



Engage

Respect



### **Technical audit update**

**20 February 2020** The Westin, Brisbane











### Welcome Brendan Worrall, Auditor–General





QAO's new operating model



#### We're ensuring QAO is best placed to deliver on better public services

Further embedding our approach of providing **more consistent client services** whole-of-QAO approach to work instead of by division

Meaning we'll give you the best QAO skills and resources for the job and a consistent client experience

We are:

 implementing a new operating model that focuses on client groups Relevant & engaged Better public services Transformational change

- giving our staff contemporary skills
- implementing the right systems and methodologies to best deliver our work

THINK AND ACT Being valued Relationships

**Building capability** 

#### New operating model

Auditor-General								
Client services	Audit practice							
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Dual reporting lines regarding audit engagement and re	ports to parliament							
Centrally resourced through Retain/shared resourcing a	ind capability building							
Audit engagement support								
	Client services Assistant Auditors-General x 3 • Professional leads for client groups • Delivery of audits and reports • EQCR roles for audit and report engagement • Data analytics • Information systems Dual reporting lines regarding audit engagement and reformed through Retain/shared resourcing and the source of the sourc							



#### **Client satisfaction trend analysis**





**Q&A** 

# 2019-20 Financial Reporting Requirements Update

Greg Hall

**Queensland Treasury** 

Budget Strategy and Financial Reporting Unit (Accounting Policy and Advisory)

20 February 2020

Treasury accounting advice? Email: fmhelpdesk@treasury.qld.gov.au



## **Treasury Topics For Today's Discussion**

 2019/20 Financial Reporting Requirements (FRRs)

• FAQs - AASB 16

NFP Agencies and AASB 15 / AASB 1058

Climate Related Risks and Financial Reporting

# **2019/20 Financial Reporting Requirements**

# Welcome to the first year application of:

- AASB 15 (for NFPs FP's were last year);
- AASB 1058; and
- AASB 16.

That's right - these Standards are now LIVE!!!

- > Major highlights in forthcoming draft release:
  - Updated FRR 3B AASB 15/AASB 1058
  - Updated FRR 3E grants v procurement <u>expense</u>
  - Updated FRR 4B Assets AASB 16
  - Updated FRR 6A and 6B Illustrative Financials
  - Editorial amendments for FPMS update

# Policy and guidance similar to 2018/19 FRR 1A

**FRR 6A** - will cover presentation and illustrative disclosures for AASB 16:

RoU assets and lease liabilities - presented as separate line items on the face of the Balance Sheet

> AASB 16 disclosures in a <u>single lease note</u>



#### QAO TECHNICAL UPDATE - FEBRUARY 2020

#### ILLUSTRATIVE PURPOSES ONLY - NOT OFFICIAL DRAFT DOCUMENT

#### **Sunshine Department and Controlled Entities**

#### **Statement of Financial Position**

as at 30 June 2020

			CONSOL	IDATED		DEPAR	TMENT	
122323332233			2020	2019	2020	2019		2019
ASB 101.10(c) ASB 1055.6.								
RR 5C.4		Note	Actual	Actual	Actual	Original	Budget	Actual
RR 4A.1			\$'000	\$'000		budget \$'000	variance* \$'000	\$'000
ASB 101.60 & 66	Current assets							
ASB 101.54(i)	Cash and cash equivalents	C1	x	x	х	×	х	х
ASB 101.54(h)	Receivables	C2	x	x	x	×	x	×
ASB 101.54(d)	Other financial assets	C3	x	х	х	х	х	х
ASB 15.105	Contract assets	C15	x	x	x	×	х	×
ASB 101.54(g)	Inventories	C4	x	х	x	×	x	×
ASB 101.55	Other current assets	C5	x	х	х	х	х	х
			x	×	x	×	×	×
ASB 101.54(j). ASB 5.38 & 40	Non-current assets classified as held for sale	C6	x	x	x	×	x	×
	Total current assets		x	x	x	x	X	x
ASB 101.60	Non-current assets							
ASB 101.54(h)	Receivables	C2	х	х	х	х	х	х
SB 101.54(d)	Other financial assets	C3	х	х	x	×	х	×
ASB 15.105	Contract assets	015	×	*	- 24	×	х	x
ASB 101.54(a)	Property, plant and equipment	C7-1	х	х	х	х	Х	X
ARR 16 47(a)	Right-of-use assets	C16	x	12	x	2	-	
ASB 101.54(b)	Investment property	<u>C</u> 8		*	*	~	х	x
ASB 101.54(c)	Intangible assets	C9-1	x	×	×	×	x	×
ASB 101.55	Other non-current assets	C5	х	х	х	x	х	х
	Total non-current assets		x	x	x	x	X	x
	Total assets		x	x	x	x		x



