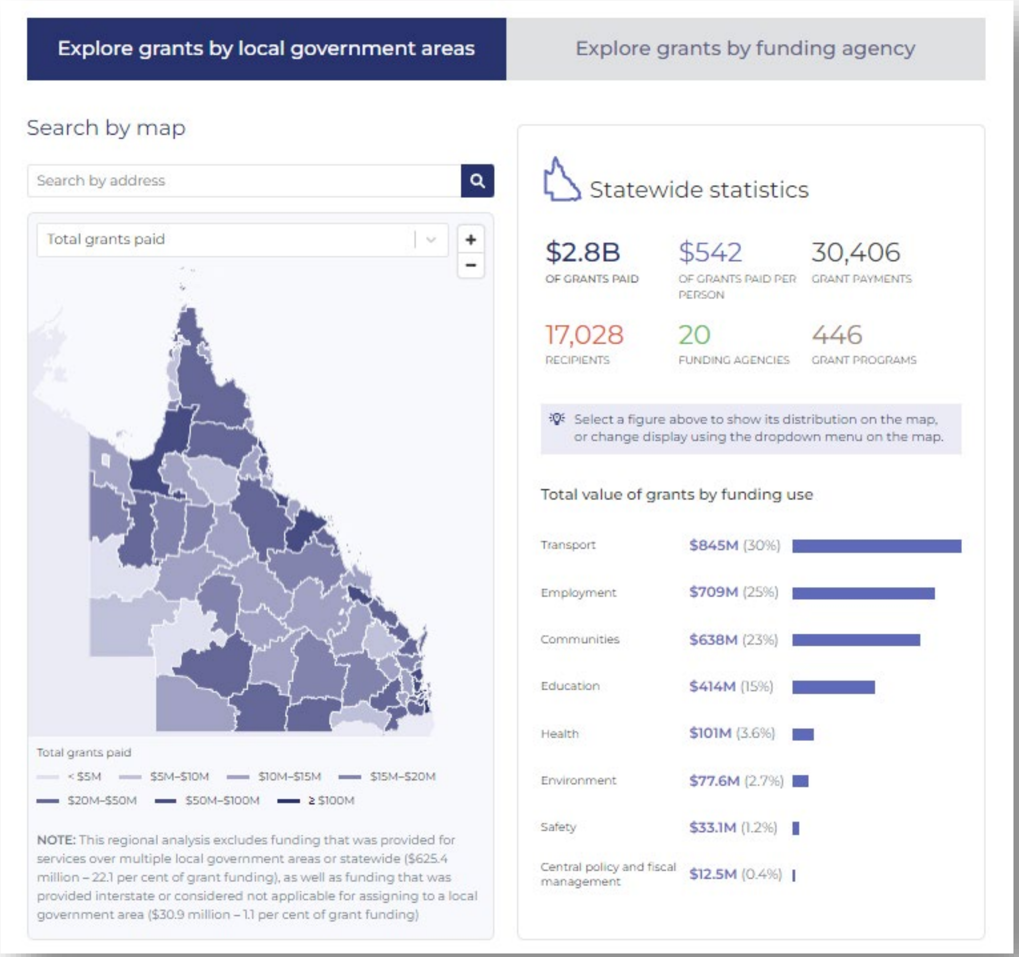
Maturity of department internal controls

- Departments that have been subject to a machinery of government (MOG) change versus those that haven't



Improving grants management

Interactive data dashboard



Improving grants management (Report 2: 2022–23)
www.qao.qld.gov.au/reports-resources/reports-parliament/improving-grants-management

Grant payments 2020–21

Grant payments by dollar value and number of recipients

Note: This analysis excludes funding of $439.5 million (15.5 per cent) that did not specify the recipient.

Source: Compiled by the Queensland Audit Office based on information on the Queensland Government's Open Data website.

Improving grants management report

Takeaways for all entities

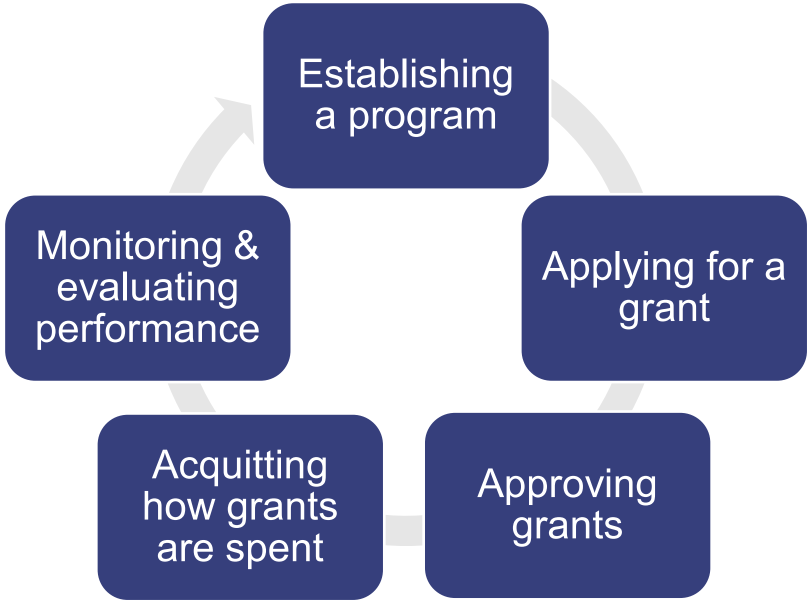
- Increased collaboration between entities
- Identifying risks before program design
- Effective internal controls
- Strong performance measures
- Clear information on where grants are going
- ✓ Maturity assessment – reporting results to audit committees

In 2020–21:

$2.8 billion in grants payments published on Open Data

94% of payments for grant programs were under $100,000

What our maturity assessment tool focuses on



www.qao.qld.gov.au/reports-resources/reports-parliament/improving-grants-management

Takeaways

- Design controls to be fit for purpose
- Document policies and procedures
- Train staff
- Promptly address all outstanding audit issues
- Respond to emerging risks

Questions and discussion

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Documentation considerations to support CRC valuations

Charles Strickland, Senior Director

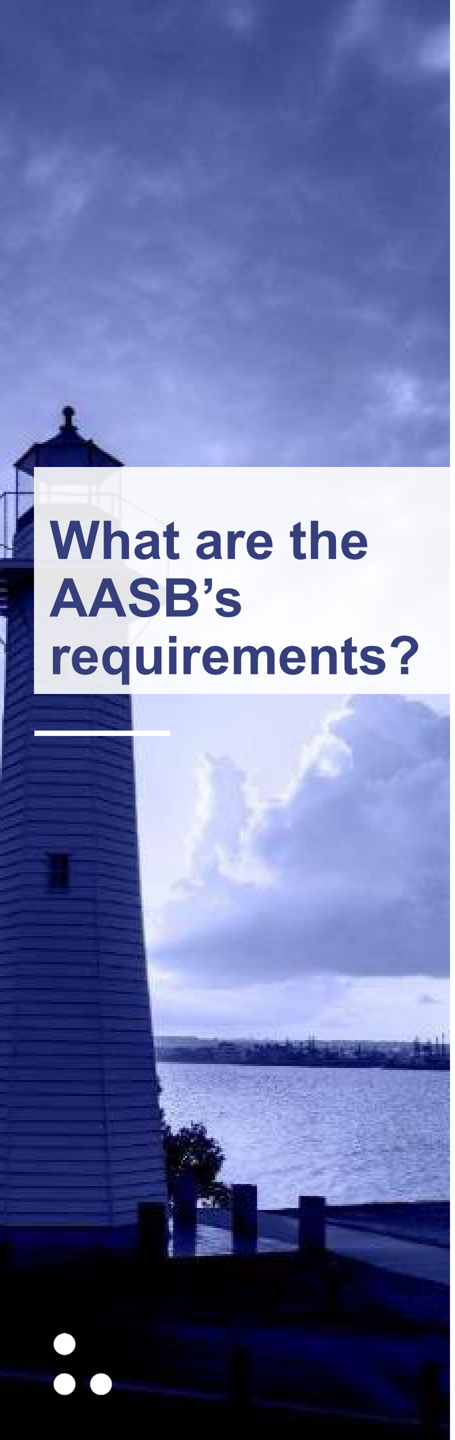
Queensland Audit Office

Better public services

Why?

Whole-of-government reporting and **GFS** require fair-value measurement of assets and liabilities.

Users, management, parliament and other stakeholders are given more reliable information when assets valued at current replacement cost are reported at their gross replacement cost, with accumulated depreciation separately disclosed.



What are the AASB's requirements?

Australian Accounting Standards Board (AASB)

Residual values, useful lives of assets, and depreciation method are reviewed each financial year end

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period

Queensland Treasury

What are Qld Treasury's requirements?

- Annual revaluation
- Specific appraisals (comprehensive) where it has been more than 5 years or the asset has experienced significant and volatile change
- Indexation may be undertaken in lieu of specific appraisals where the significant and volatile change does not result wholly or partially from a change in the service potential of the asset, and an indexation will result in a materially correct estimation of fair value
- Significant change is where indicators suggest a change in value of 20 per cent or more; examples given are changes in raw material prices by more than 10 per cent or rapid wage growth in the construction industry

What are the issues?

