

# Welcome

# Technical audit update

22 February 2018



## **Machinery of government changes**

Paul Christensen, QAO

## **Upcoming standards changes**

Greg Hall, Queensland Treasury; David Hardidge, QAO

## **Update on reporting**

Karen Johnson, QAO

## **Update on QAO business**

Brendan Worrall, QAO

## Queensland Audit Office Sector Directors



### **Education and Housing**

Michelle Reardon  
from May 2018



### **Energy and Resources**

Damon Olive



### **Health**

Charles Strickland



### **Central Agencies**

Paul Christensen



### **Infrastructure (Transport and Water)**

Vaughan Stemmett



### **Community Services**

Nick George  
until Oct 2018



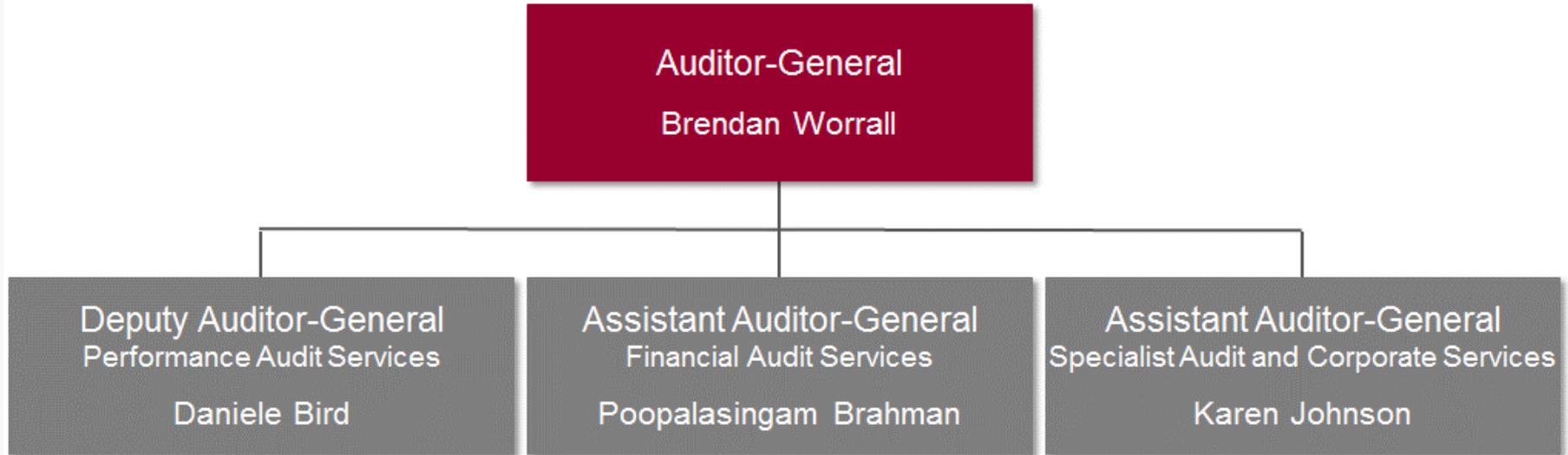
### **Local Government**

Pat Flemming



John Welsh  
from May 2018

# Executive group change



Tone at the top  
Contracts and variations  
Power imbalance  
Culture and ethics  
Management override  
Procurement  
Influence  
Conflict of interest

# Machinery of government changes

Paul Christensen, Sector Director Financial Services, QAO

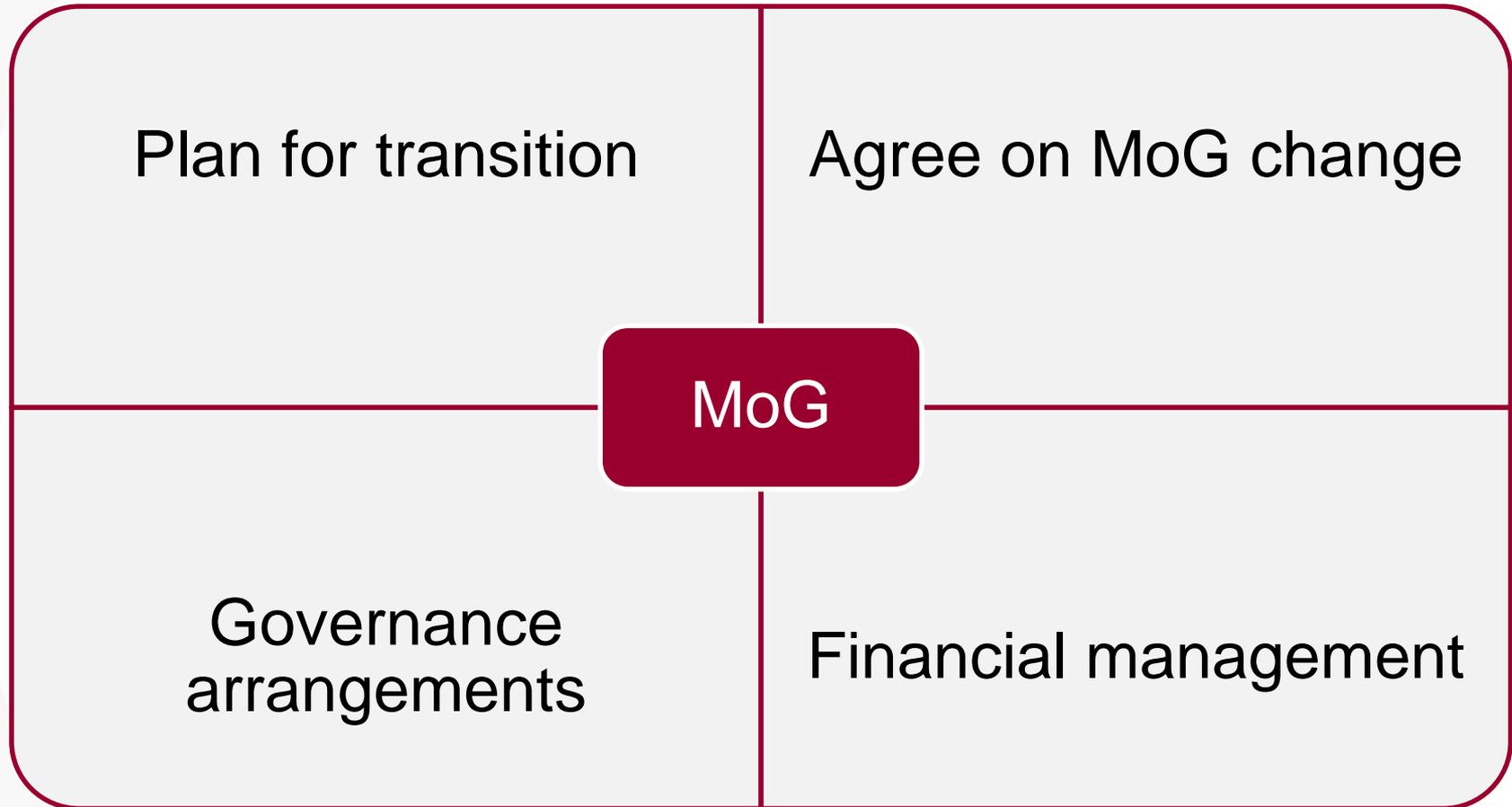
Administrative arrangement orders  
Departmental arrangements notices