QAO TECHNICAL UPDATE – FEBRUARY 2020 ILLUSTRATIVE PURPOSES ONLY – NOT OFFICIAL DRAFT DOCUMENT Sunshine Department and Controlled Entities

**Statement of Financial Position** 

as at 30 June 2020

			CONSOL	IDATED		DEPAR	TMENT	
AASB 101.10(c)			2020	2019	2020	2019		2019
AASB 1055.6. FRR 5C.4		Note	Actual	Actual	Actual	Original budget	Budget variance*	Actual
FRR 4A.1			\$'000	\$'000		\$'000	\$'000	\$'000
AASB 101.60 & 66	Current liabilities							
AASB 101.54(i)	Payables	C10	х	х	х	х	х	х
AASB 101 5400	Borrowings and derivatives*	<u>C11</u>	×	×	×	X	X	x
	Lease liabilities	C16	х	х	X	X	X	Y
AASB 101.54(d)	Accrued employee benefits	C12	х	х	х	х	х	х
AASB 15.105	Contract liabilities	C15	x	х	x	х	х	х
AASB 101.54(g)	Provisions	C13	x	х	х	х	х	х
AASB 101.55	Other current liabilities	C14	x	х	×	х	х	х
	Total current liabilities		x	X	X	X	X	X
AASB 101 60 & 69	Non-current liabilities							
AASB 101.54(k)	Payables	C10	х	х	x	х	х	х
AASB 101	Borrowings and derivatives*	C11	×	x	X	x	x	x
	Lease liabilities	C16	х	х	x	x	X	X
AASB 119	Accrued employee benefits	C12	х	Х	Х	х	х	х
AASB 15.105	Contract liabilities	C15	x	х	x	х	х	х
AASB 101.54()	Provisions	C13	x	х	х	х	х	х
AASB 101.55	Other non-current liabilities	C14	x	x	x	x	х	x
AASB 101.60 & 69	Total non-current liabilities		x	X	x	X	X	X
	Total liabilities		x	x	x	x	x	x

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### **2019/20 Financial Reporting Requirements**

QAO TECHNICAL UPDATE – FEBRUARY 2020 ILLUSTRATIVE PURPOSES ONLY – NOT OFFICIAL DRAFT DOCUMENT Sunshine Department and Controlled Entities Notes to the Financial Statements for the year ended 30 June 2020

#### C16 LEASES

A new accounting standard AASB 16 Leases came into effect in 2019-20, resulting in significant changes to the department's accounting for leases for which it is lessee. The transitional impacts of the new standard are disclosed in Note G5-4.

#### C16-1 LEASES AS LESSEE

#### Right-of-use assets

		Land	Buildings	Plant and equipment	Infrastructure	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
	2019-20 - Consolidated					
	Opening balance at 1 July	х	х	х	x	х
AASB 16.53(h)	Additions	х	x	x	x	x
AASB 16.53(a)	Depreciation charge	(X)	(X)	(X)	(X)	(X)
	Disposals / derecognition	(X)	(X)	(X)	(X)	(X)
	Other adjustments	x	x	х	x	х
AASB 16.53(j)	Closing balance at 30 June	x	X	x	x	x

### **2019/20 Financial Reporting Requirements**



#### **OAO TECHNICAL UPDATE - FEBRUARY 2020**

ILLUSTRATIVE PURPOSES ONLY - NOT OFFICIAL DRAFT DOCUMENT

Sunshine Department and Controlled Entities

Notes to the Financial Statements

for the year ended 30 June 2020

#### Disclosures - Leases as lessee

AASB 16.51.59 (i) Details of leasing arrangements as lessee

Catogony/Class of

AASB 16.59(b)(i) **B49** 

AASB 16.Aus59.1

Lease Arrangement	Description of Arrangement
Plant and equipment leases	The department routinely enters into leases for plant and equipment including office equipment, IT equipment and machinery. Some of these leases are short-term leases or leases of low value assets.
	Lease terms for plant and equipment leases that are recognised on balance sheet can range from 1 to 10 years. A small number of leases have renewal or extension options. The options are generally exercisable at market prices and are not included in the right-of-use asset or lease liability unless the department is reasonably certain it will renew the lease.
	Some photocopier leases have variable lease payments that depend on the volume of usage. The usage-based payments are recognised as lease expenses in Note B3-2 when incurred. They are not expected to vary materially from year to year.
Research facility	In September 2019, the department entered into a 30-year lease of the Coastal Preservation Research Institute Facility. Lease payments for this lease are initially fixed and are subject to market rent reviews every 5 years and CPI-based rent increases in other years. As the future rent increases are variable, they are not captured in the right-of-use asset or lease liability until the increases take effect.
	The department subleases some floor space of the facility to non-government organisations. Refer to Note C16-2 for further details.
Concessionary land	The department has a 40-year concessionary lease of land from Department N at a significantly