Complex environment

- Supply side pressures?
- Surging costs?
- Natural disasters – floods?
- Changing service delivery expectations?

Shortage of valuers

- Internal and external skills?

Time to review

- Management and those charged with governance
- Entities own the results, not valuers

= risk of delays

Do I need to undertake a comprehensive revaluation?

Where is my entity on our revaluation program?

What are my risks?

- Labour costs increasing
- Material shortages
- Damage from natural disasters

Quality of my data

- Do I have current, reliable maintenance data?
- Has the public made complaints about asset conditions?
- Is my asset register detailed and complete – componentising assets?

Address your risks through a targeted approach

Approaches (incremental build-up):

Indexation

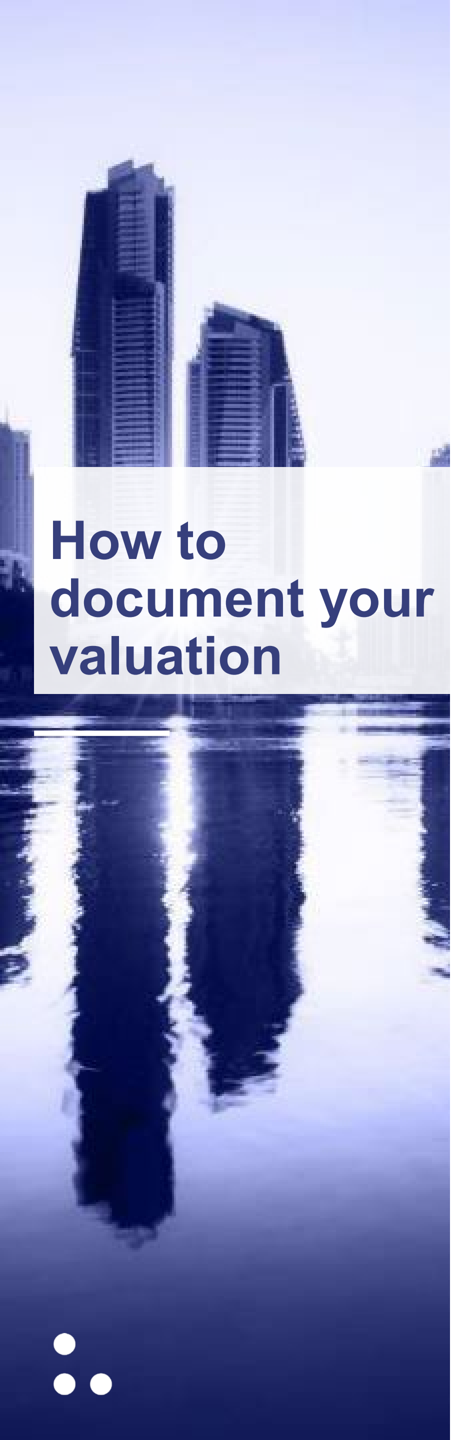
- Ensure your asset register is complete and assets exist, useful lives are assessed (without site visit, using existing management data), and apply an index to unit rates using reliable benchmark data

Desktop

- On a sample/risk basis, review unit rates using management data without a site visit
- Better use of internal data, such as recently completed builds or tender information

Comprehensive

- Full review of unit rates, useful life assessments, and other assumptions using a site visit and management data



How to document your valuation

Develop a position paper that explains the valuation

- ✓ Objective of the valuation
- ✓ Scope of the valuation
- ✓ Qualifications of internal or external staff giving the valuations
- ✓ Define your materiality thresholds
- ✓ Recent history of valuation movements and approaches used
- ✓ Rationale for approach selected is clearly documented
- ✓ Evidence that asset registers have been reviewed for completeness, existence, and accuracy
- ✓ Sources of internal and external evidence to support variables and assumptions, how they may have changed between valuations
- ✓ Outcomes analysis

Management needs to own the paper, even if written by the valuer – update it yearly; don't start from zero

Resources

QAO fact sheet: *Financial reporting considerations in uncertain times*

QAO fact sheet: *What to do when government restrictions prevent site access by external valuers*

QAO fact sheet: *Preparing position papers for accounting matters and valuations*

Queensland Treasury: *Non-current asset policies for the Queensland public sector*

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Key learnings from our recent reports to parliament and upcoming reports of interest

Patrick Flemming, Assistant Auditor-General

Queensland Audit Office

Better public services

Sharing our insights

With the insights we glean from our work across government, we aim to help entities respond better to existing issues, take advantage of improvement opportunities, and prepare for inevitable future challenges.

Enduring issues from the past 5 years

- Strengthening governance and oversight
- Using information technology and data better
- Managing contracts and projects effectively
- Understanding the impact of government restructuring

For real change ⟶ resolve and action of entities through a culture of learning

I look forward to the continued support and advice we can all share with our clients

Report and interactive dashboard

2022 status of Auditor-General's recommendations

We asked **56** entities

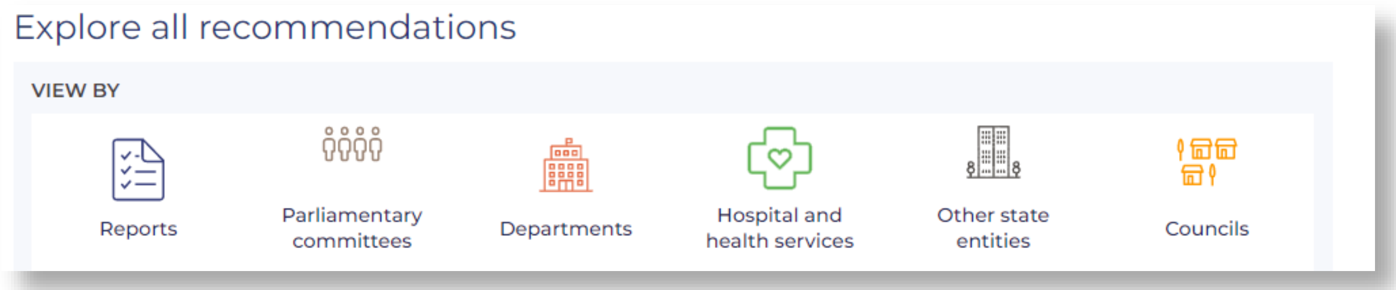
To report on **454** individual recommendations

From **34** reports to parliament

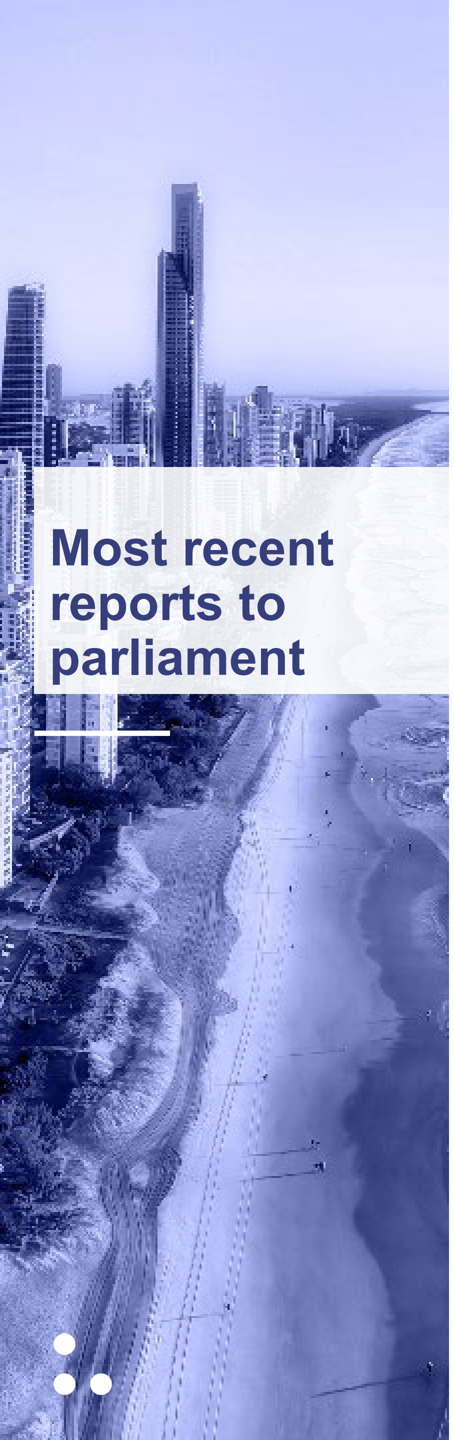
- 64% fully implemented
- 29% partially implemented
- 3% not implemented
- 4% no longer applicable

- Governance-related recommendations in 2018–19 and 2019–20 were the most common
- Performance monitoring and reporting – second-highest outstanding
- Some still do not have adequate processes to monitor and report progress. This limits their ability to drive improvement

Interactive dashboard



www.qao.qld.gov.au/reports-resources/reports-parliament/2022-status-auditor-generals-recommendations



Most recent reports to parliament

We identify 'wider learnings' from each report to parliament that are relevant to other or all entities