No impact  
Six depts

Abolished  
Three depts

New  
Three depts

Redistributions  
12 depts



# Impacts on financial reporting



Asset values



Major  
departmental  
services



Budget reporting



Contributed equity



Investments in  
other entities



KMP/  
Related parties



1

Identify what's changed

2

Plan for transition and commence implementing changes

3

Assess impact on 2017–18 financial statements



- Managing machinery of government changes



- Guidelines for MoG Changes
- Financial Reporting Requirements



- Machinery of government and administrative changes

# Q&A

**2017-18**

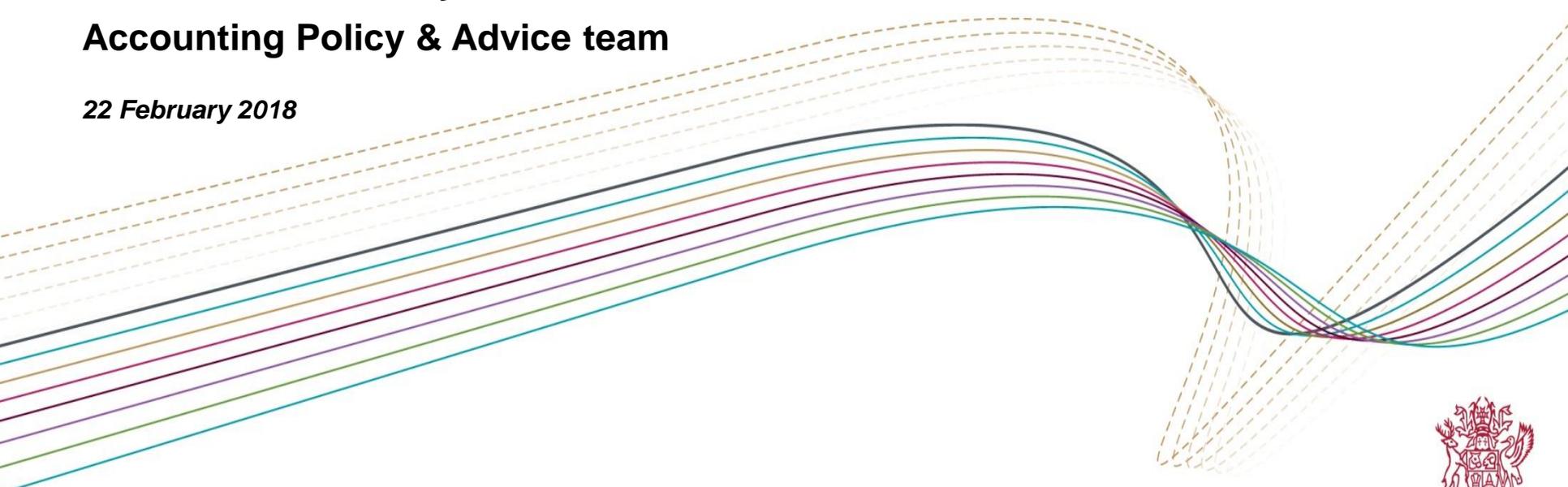
# **Financial Reporting Requirements Update**

**Greg Hall**

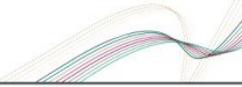
**Queensland Treasury**

**Accounting Policy & Advice team**

*22 February 2018*



*Treasury accounting advice? Email: [fmhelpdesk@treasury.qld.gov.au](mailto:fmhelpdesk@treasury.qld.gov.au)*



# Financial Reporting Requirements Update

## Today's Topics

- **New Accounting Standards for 2017/18 Financial Year**
- **2017/18 Financial Reporting Requirements (FRRs)**
- **Update on AASB 16 and Internal Government Leases**
- **Looking Ahead**



# New Accounting Standards - 2017/18

## AASB 107 Statement of Cash Flows

- Amended by AASB 2016-2;
- Disclose change in liabilities arising from financing activities;
- Relatively straightforward – effectively a movement schedule;
- Illustration in FRR 6A – agency choice regarding location.

AASB 107.44A	2018 - DEPARTMENT								
			----- Non-Cash Changes -----			----- Cash Flows -----			
		Closing Balance 2017 \$'000	Transfers to/(from) other Queensland Government Entities \$'000	New Leases Acquired \$'000	Other [Specify] \$'000		Cash Received \$'000	Cash Repayments \$'000	Closing Balance 2018 \$'000
	Leases	x	x	x	x		x	(x)	x
	Borrowings	x	x	-	-		x	(x)	x
	Other [specify]	x	x	-	-		x	(x)	x
	Total	x	x	x	x		x	x	x

# New Accounting Standards - 2017/18

## AASB 136 Impairment of Assets

- Amended by AASB 2016-4;
- Not-for-profit entities where specialised assets held for service delivery, not generation of cash flows;
- Depreciated replacement cost no longer a measure of value-in-use;
  
- Such assets measured at FV? fair value = recoverable amount;
- Annual review for indicators of change in fair value still required;
- Such assets measured at cost? AASB 136 continues to apply;
  
- Realistically – no changes to current practice;
- NCAP 3 and 4 to be reissued with editorial amendments.

# 2017/18 Financial Reporting Requirements

## **Machinery-of-Government Changes**

- FRR 2F + FRR 4F – also Treasury MOG guidelines;
- Disclosure of assets/liabilities transferred;

## **AASB 124 Related Party Disclosures**

- Non-Ministerial KMP collection processes should already be in place;
- Ensure exit processes for KMP address the need for information collection;
- 2017/18 FRRs – reissued forms will have minor editorial amendments;
- Information already collected for 2017/18 using existing forms is OK.