The department has a 40-year concessionary lease of land from Department N at a significantly Concessionary land below-market rental of \$100 per annum. The land is used for the provision of DEF services to North lease Queensland communities and may only be used for that purpose. The department's is not dependent on receiving concessionary leases as additional appropriation funding would be received to cover lease payments if the lessor had charged a market rate of rental.

(ii) Office accommodation, employee housing and motor vehicles

Description of Arrangement

The Department of Housing and Public Works (DHPW) provides the department with access to office accommodation, employee housing and motor vehicles under government-wide frameworks. These arrangements are categorised as procurement of services rather than as leases because DHPW has substantive substitution rights over the assets. The related service expenses are included in Note B3-2.

### **2019/20 Financial Reporting Requirements**



#### QAO TECHNICAL UPDATE – FEBRUARY 2020 ILLUSTRATIVE PURPOSES ONLY – NOT OFFICIAL DRAFT DOCUMENT Sunshine Department and Controlled Entities Notes to the Financial Statements for the year ended 30 June 2020

#### Disclosures - Leases as lessee

		Consolidated		Department	
		2020	2019	2020	2019
		\$'000	\$'000	\$'000	\$'000
	(iii) Amounts recognised in profit or loss				
AASB 16.53(b)	Interest expense on lease liabilities	x	25	x	22
	Breakdown of 'Lease expenses' included in Note B3-2				
AASB 16.53(c)	<ul> <li>Expenses relating to short-term leases</li> </ul>	х	25	x	223
AASB 16.53(d)	<ul> <li>Expenses relating to leases of low value assets</li> </ul>	х	81	х	
AASB 16.53(e)	<ul> <li>Expenses relating to variable lease payments</li> </ul>	x	25	x	123
AASB 16.53(f)	Income from subleasing included in 'Property rental' in Note B1-2	х	8	х	8-8
AASB 16.53(g)	(iv) Total cash outflow for leases	x		×	

**FRR 6A** - will cover presentation and illustrative disclosures for AASB 15 and AASB 1058:

Operating statement line items for user charges and fees + grants and contributions will remain unchanged

Distinction between revenue from contracts with customers under AASB 15 and revenue recognised under AASB 1058 will be addressed in the notes.



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QAO TECHNICAL UPDATE – FEBRUARY 2020 ILLUSTRATIVE PURPOSES ONLY – NOT OFFICIAL DRAFT DOCUMENT Sunshine Department and Controlled Entities Notes to the Financial Statements

for the year ended 30 June 2020

#### B1 REVENUE (continued)

#### **B1-2 USER CHARGES AND FEES**

FRR 3B		Consolidated		Department		
		2020	2019	2020	2019	
		\$'000	\$'000	\$'000	\$'000	
	Revenue from contracts with customers					
VASB 15.114	Sale of services	x	х	х	х	
ASB 15.114	Sale of goods	x	x	x	x	
ASB 15. G	Licences fees	x	x	x	x	
	[insert other user charges and regulatory fees under AASB 15]	x	x	x	x	
	Other user charges and fees					
ASB 16.90(b)	Property rental	x	x	x	x	
	[insert other user charges and regulatory fees under AASB 1058]	×	x	x	×	
	Total	x	x	x	х	

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for the year ended 30 June 2020

#### **B1-3 GRANTS AND CONTRIBUTIONS**

FRR 3B, 3E		Consolidated		Department					
		2020	2019	2020	2019				
		\$'000	\$'000	\$'000	\$'000				
AASB 15.113(a)	Revenue from contracts with customers								
	Commonwealth grants	x	x	x	x				
	State Government grants [for statutory bodies]	x	x	x	x				
	[insert other sources or categories of grants under AASB 15]	x	x	x	x				
	Other grants and contributions								
	Commonwealth grants	x	x	x	x				
	State Government grants [for statutory bodies]	x	x	x	x				
	[insert other sources or categories of grants under AASB 1058]	x	x	x	x				
AASB 1058.15-16	Specific purpose capital grants	x	x	x	x				
FRR 3B.3	Services received below fair value	x	x	x	x				
AASB 101.29,30	NOTE TO AGENCIES: Agencies should determine appropriate sub-classifications of grants and contributions revenue to disclose having regard to materiality considerations.								
	Total	x	x	x	x				