We also prepare blog posts on the most common issues, or opportunities and best practice we identify

www.qao.qld.gov.au/blog

Common words in our latest wider learnings

www.qao.qld.gov.au/reports-resources/reports-parliament

Upcoming reports of interest

www.qao.qld.gov.au/audit-program

Health 2022	March 2023	Analyses entities' financial performance and position. Includes assessments of financial statement preparation processes, internal controls, and financial sustainability.
State entities 2022	March 2023	Summarises our audit results for state entities, and the financial performance of the Queensland Government and key transactions. Evaluates the timeliness of financial reporting and internal controls.
Managing ecotourism in Queensland	March 2023	Examines whether the state's tourism and environmental entities are effectively developing sustainable ecotourism in Queensland.
Improving asset management in local government	Early–mid 2023	Examines whether local governments are effectively managing their infrastructure assets to maximise service potential, while minimising total cost.
Queensland's regions 2022	Early–mid 2023	Explores how regional areas support economic activity and sustainable communities. Includes an analysis of port and water entities' financial performance and position.
Implementing machinery of government changes	Early–mid 2023	Provides insights into change management processes used by departments when implementing machinery of government changes, and how it supports longer-term goals and strategies. Includes analysis of the maturity of departments' systems and processes, and how they are affected by change.
Managing Queensland's debt and investments 2022	Early–mid 2023	Examines how the Queensland Government is managing its debt and investments, and provides the main transactions and the performance of investments.
Queensland Regional Accommodation Centre project	Early–mid 2023	Results of our audit of the Wellcamp project, which assesses the overall cost of the project, the procurement processes used, leases and other key agreements, and the use of confidentiality provisions.
Education 2022	Early–mid 2023	Analyses entities' financial performance and position, and provides insights on meeting the educational requirements and needs of population growth in Queensland's regions.
Local government 2022	Early–mid 2023	Summarises the audit results of Queensland's 77 councils' financial statement preparation, internal controls, and financial sustainability, and builds on focus areas from previous reports.
Responding to and recovering from cyber attacks	Mid 2023	Provides crucial insights and lessons learned on entities' preparedness.

Questions and discussion

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Technical update

Greg Hall, Principal Accountant, Queensland Treasury

Fanny Lau, Manager, Queensland Treasury

David Hardidge, Director QAO

Queensland Audit Office

Better public services

Queensland Treasury Accounting Policy Update:

Financial Reporting Requirements 2022/23
Sustainability Reporting Update

Greg Hall / Fanny Lau

QAO Technical Update 28 February 2023

What we will cover today…

- FRR Update for 2022/23
- Emerging Developments around Sustainability
- Introduction to the Queensland Sustainability Report
- Our standard caveat…QT's presentation is principally targeted at department and statutory bodies under the *Financial Accountability Act…*
- While other entities may find our insights useful – but please consult with QAO and QT for guidance in your situation.

FRR Update: 2022-23

Greg Hall

QUEENSLAND TREASURY

Good news – accounting standards

For the public-sector:

• No new accounting standards of material note for 2022/23

• Most significant standards are on the horizon:

-> AASB 2022-09: AASB 17 Insurance Contracts Public Sector (2026)

-> AASB 2022-10: Amendments to AASB 13 FV Measurement (2025)

• No major changes are currently anticipated to arise.

Good news – FRRs for 2022/23

- No major MRR policy changes planned for 2022/23
- Minor editorial updates to selected guidance

- FRR 4B.9 - Leases and Fit-outs

"Interim guidance" on fit-outs will now become standard guidance

Updated examples but no change in guidance

Contact FM Helpdesk for help

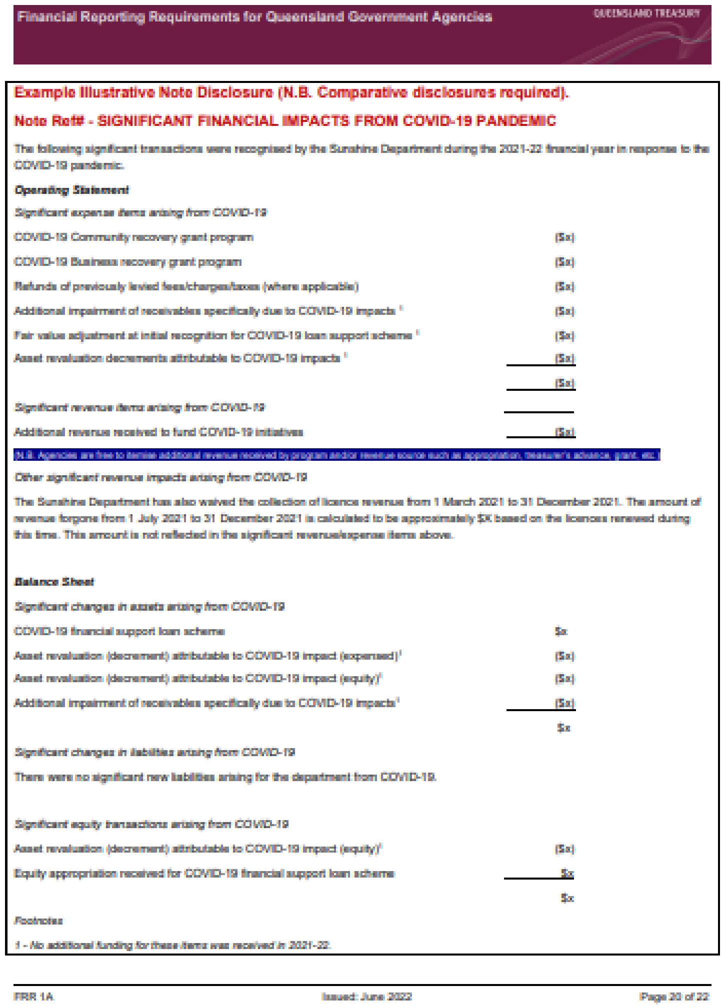
- FRR 5D - AASB 1059
- Expanded guidance in areas that weren't specifically addressed or reflect our "lived experience" so far!

Sunshine Statement / Future Bay Updates?

- Significant Financial Impacts from COVID disclosure will be REMOVED from FRR 6A.
  - Prior year comparatives not required.
  - FRR 1A guidance and FAQ content (Section 1.6)

  also removed.

- Other editorial updates to:
  - first year standards adopted (cloud computing)
  - Climate-related risk disclosure note


Financial Reporting Requirements for Queensland Government Agencies

QUEENSLAND TREASURY

Example Illustrative Note Disclosure (N.B. Comparative disclosures required).

Note Ref# - SIGNIFICANT FINANCIAL IMPACTS FROM COVID-19 PANDEMIC

The following significant transactions were recognised by the Sunshine Department during the 2021-22 financial year in response to the COVID-19 pandemic.

Operating Statement

Significant expense items arising from COVID-19	
COVID-19 Community recovery grant program	($x)
COVID-19 Business recovery grant program	($x)
Refunds of previously levied fees/charges/taxes (where applicable)	($x)
Additional impairment of receivables specifically due to COVID-19 impacts [1]	($x)
Fair value adjustment at initial recognition for COVID-19 loan support scheme [1]	($x)
Asset revaluation decrements attributable to COVID-19 impacts [1]	($x)
	($x)
Significant revenue items arising from COVID-19	
Additional revenue received to fund COVID-19 initiatives	($x)

(N.B. Agencies are free to itemise additional revenue received by program and/or revenue source such as appropriation, treasurer's advance, grant, etc.)

Other significant revenue impacts arising from COVID-19

The Sunshine Department has also waived the collection of licence revenue from 1 March 2021 to 31 December 2021. The amount of revenue forgone from 1 July 2021 to 31 December 2021 is calculated to be approximately $X based on the licences renewed during this time. This amount is not reflected in the significant revenue/expense items above.

Balance Sheet

Significant changes in assets arising from COVID-19	
COVID-19 financial support loan scheme	$x
Asset revaluation (decrement) attributable to COVID-19 impact (expensed)[1]	($x)
Asset revaluation (decrement) attributable to COVID-19 impact (equity)[1]	($x)
Additional impairment of receivables specifically due to COVID-19 impacts[1]	($x)
	$x

Significant changes in liabilities arising from COVID-19

There were no significant new liabilities arising for the department from COVID-19.

Significant equity transactions arising from COVID-19	
Asset revaluation (decrement) attributable to COVID-19 impact (equity)[1]	($x)
Equity appropriation received for COVID-19 financial support loan scheme	$x
	$x

Footnotes

1 - No additional funding for these items was received in 2021-22.

FRR 1A Issued: June 2022 Page 20 of 22

Now that you mention that word climate…

- We hear “climate related disclosures” a lot…
- Everyone seems to be talking about ESG or sustainability reporting...
- What’s the ISSB?
- Will there be new reporting requirements in the future?
- What are Scope 3 emissions?
- What does this mean (practically!) for us in the short/medium term?
- What is the Queensland Sustainability Report?

Sustainability: where did it come from and why am I hearing so much about it?