# 2017/18 Financial Reporting Requirements

## FRR 2B Materiality

- FRR 2B was retained in the 2014/15 given the withdrawal of AASB 1031 pending the AASB's materiality project;
- Amendments to Conceptual Framework in 2014 and December 2017 release of AASB Practice Statement 2 "*Making Materiality Judgements*";
- A rewrite and modernisation to reflect these changes and current practice was necessary;
- Should not change current materiality outcomes negotiated with audit;
- However - may require greater judgement by agencies, and documenting qualitative considerations when making materiality judgements
- Less reliance on pre-determined quantitative thresholds

# 2017/18 Financial Reporting Requirements

## Model financial statements – full AASB disclosures

- AASB 107 – Illustrative disclosure: reconciliation of liabilities from financing activities;
- Note A4-1 - Improved disclosures for controlled entities;
- Note C7-6 - Updated/revised accounting policy narrative for impairment;
- Don't forget: quantifiable impact from adopting future standards where known or can be reliably estimated.
- Reminder: Tailor disclosures to fit your agency – don't simply copy and paste from model statements.



## FRR 1A – Introduction

- More extensive guidance than in previous years – 5 upcoming Standards;
- Visual aids/flowcharts to assist with understanding the requirements;
- Early communication of transitional accounting treatments and policies that Treasury PROPOSES TO MANDATE;
- Aim: remove transitional uncertainty for agencies to aid implementation efforts and identify issues/problems.



## FRR 1A – Guidance on AASB 9 (Financial Instruments)

Treasury is **PROPOSING TO MANDATE** the following key policies:

- Agencies shall NOT restate comparatives on transition (even if possible without the use of hindsight);
- Reclassification and remeasurement of assets through equity on 1 July 2018;
- Changes to provisions for impairment also remeasured through accumulated surplus on 1 July 2018;
- Adopting the simplified approach for measuring ALL trade receivables and contract assets;
- Don't forget AASB 7 disclosure impacts!!



## FRR 1A – Guidance on AASB 16 (Leases)

Treasury is **PROPOSING TO MANDATE** the following key policies:

- Adopt the transitional practical expedient in para.C5(b) – agencies will not be required to restate 2018-19 comparatives;
- All adjustments arising for recognition and measurement of right-of-use asset and lease liability balances processed through equity on 1 July 2019;
- Apply the practical expedient in para.C3 – agencies not required to reassess whether contracts entered into prior to 1 July 2019 contain a lease;
- Low value asset threshold proposed at AUD\$10,000;

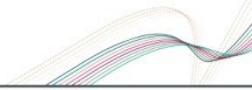


## FRR 1A – Guidance on AASB 16 (Leases)

Treasury is **PROPOSING TO MANDATE** the following key policies:

- ROU assets to be measured at cost;
- Where incremental borrowing rate is required, QTC's published fixed rate loan rates corresponding to the lease commencement and term to be used;

Appendix to FRR 1A – Lease assessment and data collection checklist;



## FRR 1A – Guidance on AASB 15 (Revenue)

Treasury is **PROPOSING TO MANDATE** the following key policies:

- Adopt the transitional practical expedient in para.C3(b) – agencies will not be required to restate 2018-19 comparatives;
- Agencies apply AASB 15 retrospectively to all contracts, including completed contracts – effectively prohibiting the practical expedient in para.C7 being applied by agencies;
- Impact: ensure all deferred revenue can be recognised on transition (otherwise completed contracts under AASB 1004 would be ignored);
- Adopt the transitional practical expedient in para.C7A – all previous contract modifications taken into account when assessing contract at transition date;
- For-profit entity? – don't forget 1 year earlier application!



## FRR 1A – Guidance on AASB 1058 (Income of NFPs)

Treasury is **PROPOSING TO MANDATE** the following key policies:

- Adopt the transitional practical expedient in para.C3(b) – agencies will not be required to restate 2018-19 comparatives;
- Agencies apply AASB 1058 retrospectively to all contracts, including completed contracts – effectively prohibiting the practical expedient in para.C6 being applied by agencies;
- Impact: ensure all deferred revenue can be recognised on transition;
- Adopt the practical expedient in para.C8 – agencies will not remeasure assets acquired for significantly less than fair value prior to 1 July 2019.

## **FRR 1A – Guidance on AASB 1059** (Service Concession Arrangements)

Treasury is **PROPOSING TO MANDATE** the following key policies:

- AASB 1059 requires 2018-19 comparatives to be restated and opening balances at 1 July 2018 calculated;
- However, Treasury proposes to mandate agencies apply the transition approach in para. C3(b) – in effect, the fair value of the Service Concession Arrangement at 1 July 2018 (which is measured at CRC) becomes the asset and liability value on transition;
- Expect future engagement by Treasury with agencies on SCA's.

# AASB 16 AND INTERNAL GOVERNMENT LEASES

- DHPW are reviewing AASB 16 and its interaction with internal accommodation arrangements and QFleet arrangements;
- Although no answer today...watch this space for future updates!
- Concentrate on external leases first, then internal leases that will fall under AASB 16;
- Treasury lease survey questionnaire – useful feedback;
- Results will inform the next stage of evaluating feasibility of lease assessment software and the relationship to ongoing accounting needs in future years – but Treasury has not committed to a pursuing a particular course of action at this point;
- Agencies should consider adequacy of existing lease systems.

- Progressing and finalising formal guidance on lease accounting for internal Government leases (including software tools);
- New Revenue Standards:
  - ✓ AASB 1058/AASB 15 – looking at “sufficiently specific” in practice
  - ✓ Review of impacts on FRR 3E “Distinction between grants and procurement” including guidance on accounting for grant expenses
  - ✓ Exposure Draft ED283 – Licences revenue in the public sector;
- AASB 1059 *Service Concession Arrangement* Implementation
- AASB review of Australian financial reporting framework – public sector

# Upcoming standards changes

David Hardidge, Director Technical and Treasury Products, QAO

# Upcoming changes

**2018–19**

AASB 15 Revenue  
For-profits

AASB 9 Financial  
Instruments

**2019**

AASB 15 Revenue +  
AASB 1058 Income  
for NFPs

AASB 16 Leases

AASB 1059 Service  
concessions

**Beyond**

AASB 17 Insurance  
contracts

RDR

Reporting entities

# Why revise the financial instruments standard?

**Answer =**

Complexity of the former standard (IAS 39 / AASB 139)