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#### QAO TECHNICAL UPDATE – FEBRUARY 2020 ILLUSTRATIVE PURPOSES ONLY – NOT OFFICIAL DRAFT DOCUMENT Sunshine Department and Controlled Entities

Notes to the Financial Statements

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#### Accounting policies – Revenue from contracts with customers (User charges)

Revenue from contracts with customers is recognised when the department transfers control over a good or service to the customer. The following table provides information about the nature and timing of the satisfaction of performance obligations, significant payment terms, and revenue recognition for the department's user charges revenue from contracts with customers.

	Type of good or service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
445815.117, 119 445815.123(b), 126	Books and kits	The department sells pre-packaged books and kits. Customers obtain control of the goods upon delivery, which is the sole performance obligation. Goods sold come with a 14-day right of return. Based on the department's past experience, the amount of refunds for returned goods it not expected to be material, so the full selling price is recognised as revenue.	Revenue is recognised on delivery of the goods to the customer. The adoption of AASB 15 Revenue from Contracts with Customers in 2019-20 did not change the timing of revenue recognition for sale of goods.
	ABC Services	<ul> <li>The department provides ABC services to private sector not-for-profit entities. These service contracts typically have durations of 3 to 4 years. The contracts contain three performance obligations, each of which are satisfied at a point in time upon completion:</li> <li>description of performance obligation #1</li> <li>description of performance obligation #2</li> <li>description of performance obligation #3</li> <li>Customer consideration is received in three lump sum amounts, 50% on contract execution, 40% on achievement of the first performance obligation and the remaining 10% on achievement of the second performance obligation. Consideration is refundable if the contract is terminated before the corresponding performance obligation is achieved.</li> <li>At the completion of each contract, an additional amount of up to 10% of the contract price is receivable if the department's overall performance exceeded established targets.</li> </ul>	<ul> <li>Revenue is recognised at the point of completion of each performance obligation as follows:</li> <li>Achievement of performance obligation #1 – 30% of contract revenue;</li> <li>Achievement of performance obligation #2 – a further 50% of contract revenue; and</li> <li>Achievement of performance obligation #3 – the remaining 20% of contract revenue.</li> <li>Amounts received are recognised as contract liabilities until performance obligations are satisfied.</li> <li>The performance bonus is recognised to the extent that it is highly probable that a significant reversal in the cumulative revenue recognised will not occur in future periods. In practice, this means the department typically would not recognise this additional revenue, if any, until the final year of the contract when total contract performance can be estimated.</li> <li>In 2018-19, the department recognised revenue progressively over time under AASB 118.</li> </ul>

### **2019/20 Financial Reporting Requirements**

QAO TECHNICAL UPDATE – FEBRUARY 2020

ILLUSTRATIVE PURPOSES ONLY - NOT OFFICIAL DRAFT DOCUMENT

Sunshine Department and Controlled Entities

Notes to the Financial Statements

for the year ended 30 June 2020

#### **Disclosure – Grants and contributions**

The department has a number of grant arrangements with the Commonwealth's Department of Efficiency that relate to funding of activity-based services. Two of these arrangements (grants S and Q) have been identified as having sufficiently specific performance obligations under enforceable grant agreements and comprise 75% of total grants and contributions received. The remaining Commonwealth grants, although under enforceable agreements, do not contain sufficiently specific performance obligations, these grants are recognised upon receipt.

The following table provides information about the nature and timing of the satisfaction of performance obligations, significant

payment terms, and revenue recognition for the department's grants and contributions that are contracts with customers.

#### Commonwealth grants - recognised as performance obligations are satisfied

AASB 15.117, 119

AASB 15.123(a), 124

Type of good or service	Details of the department's obligations under the grant agreement and significant judgements	Revenue recognition policies
Grant S	The department's obligation under the grant agreement is to deliver 5,000 efficiency check-ups over 3 years to residents in the [insert city/region] district. Funding was received in advance in 2018- 19.	The total grant funding of \$x million is allocated to the 5,000 check-ups and revenue is recognised as the check-ups are performed. The contract liability recognised at 30 June 2020 relates to the remaining 1,800 check-ups to be performed over the next 12 to 14 months.
Grant Q	The department's obligation under the grant agreement is to monitor and report on real-time efficiency statistics collected from across five geographical regions in Queensland. The program commenced in May 2019 and will end in December 2020. The Department of Efficiency is billed quarterly in arrears.	Revenue is recognised over time on a straight-line basis because the grantor receives and consumes the benefits of the reporting as it is provided, and a similar quantity of data is collected and reported each day. Unbilled work each quarter is recognised as contract assets.