Greg Hall

QUEENSLAND TREASURY

Sustainability Reporting: Climate-related risk disclosures

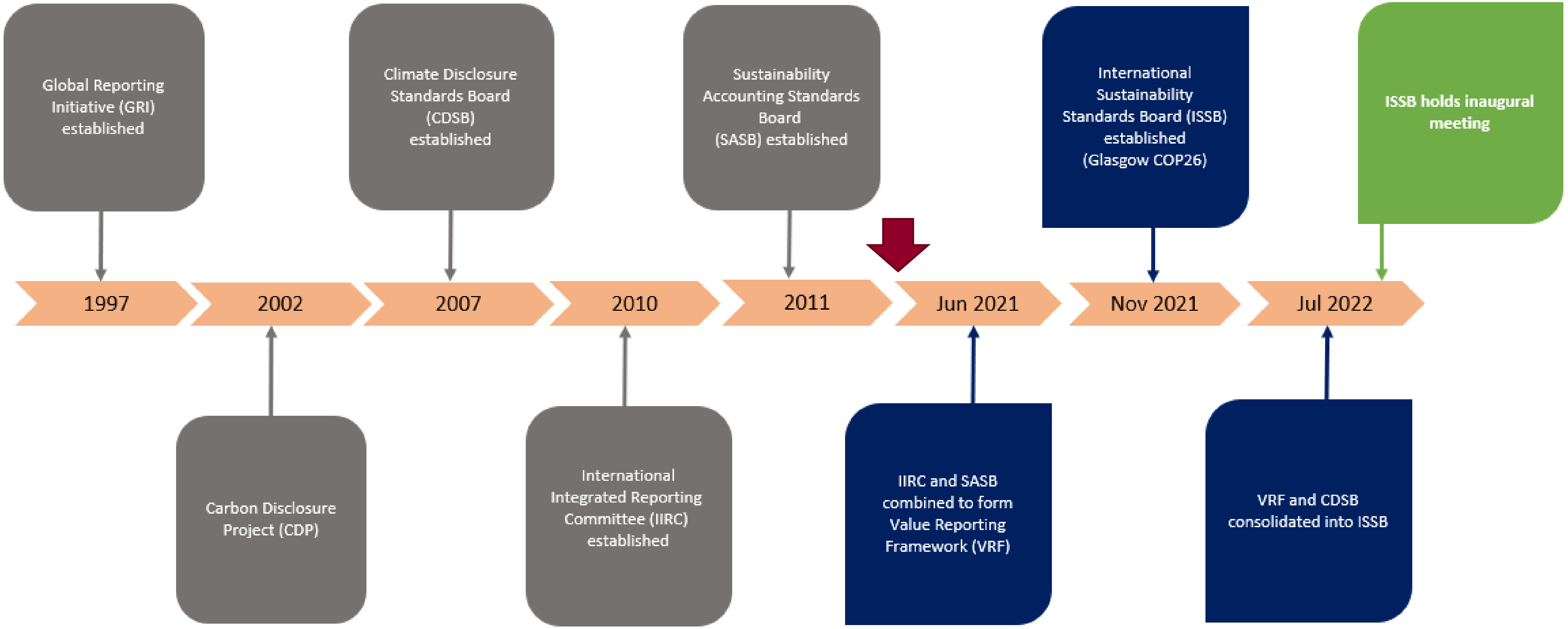
"…the thinking of the sustainability movement will take at least a generation to transform our world and our vision of the future. If we date the process from the publication of the Brundtland Commission's report, Our Common Future, in 1987, then:

we still have 20–30 years before the process really gets into its stride."

~ Published: 1997 ~

- John Elkington "Cannibals with Forks: The Triple Bottom Line of 21st Century Business."

International Sustainability Standards - How did we get here?



“Sustainability” is Being Embedded in Capital Allocation

2018 GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CHANGE

This statement is signed by 421 investors representing well over USD $32 trillion in assets.

As institutional investors with millions of beneficiaries around the world, we reiterate our full support for the Paris Agreement [link] and strongly urge all governments to implement the actions that are needed to achieve the goals of the Agreement, with the utmost urgency.

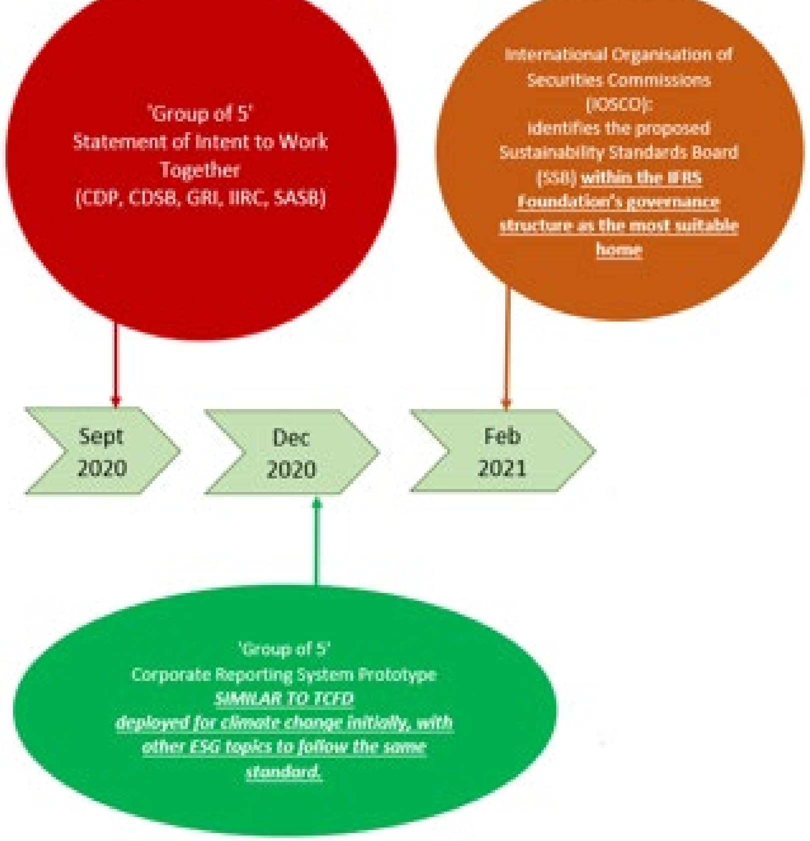
Investors are taking action on climate change. The global shift to clean energy is underway, but much more needs to be done by governments to accelerate the low carbon transition and to improve the resilience of our economy, society and the financial system to climate risks. Investors continue to make significant investments into the low carbon transition across a range of asset classes. Investors are also increasingly incorporating climate change scenarios and climate risk management strategies into their investment processes and engaging with high-emitting companies. To build on this momentum and maintain investor confidence to further shift investment portfolios, it is vital that policy makers are firmly committed to achieving the goals of the Paris Agreement.

We are concerned that the implementation of the Paris Agreement is currently falling short of the agreed goal of “holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.” There is an ambition gap: the full implementation of current Nationally Determined Contributions (NDCs) would lead to an unacceptably high temperature increase that would cause substantial negative economic impacts.

This ambition gap is of great concern to investors and needs to be addressed, with urgency. It is vital for our long-term planning and asset allocation decisions that governments work closely with investors to incorporate Paris-aligned climate scenarios into their policy frameworks and energy transition pathways.

In addition, investors need companies to report reliable and decision-useful climate-related financial information to price climate-related risks and opportunities effectively. That is why we welcome the recommendations of the Financial Stability Board’s (FSB) Task Force on Climate-related Financial Disclosure (TCFD) and are taking practical steps to assist their implementation around the world. In order for the TCFD to be effective, it is vital that governments commit to improve climate-related financial reporting standards by publicly supporting the adoption of the TCFD recommendations and the extension of its term beyond September 2018.

The countries and companies that lead in implementing the Paris Agreement and enacting strong climate and low carbon energy policies will see significant economic benefits and attract increased investment that will create jobs in industries of the future. To ensure a smooth and just transition to a low carbon economy and to adapt to the warming already locked in to the climate system, it will be important that the benefits of gaining access to cleaner energy sources are shared by all, and that those workers and communities affected by the transition are supported.



MEDIA RELEASE

OICU-IOSCO

IOSCO/MR/05/2021

Madrid, 24 February 2021

IOSCO sees an urgent need for globally consistent, comparable, and reliable sustainability disclosure standards and announces its priorities and vision for a Sustainability Standards Board under the IFRS Foundation

The IOSCO Board met today and discussed the progress made over the past year by its Sustainable Finance Task Force (STF). IOSCO sees an urgent need to improve the consistency, comparability, and reliability of sustainability reporting, with an initial focus on climate change-related risks and opportunities, which would subsequently be broadened to other sustainability issues.

Since the publication of its report, *Sustainable Finance and the Role of Securities Regulators and IOSCO*, in April 2020, the STF has made progress in its work on securities issuers' sustainability disclosures, asset managers' disclosures and investor protection, and the role of ESG data and ratings providers. In particular, for its work on issuers' disclosures, IOSCO has observed that investor demand for sustainability-related information is currently not being properly met. For instance, companies often report sustainability-related information selectively, referencing different frameworks.