**‘Those that tell me they understand IAS 39,  
clearly haven’t read it properly’**

— Sir David Tweedie, Chairman of the  
International Accounting Standards Board

AASB 139 is now replaced with AASB 9

# AASB 9—what has changed?

Classification and measurement

Impairment (provision for doubtful debts)

Liabilities (at fair value through P&L)

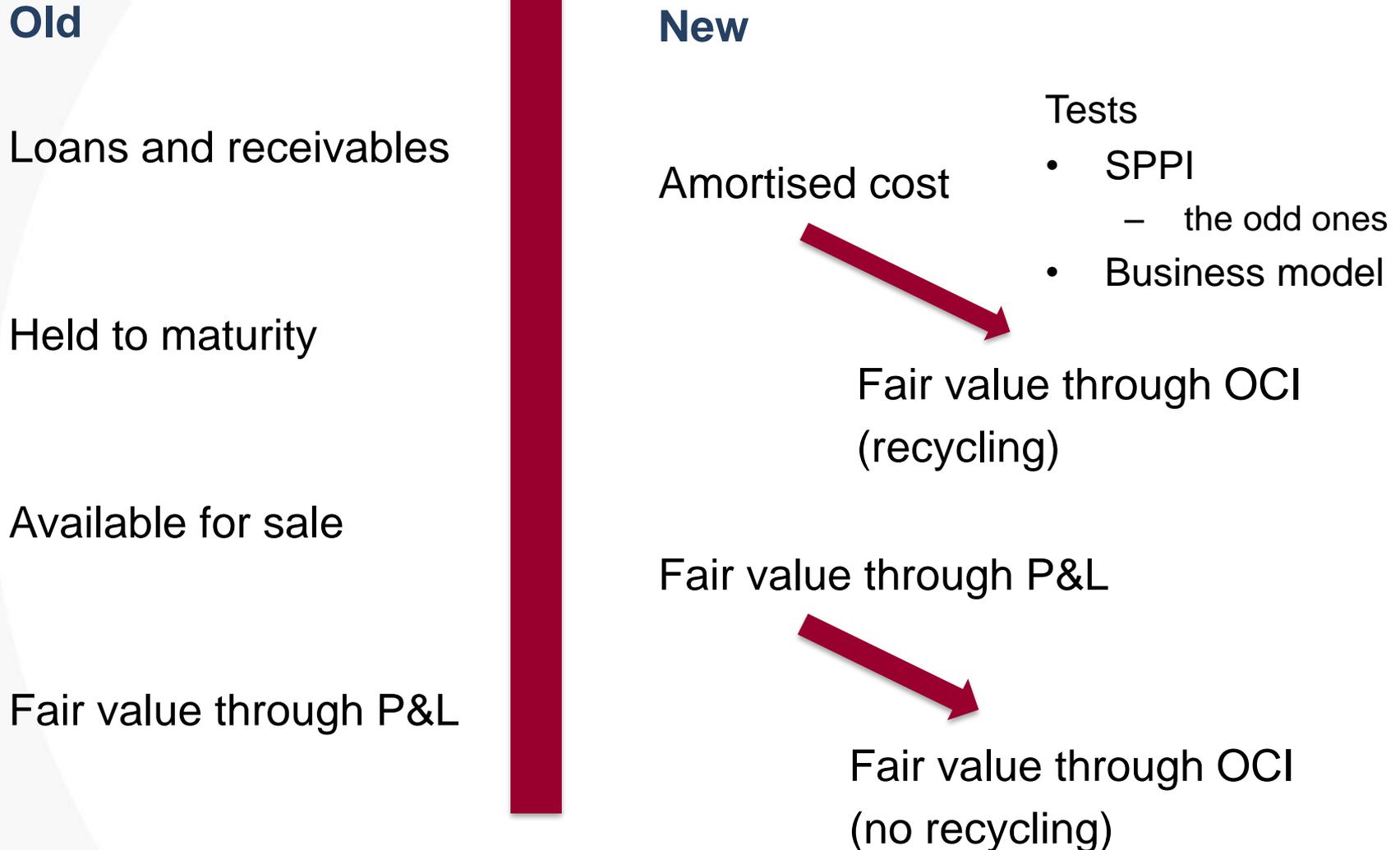
Hedging

Reclassifications

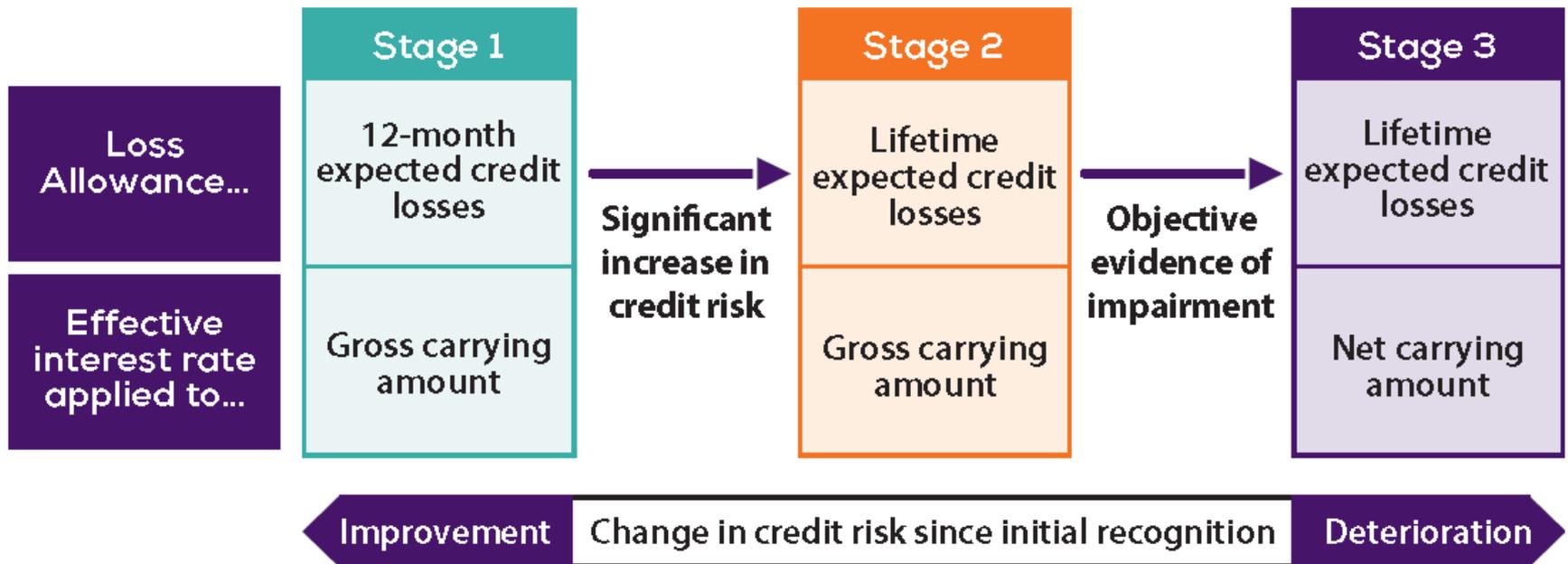
Disclosures

Financial instrument definition

Derecognition



## Three buckets:



## Trade receivables will have provision matrix where:

- expected credit losses for each ageing bucket need to be estimated
- all ageing buckets cannot have same expected credit loss. Longer the term, higher the expected loss.