QAO TECHNICAL UPDATE – FEBRUARY 2020 ILLUSTRATIVE PURPOSES ONLY – NOT OFFICIAL DRAFT DOCUMENT Sunshine Department and Controlled Entities Notes to the Financial Statements

for the year ended 30 June 2020

#### CONTRACT BALANCES

AASB 15.116(a)

This note provides information about the department's receivables, contract assets and contract liabilities arising from contracts with customers. Contract assets are transferred to receivables when the department's right to payment becomes unconditional, this usually occurs when the invoice is issued to the customer.

Accrued revenue and unearned revenue that do not arise from contracts with customers are included in Notes C5 and C14 respectively.

	Consolidated		Department	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Receivables included in Note C2	x	x	x	x
Contract assets	x	x	x	х
Contract liabilities (unearned revenue)	x	x	x	x

AASB 15.116(b) Of the amount included in the contract liability balance at 1 July 2019, \$X has been recognised as revenue in 2019-20.

AASB 15.116(c)

Revenue recognised in 2019-20 from performance obligations satisfied or partially satisfied in previous periods is \$X. This is

mainly due to a reassessment of the estimate of progress towards satisfaction of performance obligations for DEF services.

- AASB 15.118 Significant changes in contract balances during the year
  - Contract assets increased by \$X as a result of the reassessment of progress for DEF services
  - Contract assets were impaired by \$X
  - The decrease in contract liabilities is largely attributable to services performed under Grant S
- AASB 15.120 Contract liabilities at 30 June 2020 include \$X relating to instalments received for ABC services for which the milestone deliverables have not yet been achieved. This amount will be recognised as revenue over the next three years. In addition, \$X of the contract liabilities relates to Grant S funding for services to be delivered in the next 12 to 14 months.

### **New Accounting Standards for Future Years**

FRR 1A Guidance and Impact of Upcoming Standards
Will be much thinner this year!

Transitional guidance for AASB 1059 retained. Transition date is 1 July 2019, even though 2020/21 is first full financial year of adoption.

> SCA's measured at CRC (on transition date and thereafter).

> Ensure GORTO or financial liability classification is correct.

### FAQ's - AASB 16

- Q. What is the transitional treatment for-
  - assets and liabilities from 'straight-lining' of previous operating leases?
  - lease incentive liabilities?
  - assets previously received as lease incentives?
- A. Answers in 2018/19 FRR 1A

Q. Do I reflect upcoming leases that commence/renew in future years within my Forward Estimates where applicable? A. YES!

### FAQ's – AASB 16

Q. How do I account for any fit-out costs <u>I incur</u> on a QGAO occupancy from 1 July 2019? A. All agencies should continue to capitalise these items as PPE in accordance with the NCAPS to reflect the WOG asset position. Treasury, DHPW and QAO continue to look at this issue.

Q. I am party to an internal-to-Government Finance Lease. How do I account for this? A. Judgement required due to WOG implications. Consult with Treasury and QAO to confirm the appropriate accounting treatment reflecting the circumstances. Lessors are responsible to Treasury for ensuring WOG accounting position is reported in Tridata.

Q. Do I need to keep records for immaterial AASB 16 leases? A. Yes

### FAQ's - AASB 16

- Q. Do I remeasure the lease liability using the revised (i.e. latest) IBR at <u>each reporting date</u>? A. <u>No</u>, unless there is:
  - a change in the lease term, (para 20-21) the most common situation is where the original lease term <u>did not</u> <u>include an option you later exercise!!</u>; or
  - a change in the assessment of an option to purchase the underlying asset; or
  - change in lease payments results from a change in floating interest rates; or
  - a decrease in scope or other adjustment from the lease modification provisions (para. 45 to 46).