Since financial markets rely on full, accurate, and timely disclosure of financial results and other information that is material to investment decisions, the STF will continue its work to improve the consistency, comparability, and reliability of sustainability disclosure. In line with its objectives, the IOSCO Board identified three priority areas for improvement in sustainability-related disclosures by companies and asset managers:

i. **Encouraging Globally Consistent Standards.** To encourage progress towards globally consistent application of a common set of international standards for sustainability-related disclosure across jurisdictions, covering the breadth of sustainability topics and leveraging existing principles, frameworks, and guidance.

ii. **Promoting Comparable Metrics and Narratives.** To promote greater emphasis on industry-specific, quantitative metrics in companies' sustainability-related disclosures and standardization of narrative information.

iii. **Coordinating Across Approaches.** To drive international consistency of sustainability-related disclosures with a focus on enterprise value creation, including companies' dependence on stakeholders and the external environment, while also

1

Sustainability is Being Embedded in Capital Allocation

Capital market participants and other stakeholders are demanding:

- disclosure of sustainability risks
- evidence of feasible mitigants supporting targets and commitments
- standardised reporting

International Sustainability Standards Board (ISSB) established:

- codify a single, credible, capital market approved baseline for disclosures
- draft standards in progress
- specific application to Australia under development

Sustainability is Being Embedded in Capital Allocation

- Climate and sustainability reporting by the public sector involves *different objectives and reporting considerations to the private sector* depending upon whether reporting is completed at an individual agency level, a whole-of-Government level, or even a whole-of-State (i.e. geographical jurisdiction) level.
- A key consideration within the public sector is that climate / sustainability risks (and disclosures) for GGS, PNFC and PFC entities are interrelated with Government as a whole.
- *Individual agency disclosures therefore require a whole-of-government context* for users to make a fully informed and complete assessment.

Maturing whole-of-Government climate-related disclosures is the first step to:

- effective public-sector reporting
- meeting capital market needs
- establishing the government context in which future climate disclosures will be made.

Sustainability and ESG – What are they?

Fanny Lau

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What is sustainability?

- No universal definition until Dec 2022
- ISSB deliberations proposed the following

Sustainability will be described in the ISSB's General Sustainability-related Disclosures Standard (S1) as the ability for an entity to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long term.

Sustainability is a condition for an entity to access overtime the resources and relationships needed (such as financial, human and natural), ensuring their proper preservation, development and regenerations, to achieve its goals.

Source: https://www.ifrs.org/news-and-events/news/2022/12/issb-describes-the-concept-of-sustainability/

- Sustainability is often also called ESG. Are they interchangeable?

What is ESG?

- ESG stands for **Environmental, Social, and Governance**.

ENVIRONMENTAL

Climate Change
Natural Capital

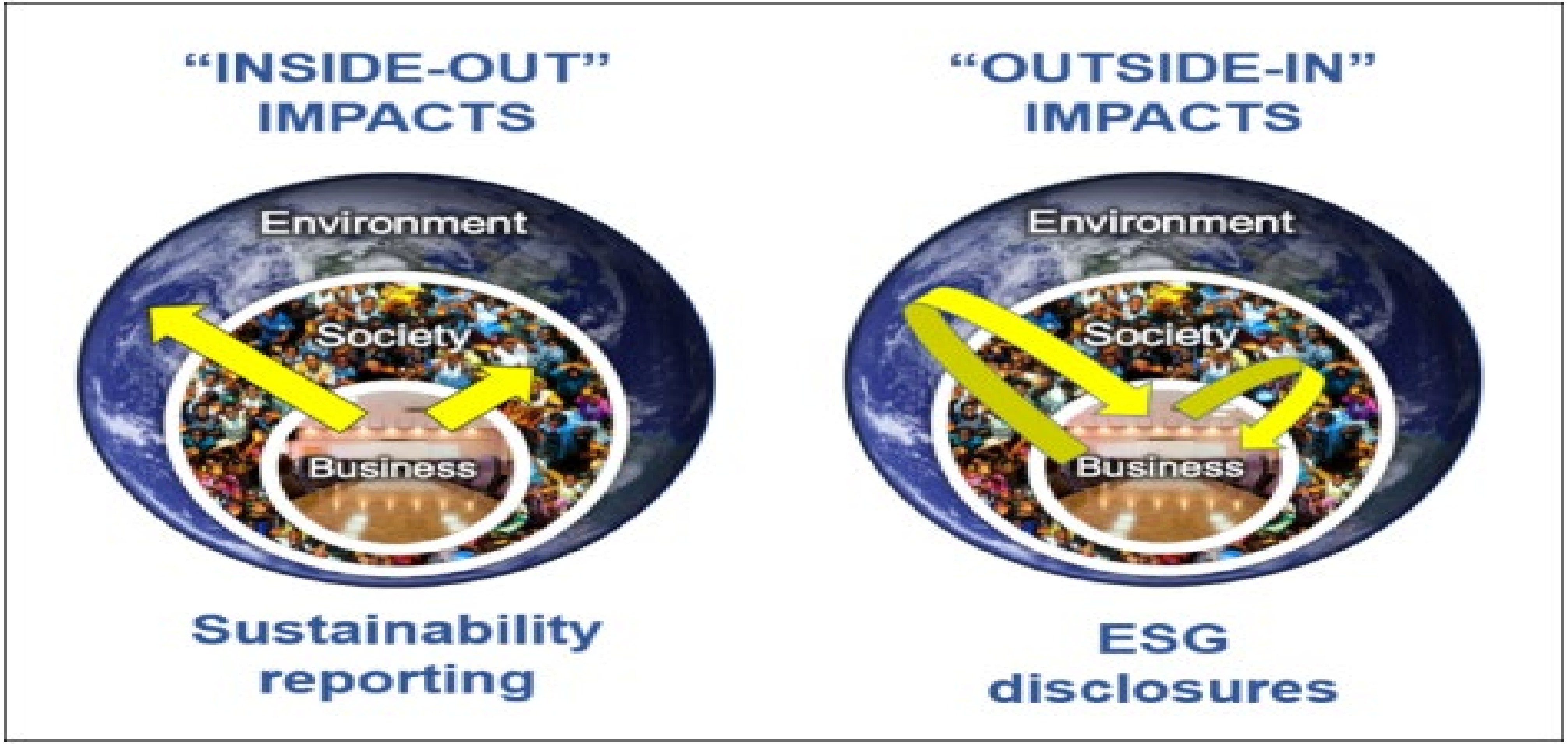
SOCIAL

Jobs
Services
Lifestyle

GOVERNANCE

Economic
Fiscal

‘Sustainability’ vs ‘ESG’ – Is there a difference?



Sustainability Advantage Feb 2022 https://sustainabilityadvantage.com/2022/02/22/sustainability-vs-esg/

Sustainability Reporting: Whole-of-Government

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Sustainability and why it is important

Environmental, social and governance factors are a consideration for Qld’s broad stakeholder groups

- Sustainability describes activities incorporating environmental, social, and governance (ESG) factors into decision making
- Sustainability reporting is
  - the disclosure of material ESG risks, opportunities and policies, the impact these policies have on operational performance and wider society
- There are consequences for Governments if perceived as not managing ESG risk factors including
  - reduced access to bond markets
  - potential lower credit and ESG rating agency scores, which both may result in
  - higher borrowing costs.

Effective sustainability reporting represents strong enterprise risk management

- The process of preparing and reviewing information for sustainability reporting enhances systematic and transparent risk management processes
- Sustainability reporting should
  - disclose key organisational sustainability risks, mitigants, targets and outcomes
  - be supported with assured, transparent data highlighting progress against targets and outcomes
  - not be treated as “marketing / communications” initiative.

Government sustainability reporting differs from corporate sustainability disclosures

- Governments are expected to report sustainability impacts on their own operations, and in pursuit of policy objectives
- This distinguishes Governments from corporates as there is a broader stakeholder expectations to meet
- For governments, there is an expectation sustainability disclosures will capture
  - the exposure of the government as a sector, through its direct operations
  - the collective exposure of the economy and society

Investors are increasingly assessing management of material ESG risk factors as part of their investment decision making process

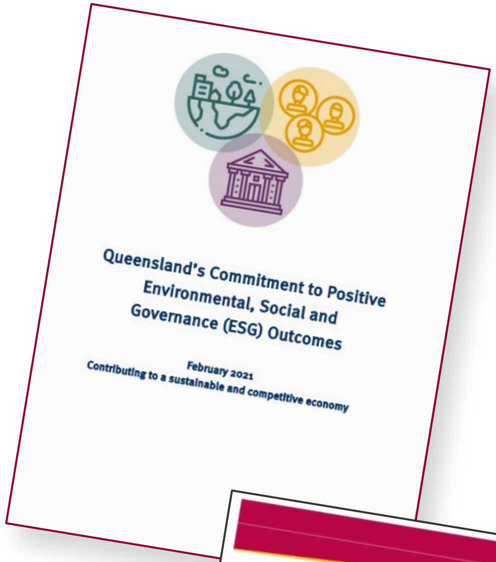
- Queensland Treasury has experienced increased engagement from investors on
  - the State's material ESG risks
  - the Government's policies and responses to managing these risks
  - requests for robust, transparent sustainability data
- Investors are broadening their investment focus from assessing specific assets to an issuer's overall profile
- **<u>Governments are expected to articulate a co-ordinated whole-of-government approach to managing ESG risk factors</u>**.