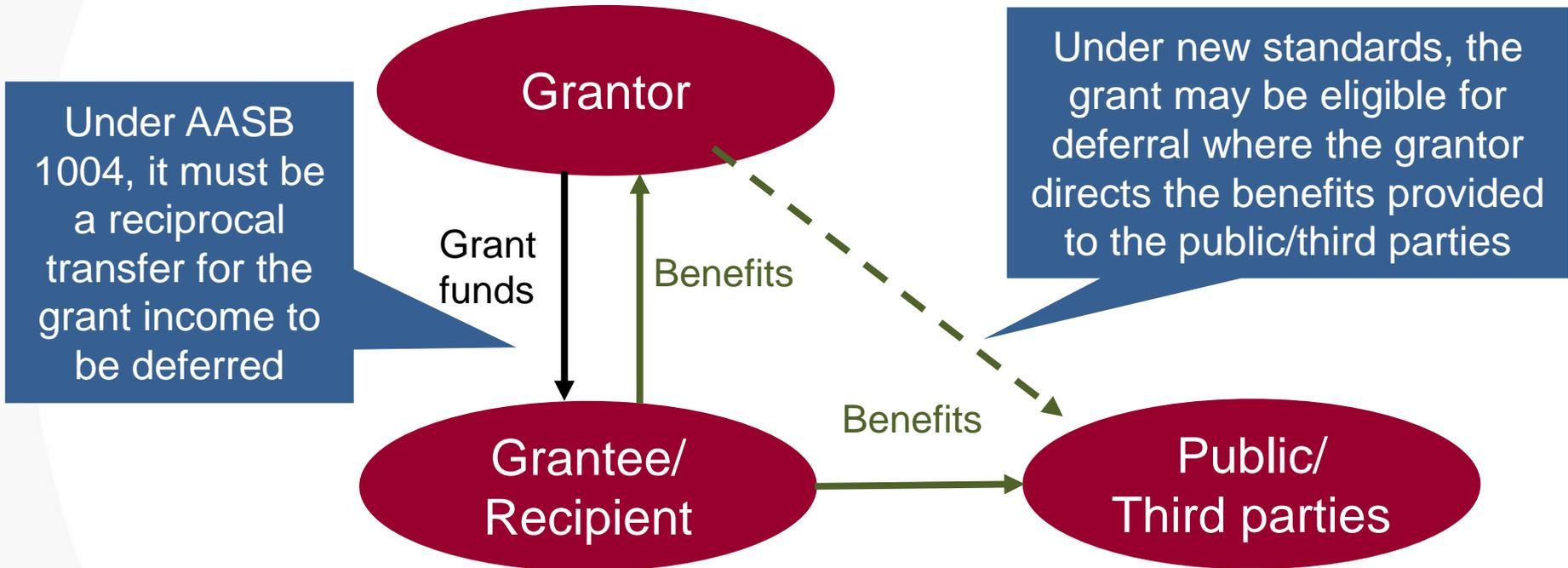
	Current	1–30	31–60	61–90	Over 90
Historical default rate %	0.30%	1.0%	3.5%	7.0%	12.0%
Forward-looking estimate adjustment	0.03%	0.1%	0.2%	0.3%	0.8%
Expected loss %	0.33%	1.1%	3.7%	7.3%	12.8%

# Are you AASB 9 ready?

- What financial instruments (assets) do you have?
- Which classifications do they belong to?
  - what happens to your available for sale assets?
  - assess SPPI test from initial recognition
- Which impairment model—general or simple?
- Can you assess significant credit risk change from origination?
- Are there any hedging implications?



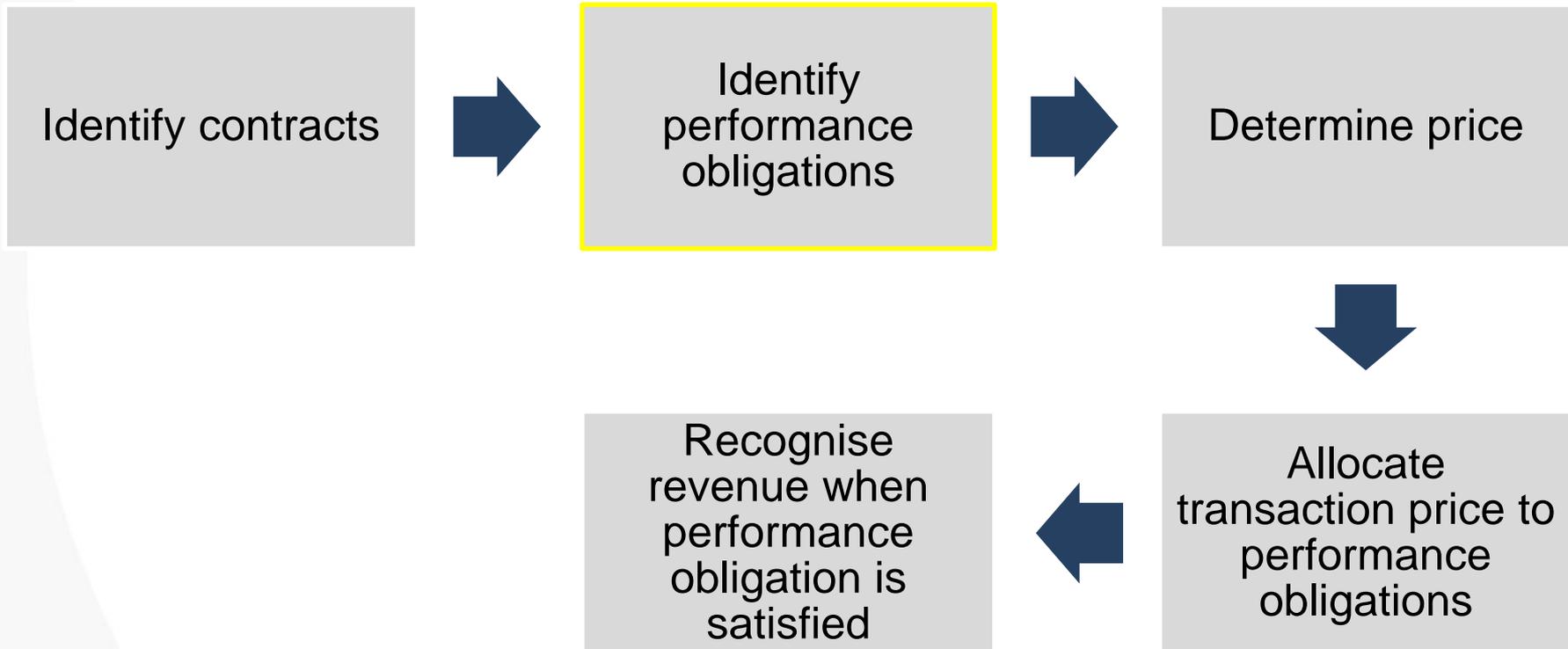
## Accounting for grant income Conceptual change from AASB 1004