Queensland sustainability reporting has been an iterative, incremental journey

February 2021

ESG Statement

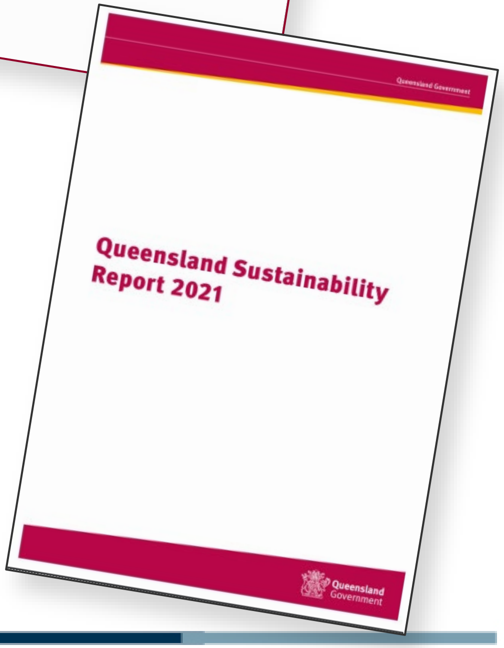
- Queensland's Commitment to Positive ESG outcomes



November 2021

2021 Queensland Sustainability Report (2021 QSR)

- Outlined government's approach to managing sustainability risks and key measures being implemented
- Financial and non-financial time series data
- Includes a dataset and data dictionary



2022 Queensland Sustainability Report

- Consideration has been given to investors, rating agency and other financial stakeholders areas of ESG focus
- 2022 QSR:
  - Outlines the State's approach to managing material sustainability risks and opportunities
  - It summarises existing government commitments and achievements
  - It provides key data-sets analysed by financial market stakeholders
- The report is expected to
  - Assist in engagements with ratings agencies and investors
  - Position the State to meet future International Sustainability Standard Board disclosures

Queensland Treasury observations from developing 2022 QSR

- Clear differences between sovereign and corporate disclosures
  - A Government's broad range of roles entails a larger universe of potential stakeholders with different metrics/criteria requirements
  - Corporate sustainability frameworks focus on maximising 'enterprise value' – not a public sector concept.
- Build maturity gradually….
  - Sustainability reporting for the not-for-profit public and private sectors expected to be addressed at a later stage than for the for-profit sector by the AASB

….But start building capability today

- Capital markets are seeking ESG disclosure on mature (e.g. climate) and emerging (e.g. nature and social) topics ahead of formal standard development

Queensland can't delay sustainability reporting while these processes resolve - time required to build capacity and flexibility to support growing reporting, transparency and disclosure expectations.

Update:
- ISSB Status
- Anticipated Future Developments

Greg Hall

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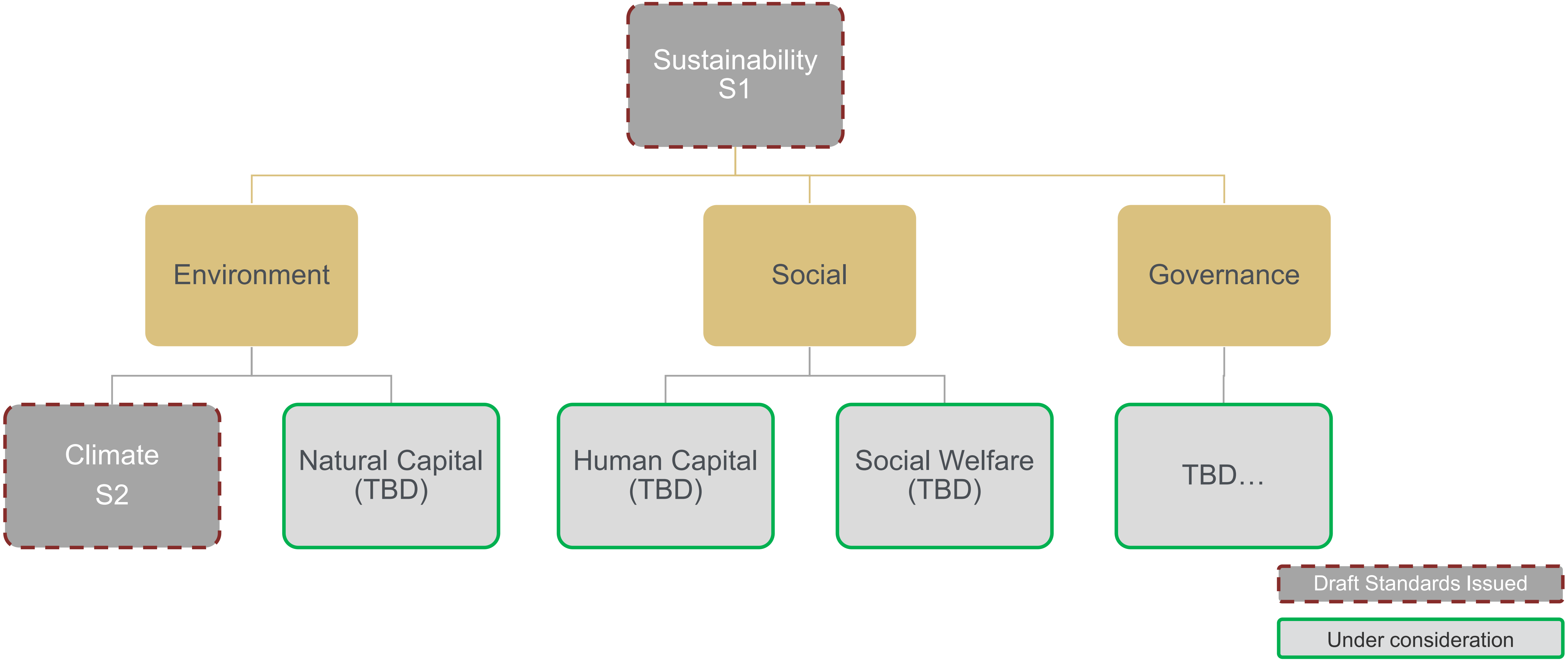
International Sustainability Standards: what do we know?



International Sustainability Standards: where to from here?

- **ISSB S1 and S2 deliberations completed mid-2023**
- **Intended commencement date:**

Annual reporting periods beginning on or after 1 Jan 2024

(so 2024-25 would be the first full year for many global preparers)

First year transitional relief:

- exemption for scope 3 emissions
- Comparatives not required
- Timing of reporting need not occur alongside financials

Guidance on:

- scope 3 emissions
- Undertaking scenario analysis
- Revising estimates/ comparatives

International Sustainability Standards: where to from here?

What about Australia?

AASB Approach

- Phase 1 – FP Entities
- Phase 2 – NFP
  – Public-Sector

PUBLIC SECTOR CONSULTATION

- Still to occur
- AASB and Cwth open dialogue
- Further details to follow

Commonwealth Treasury Consultation

- Proposed amendments to ASIC Act
- Sustainability Standards:
  - Phased introduction from 2024-25?
  - Possible initial relief from scope 3 emissions reporting?
  - Audit and assurance requirements?
    - Phase in of assurance over time?
  - Sustainability Standards oversight?
    - AASB or separate board?

International Sustainability Standards: where to from here?

- **Public Sector Implementation will be WOG led.**
- We don’t have a commencement date yet!
- **Implementation timeframes will vary depending on agency**
- Full extent of public sector application **still being determined**
- Agencies **will** be required to make sustainability disclosures in the future **but** sustainability reporting will be -
    - ✓ *Targeted*
    - ✓ *Meaningful* and relevant to the entity
    - ✓ *Focused* on material agency specific risks and opportunities
    - ✓ *Connected* with the Queensland Sustainability Report

Queensland Treasury’s implementation approach

- *Advancing whole of state reporting* allows agencies to:
    - provide climate reporting in context – your story is part of the state’s story
    - reduce agency requirements to deal with “everything” and
    - focus on agency specific risks and management

- *Working closely with DES and QTC.*

- Queensland Treasury’s *phased approach to implementation* aligns with expected AASB implementation pathway.

- *Consultation with GOC’s* through Queensland Treasury’s GOC Governance and Performance team is underway.

Draft IFRS-S1: General Requirements

Sustainability Reporting "Core Content" – 4 Pillars (TCFD)	
1. Governance	The governance processes, controls and procedures an entity uses to monitor and manage risks and opportunities;
2. Strategy	Risks and opportunities that could enhance, threaten or change an entity's business model and strategy over the short, medium and long term;
3. Risk management	How risks and opportunities are identified, assessed, managed and mitigated by an entity;
4. Metrics and target	The metrics and targets used to manage and monitor an entity's performance in relation to risks and opportunities.

Agency disclosures will concentrate around these 4 pillars

Draft IFRS-S1: General Requirements

- **Governance and Risk Management pillars:**
- *FA Act / FPMS already requires risk management / governance as part of agency operations*
- If material risks for your agency, you're already:
  - managing these risks now
  - considering in accounting estimates and judgements.