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

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- Rates
- Taxes
- Interest
- Dividends

## Five steps:



# Are you AASB 1058/AASB 15 ready?

- What are your revenue, income and grant sources?
- Which sources involve activities in a different financial year to when the money is received?
- How will your accounting change? E.g. from up-front to deferral?
- Do you have systems to determine how much to recognise and how much to defer?
- How will you work out how much to defer on transition date?
- Will you be preparing comparatives in the first year of application?



**‘One of my great ambitions before I die is to fly in an aircraft that is on an airline’s balance sheet’**

— Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), April 25, 2008

## Same accounting treatment as for finance leases

- Determine term
- Determine rental payments (cash flows)
- Determine discount rate

## Recognise

- Lease liability
  - lease interest
- Lease asset (right-to-use asset)
  - depreciation

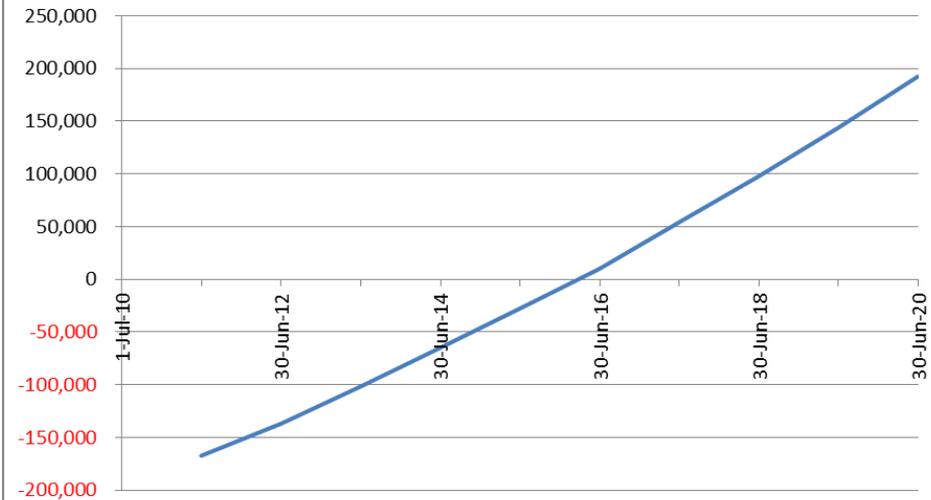
## Parallel universe

# Leases—profit or loss effect

### Gross effect P&L Interest and dep'n c/f lease payment

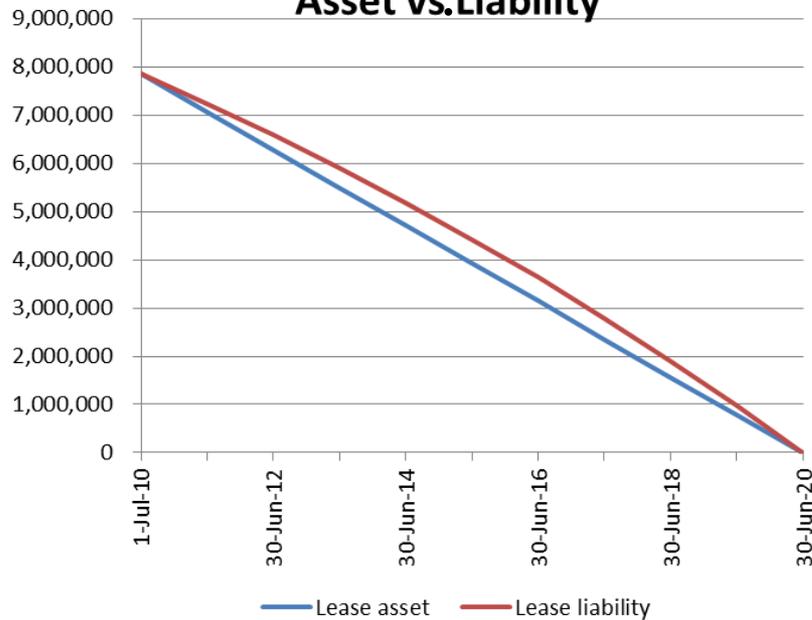


### Net effect P&L

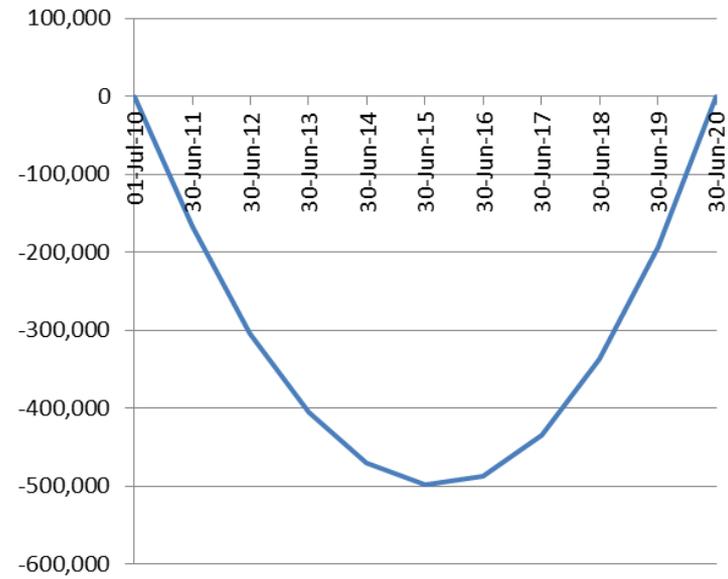


# Lease—balance sheet effect

### Asset vs. Liability



### Cumm. P&L (R/E) effect



# What operating leases go on balance sheet?

**Lease—the right to use an asset. Exemptions—short-term, low value**



Building and office



PCs



Storage and IT facilities



Software licences



Specialised equipment



Software as a service



Embedded leases



Server capacity



Cars



Pot plants



Car parks



Water coolers



Mobile phones



Peppercorn leases

# Are you AASB 16 ready?

- What operating leases do you have?
- Do any of them get excluded under the less than 12-month and low value exemptions?
- Are you reasonably certain of exercising any options—even if at market value?
- How do your lease rentals change (e.g. fixed, CPI, market reviews)?
- When do your lease rentals change?
- What lease incentive and lease straight-lining liabilities do you have?



## Queensland

- Toll roads
  - Incl. land under roads, bridges, land under bridges, tunnels