S1 is moving us to a more *detailed and structured approach* to sustainability risk identification, management and oversight linked to:

- what you do (strategy) and
- how you measure (metrics and targets)

- Government Carbon Policy under development by central agencies and DES
- Bridge between WOG and agencies on strategy and metrics

Draft IFRS-S1: General Requirements

<u>Some thoughts on Governance and Risk Management:</u>

- ➢ Forthcoming Climate Risk Management Guidelines from DES
- ➢ How do current risk systems capture sustainability risks?
- ➢ Are you currently capturing and reporting sustainability risks?
- ➢ If not: consider the QSR risks | identify if they are being captured
- ➢ Sustainability is much broader than just climate
- ➢ What are the material ESG risks likely to impact your operations and asset values?
- ➢ Financial Impact – If you think these risks are likely to have a material impact on your business operations… contact Treasury!

Draft IFRS-S2: Climate-related disclosure

S2 "Core Content" – Reflects 4 Pillars (TCFD)		Specific Disclosures to Note
1. Governance	Governance processes, controls and procedures used to monitor and manage risks and opportunities	
2. Strategy	Risks and opportunities that could enhance, threaten or change an entity's business model and strategy over the short, medium and long term;	Risks and opportunities relating to: - Strategy and Decision Making (including *offsets*) - Business Model and Value Chain - Financial Impacts - **Climate Resilience (*scenario analysis*)**
3. Risk management	How risks and opportunities are identified, assessed, managed and mitigated by an entity	
4. Metrics and target	Metrics and targets used to manage and monitor an entity's performance in relation to risks and opportunities.	- Climate related targets and **role of carbon offsets** - **Scope 1 GHG** – direct from owned assets - **Scope 2 GHG** – indirect from purchased energy - **Scope 3 GHG** – indirect other *(upstream and downstream)* - $ and % of assets/activities – transitional risks - $ and % of assets/activities – physical risks - Internal carbon prices - Remuneration

Draft IFRS-S2: Climate-related disclosure

Carbon Offsets and Carbon Strategy

- One tool in the climate change box…
  - ➢ mixed views on their role
  - ➢ not without risks
  - ➢ range and quality is variable
  - ➢ global preference to reduce gross emissions
- Government Carbon Policy
  - ➢ Under development by central agencies and DES

Queensland Treasury Response: – WOG Offset Program

➢ Most effective way of managing abatement needs, reputational risk and compliance requirements from offset use across Government

➢ WOG carbon offset policy under development…details to follow.

Draft IFRS-S2: Climate-related disclosure

Climate Resilience and Scenario Analysis

Climate resilience	The capacity of an entity to adjust to uncertainty related to climate change. This involves the capacity to manage **climate-related risks** and benefits from **climate-related opportunities**, including the ability to respond and adapt to **transition risks** and **physical risks**.
Climate-related scenario analysis	Scenario analysis is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, climate-related scenario analysis allows an entity to explore and develop an understanding of how the **physical risks** and **transition risks** of climate change may affect its businesses, strategies and financial performance over time.

The ***devil is always in the detail***…the standard wants to know if scenario analysis uses a scenario aligned with the ***latest international agreement on climate change***…and if not, why not!

Draft IFRS-S2: Climate-related disclosure

- ***Various issues around scenario modelling***:
  - ➢ Requires a recognised scientific basis linked to recognised international agreement
  - ➢ How do we reliably ‘downscale’ to geographical regions and then individual entities?
  - ➢ Consistency across government and agencies is essential.
- Issue is on our implementation work program…
- ***Expect guidance from Queensland Treasury*** on how to approach climate resilience and scenario analysis/modelling disclosures.

Draft IFRS-S2: Climate-related disclosure

Scope 1 Emissions

DIRECT greenhouse gas emissions that occur from sources that are owned or controlled by an entity, for example, emissions from combustion in owned or controlled boilers, furnaces, vehicles or emissions from chemical production in owned or controlled process equipment.

Scope 2 Emissions

INDIRECT greenhouse gas emissions that occur from the generation of purchased electricity, heat or steam consumed by an entity. Purchased electricity is defined as electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 Emissions

INDIRECT emissions outside of Scope 2 emissions that occur in the value chain of the reporting entity, including both upstream and downstream emissions. For the purposes of this standard, Scope 3 emissions include these categories (consistent with the GHG Protocol).

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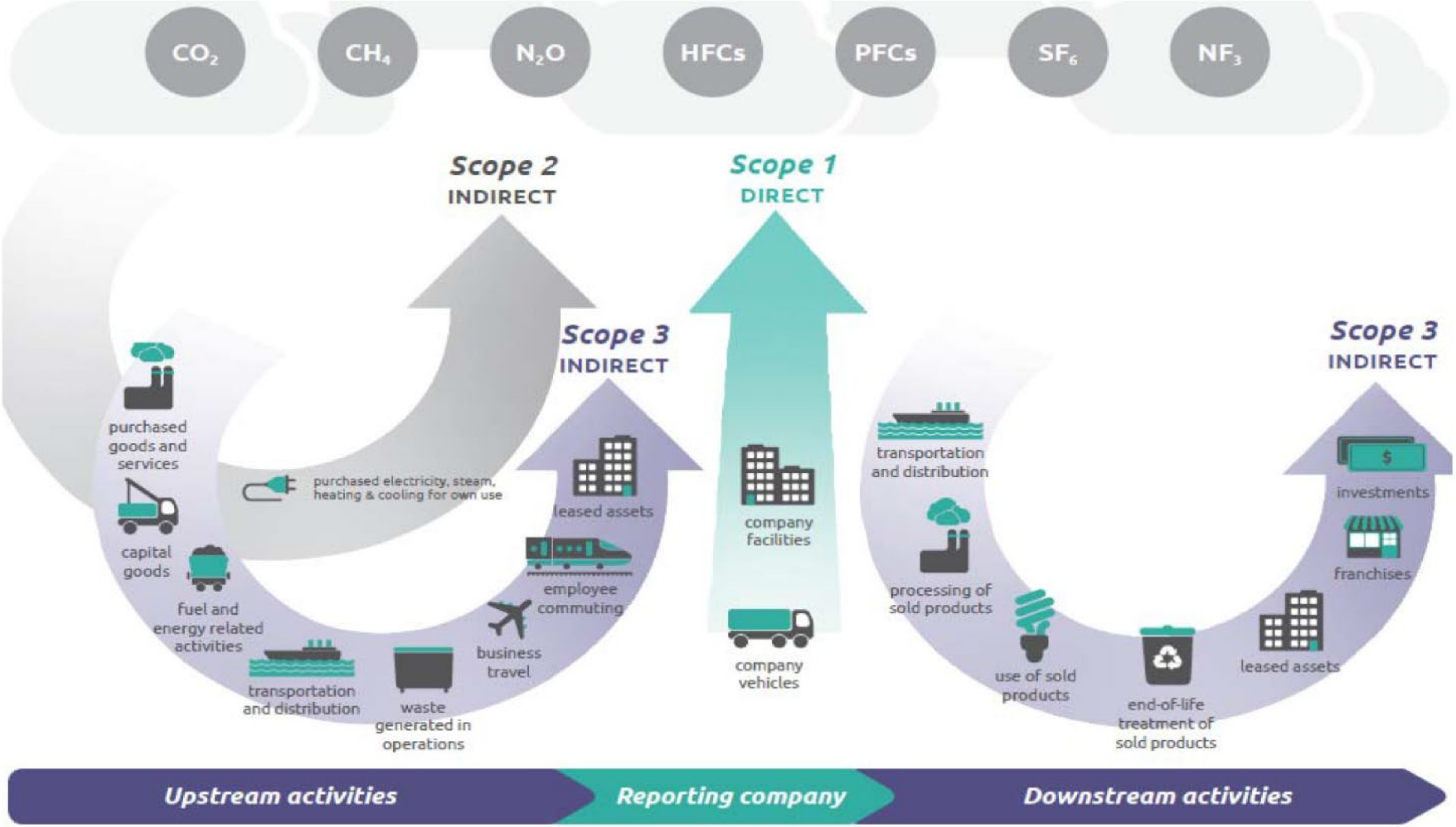
Draft ISSB S2 – Climate: *Key S2 Issues*

Figure 6: Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard

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Draft ISSB S2 – Climate: *Key S2 Issues*

Scope 3 reporting for the public sector <u>still to be determined:</u>

- Scope 3 emissions may not be practical for certain expenses such as grants, subsidies and non-reciprocal social benefits
- Scope 3 includes capex, not just opex – (a big issue for public sector)
- Will we use GHG Protocol? Or local alternatives? Do the *National Greenhouse Accounts (NGA) Factors* provide sufficient coverage? How do we ensure consistent application?
- Ultimately, what reporting do users want from government? Some scope 3 or scope 2 emissions will be WOG Scope 1 in power generating jurisdictions. Elimination? Relevance? Cost/Benefit?
- ***All jurisdictions are very keen to discuss this with the AASB…***

Our message today…

- The transition to sustainability reporting is underway…The QSR begins Queensland's journey
- Agencies will be required to make targeted and focused sustainability disclosures in the future
- Queensland Treasury is actively working in collaboration with key agencies and other jurisdictions on the public sector rollout and practical application issues encountered
- Central agencies are developing policy responses for climate change.