- Gold Coast rapid transport
- Airport rail link
- Rail rolling stock
- Buildings — education
- Buildings — hospital
- Buildings — car parks
- Child care centre
- Student accommodation

## Transition

- Valuation 1 July 2018
- Calculating the liability

## Lifecycle payments

- Identifying from the Quarterly Service Payment
- Diversity in approaches
- What has been included in the valuation?

# Q&A

# Update on reporting

Karen Johnson, Assistant Auditor-General





We issued 60 IAR  
with KAMs

4 entities had 3 KAMs  
8 entities had 2 KAMs  
48 entities had 1 KAM

Types of KAMs	#
Valuation of PPE—specialised buildings	21
Valuation of PPE—other	20
Financial instruments and liabilities	8
Depreciation	6
Other (PPP, administered revenue, CSO, receivables)	5

- ✓ No KMP transactional disclosure required at either a departmental or WOG level
- ✓ Minimal disclosures in statutory bodies
- ✓ Local governments—generally good but some under reporting



## Insights—September 2017

[www.qao.qld.gov.au/reports-resources](http://www.qao.qld.gov.au/reports-resources)

Communicated in your 2017–18 audit plan

Traffic lights to simplify reporting for:

-  • Timeliness
-  • Quality
-  • Year end processes

→ Future changes—progressive move to bring asset valuation pre 31 March



**Draft financial statements** = the statements that management is prepared to sign and does not expect any material errors or adjustments.

## Timeliness

	Timely: Acceptable draft financial statements received on or prior to the planned date.
	Generally timely: Acceptable draft financial statements received within two days after the planned date.
	Not timely: Acceptable draft financial statements received greater than two days after the planned date.

Green light = no adjustments made to final draft

Tip—do not adjust for immaterial items!

## Quality



No adjustments:  
No adjustments required.



No significant adjustments:  
Immaterial adjustments to financial statements.



Significant adjustments:  
Material adjustment to financial statements.

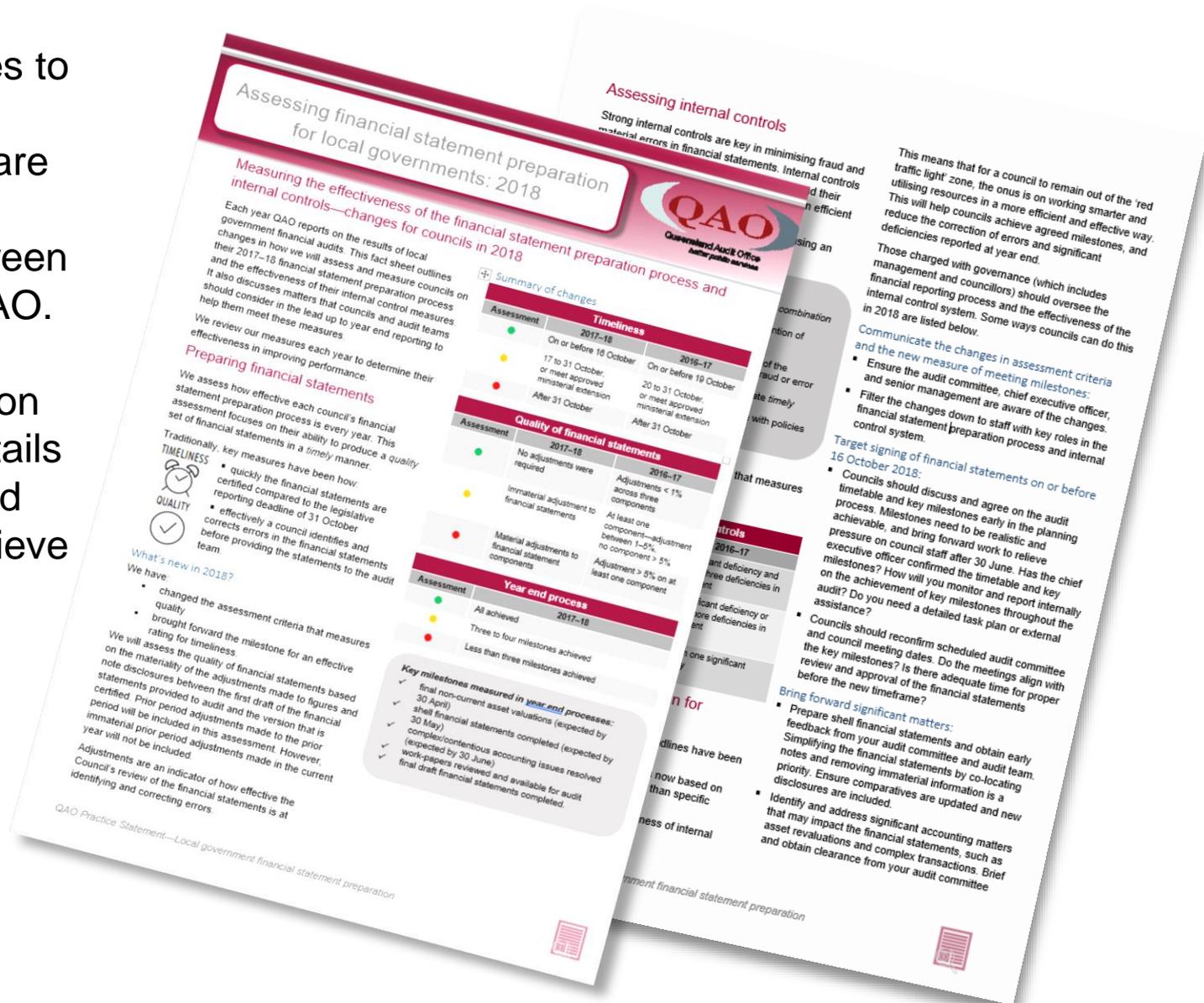
- Completing early close processes
- Non-current asset valuations by 31 May
- Pro forma financial statements by 30 April
- Resolving known accounting issues by 30 April
- Concluding all asset stocktakes by 30 June