Our message today…

- Don’t panic and don’t be overwhelmed!
- Mid 2023 will see more certainty emerge as ISSB finalise S1/S2 and further public sector discussions with AASB/Cwth Treasury occurs
- For-profit agencies should expect earlier application than NFP
- Queensland Treasury will provide a transitional roadmap and policies/guidelines as the sustainability reporting framework become more certain and policies are finalised.

What can I do in the meantime…

- Take the opportunity **<u>now</u>** to undertake and/or update climate-risk assessments and embed in your governance reporting process
- Begin to evaluate scope 1 and scope 2 emissions for your agency across your service delivery areas.
- Build ***general knowledge*** through the numerous training resources available (including GHG Protocol concepts/scope 3 emissions) – but remember most are private-sector focused!
- Don't try and fix issues/problems on your own. Talk to us…we know about the issues and solutions are being worked on.

Disclaimer:

This presentation has been prepared for presentation at the QAO Technical Update (February 2023).

It contains general information only regarding sustainability reporting in Queensland and the draft S1 and S2 published by the International Sustainability Standards Board (ISSB) as may apply to the Queensland public sector in future years.

This presentation does not constitute formal Queensland Government or Queensland Treasury policy.

References to positions of the Australian Accounting Standards Board, draft ISSB standards and likely future application may change subsequent to the delivery of this presentation.

Agencies should monitor future communication from Queensland Treasury on the application of ISSB equivalent standards in Australia to the Queensland public sector.

The Queensland Sustainability Report can be accessed in full via Queensland Treasury's website at: https://www.treasury.qld.gov.au/programs-and-policies/esg/

Questions? Need accounting advice or assistance? Contact us at fmhelpdesk@treasury.qld.gov.au

Engage

Respect

Inspire

Deliver

Technical update

David Hardidge, Director

Queensland Audit Office

Better public services

Upcoming changes

2022–23

- Annual improvements (minor)

Beyond (near)

- Fair value measurement – public sector
- AASB 17 *Insurance contracts*
- Climate/ sustainability reporting (private vs. public)

Beyond (later)

- Primary financial statements
- Conceptual framework (NFPs)
- NFP Private Sector Financial Reporting Framework
- Public Sector Financial Reporting Framework

Agenda

New standards and interpretations

AASB – fair value measurement project – public sector

Insurance contracts – public sector

Future developments

New standards and interpretations

AASB 2020-3 *Annual Improvements 2018–2020 and Other Amendments*

Onerous Contracts – Cost of Fulfilling a Contract (AASB 137)

An *onerous contract* is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

→ Unavoidable costs exceed economic benefits – present obligation

→ What are unavoidable costs?

→ Direct materials, direct labour, costs
- incremental costs?
- direct costs (for example, like inventory that includes overheads)

→ Allocation of other costs that relate directly to fulfilling contracts (for example, depreciation)

Not this year

Deferred until financial years beginning on or after 1 Jan 2024

When can a liability be classified as non-current?

AASB 2020-1 *Classification of Liabilities as Current or Non-current*

- Was supposed to start this financial year
- Amended by

AASB 2022-6 *Non-current Liabilities with Covenants*

- Apply together

Fair value measurement

AASB Fair value measurement project (AASB 2022-10/ED320)

Public sector focus + project advisory panel

Starts financial years beginning on or after 1 Jan 2024

Fair value *is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date*

$ AASB 13 is written primarily from a for-profit private sector focus

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

$ Not-for-profit public sector

- not common for assets to be bought and sold
- sole supplier of services

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 on land, for example land under infrastructure

- Roads, schools, hospitals, prisons
- Do you apply discounts to market value for public sector use?

Various issues

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

Insurance contracts – public sector (AASB 2022-9/ED319)

- Starts financial years beginning on or after 1 July 2026

- Insurance contracts
- Insurance-type activities
- Local government entities

Issues

- Does the modified new standard AASB 17 apply?
- If so, what are the implications of applying AASB 17
  - moving from AASB 1023 (old insurance)
  - moving from AASB 137 (provisions)
- Risk margins/risk adjustments

Future developments

ITC49 Service Concessions – post-implementation review

2 This Standard shall be applied to service concession arrangements, which involve an *operator*:

(a) providing **public services** related to a *service concession asset* on behalf of a grantor; and

(b) managing at least some of those services under its own discretion, rather than at the direction of the grantor.

Operate similar to toll roads – capital expenditure and renewals	Agency pays for capital expenditure, renewals by operator	Agency pays for capital expenditure and renewals
• Car parking (hospitals) • Student housing	• Hospitals • Schools	• Car parking (hospitals) – foundations • Social housing • Health services • Prisons • Water treatment plants

ITC50 Revenue and Income for Not-for-Profits (AASB 15/AASB 1058)

- Post-implementation review (PIR), IPSASB developments

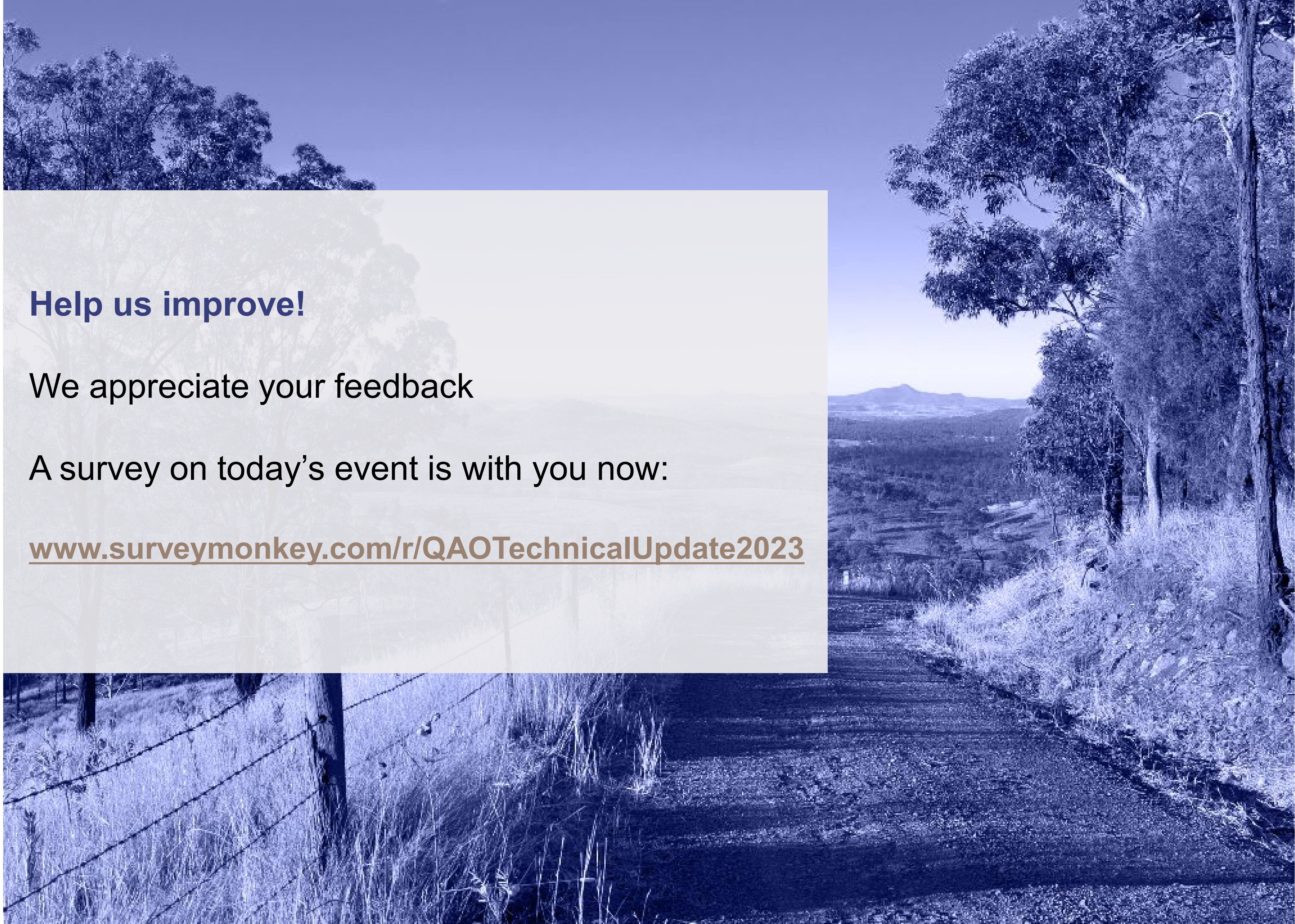
- Sufficiently specific criteria and the legal interpretation of agreements
- Capital grants
- Matching concept – differences between management accounts and statutory accounts
- Principal versus agent
- Grants received in arrears
- Termination of convenience clauses
- Statutory receivables
- Accounting for research grants
- Accounting for volunteer services

ITC51 PIR – Other not-for-profit (NFP) standards

- Control and consolidation
- Structured entity definition
- Related party disclosures by public sector entities
- NFP (private sector) special purpose financial statements – disclosures compliance with Australian accounting standards

Questions and discussion

Q&A with today's presenters



Help us improve!

We appreciate your feedback

A survey on today's event is with you now:

www.surveymonkey.com/r/QAOTechnicalUpdate2023

Queensland
Audit Office

Better public services

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