Our rating	Year end close process assessment
● Implemented	All key processes were completed by the target date
● Partially implemented	Three key processes were completed within two weeks of the target date
● Not implemented	Less than two key processes were completed within two weeks of the target date

# Year end close process—councils

Five key milestones to assist in a smooth year end process are measured against dates agreed between council and the QAO.

See the factsheet on our website for details and some hints and tips on how to achieve the milestones.



# What is the impact of the new accounting standards on your entity?



Financial impact (either in current year results or comparatives or both) in 2018–19.



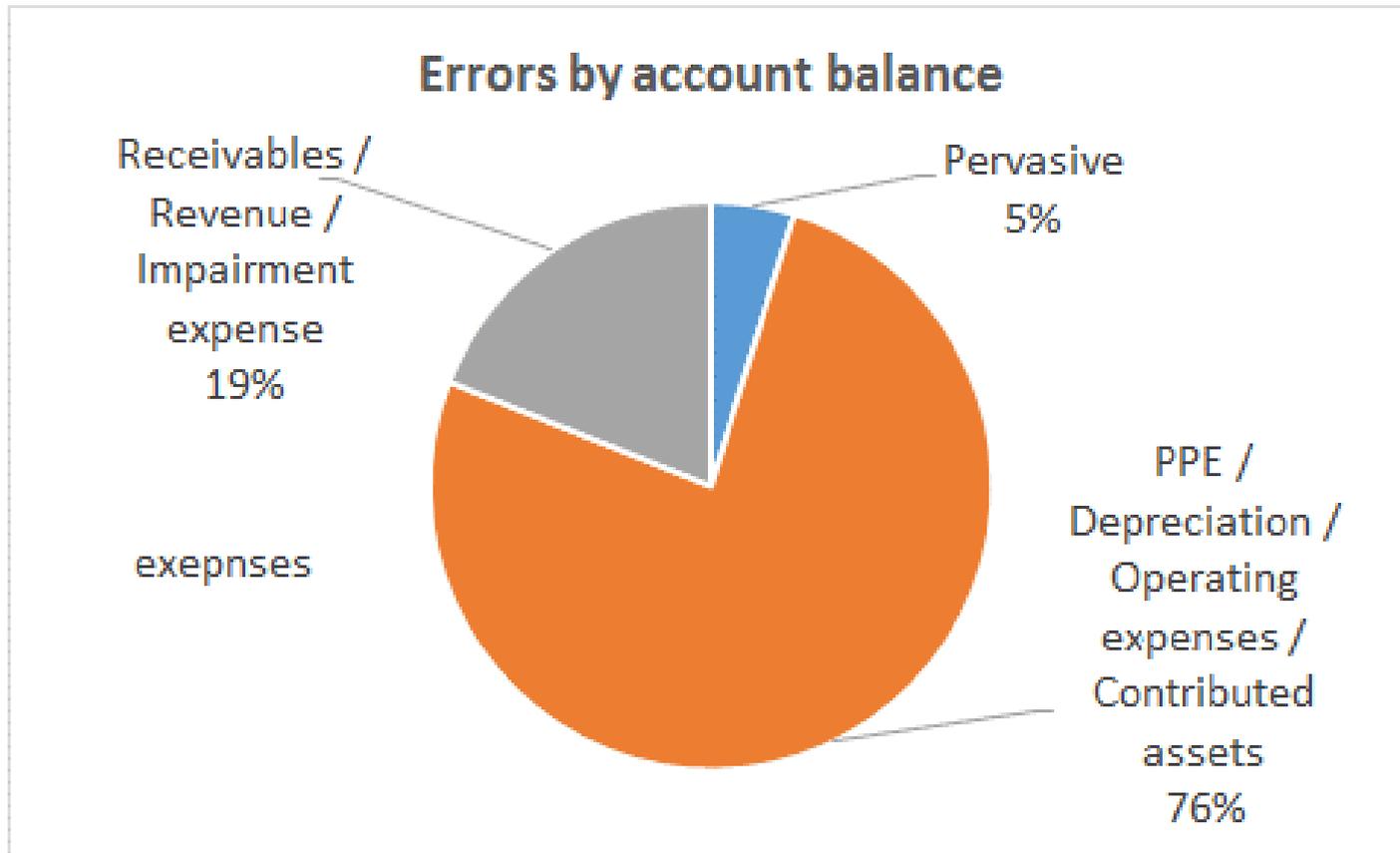
Early engagement = early agreement on positions.



Date for papers for discussion with auditors will be agreed during audit planning.



Technical experts 'at 10 paces'





**70 per cent of KAMs relate to property plant and equipment**

## Areas for audit focus

- ✓ componentisation
- ✓ accuracy of unit rate source data
- ✓ adjustment for reductions in utility
- ✓ indexation (back test for reasonableness)
- ✓ useful life assessment
- ✓ spreadsheet hygiene

# Q&A

# Update on QAO

Brendan Worrall, Auditor-General



## Agencies are not applying our findings from our previous reports

- Need to target fraud and corruption programs to areas of greatest risk
  - Exec must show commitment, and be given better information
- ➔ Self assess against better practice in our report
  - ➔ Integrate with existing practices
  - ➔ Monitor through governance forums

**Fraud risk assessment and planning tool**

[www.qao.qld.gov.au/reports-resources/better-practice](http://www.qao.qld.gov.au/reports-resources/better-practice)



# Q&A

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