### FAQ's - AASB 16

- Lease modifications under AASB 16 stem from <u>a change to the</u> <u>underlying lease contract</u>.
- A lease modification is accounted for as a separate lease if:
  - The modification **increases the scope** of the lease by <u>adding the right to use</u> one or more underlying assets; and
  - The **consideration** for the lease **increases** by an amount <u>commensurate with the standalone price</u> for the increase in scope.
- Both criteria met? The modification is a separate lease.
- Decreases in scope a little more complex

### NFP's and AASB 15 / AASB 1058

Licence Revenue for Not-for-Profit Public Sector Licensors

- > Apply AASB 15 (including short-term and low value)
- Most, if not all, public sector licences in Queensland have a single performance obligation the issue of the licence;
- Enforcement and monitoring activities (compliance monitoring) are <u>not</u> performance obligations under AASB 15;
- Similarly, maintaining exclusivity is <u>not</u> considered a performance obligation;
- Pro-rata refunds alone are insufficient to defer revenue although a separate refund liability may exist;

### The key to sufficiently specific - it must be measurable!!!

- For performance obligations to be sufficiently specific, the agency must be able to determine <u>when (or to what extent) the obligation is</u> <u>satisfied</u>, in order to work out when and how to recognise revenue.
- The overarching principle a promise cannot be 'sufficiently specific' unless we are able to determine when the promise in the contract has been satisfied.
- To have sufficient specific performance obligations, the goods or services to be provided must be specified by or determinable in accordance with the agreement; they must not be at the discretion of the recipient.

### NFP's and AASB 15 / AASB 1058 – sufficiently Specific in practice

#### Outputs

Ordinarily will be sufficiently specific

Typically measurable

We can determine when promise has been satisfied or delivered Activities

"The grey area"

Can you tick off / measure when a promise has been delivered/satisfied?

Maybe at the end of the agreement?

May be a combination of 'sufficiently specific' and not 'sufficiently specific'

 $\leftarrow$  ?? Key Judgement ?? $\rightarrow$ 

**Objectives** 

Ordinarily will FAIL the sufficiently specific test

Not Measurable

Unable to determine when the promise has been satisfied



#### NFP's and AASB 15 / AASB 1058



Identifying performance obligations is CRITICAL because the transaction price must be allocated to the performance obligation(s). THIS IS OFTEN OVERLOOKED

Expenses incurred across a contract <u>may not necessarily</u> reflect the performance obligations satisfied -<u>there is not an automatic matching</u> <u>of revenue with expense.</u>

### NFP's and AASB 15 / AASB 1058

- Are you a Queensland Government Agency that acts as the <u>PROVIDER</u> of volunteer services??
- **Do not account** for the volunteer services **provided**.
- Effectively double counts in the providers books.
- Only the recipient accounts for volunteer services. (Note: FRR 3B.3 applies to recipient only)

### **Climate-related Risks and Financial Reporting**

- An emerging area of focus
- Final joint AASB/AUASB Publication April 2019
- QAO Blog Article (9 January)
- The initial focus is on risks that may have a direct impact on entities' financial statements
  - QAO blog wide audience (including Local Government, Universities, GOC's)
  - 3 key points to remember

# **Climate-related Risks and Financial Reporting**

- 1. Disclosures on the entity's policies or overall approach to managing climate-related risks belong **outside the financial statements (annual report/other documents)**
- 2. Disclosures of climate-related risks in financial statements should focus on:
  - how the risks <u>specifically relate to amounts reported</u> in the financial statements; and
  - how climate-related risks were addressed in the key assumptions applied when developing accounting estimates and calculations.

# **Climate Related Risks and Financial Reporting**

- Practically speaking, what should you be focusing on?
- > There are 5 steps we'd suggest to help:
- A good starting point familiarise yourself with the Queensland Government Climate Strategy documents

https://www.qld.gov.au/environment/climate/climatechange

2. Consider the contents in relation to your own agency. Ask the question "Would users reasonably expect that emerging climate-related risks could affect the amounts and disclosures in our agency's financial statements?"

## **Climate Related Risks and Financial Reporting**

- 3. Complete your agency's climate risk assessment
- 4. Identify accounting judgements and key estimates affected the more obvious areas to focus upon:
  - potential changes in asset useful lives
  - D potential changes in the fair value of assets
  - potential provisions or contingent liabilities
  - potential changes in expenses
- 5. Talk to your audit committee and QAO!!!
## **Climate Related Risks and Financial Reporting**

- > a word of caution approach carefully & logically
  - disclosures will be subject to audit verification
  - any disclosures resulting from the relevant judgements and or estimates made should have the appropriate level of KMP endorsement
  - mere speculation or vague/irrelevant disclosures is <u>not</u> the objective here
  - should not contradict Government or agency policy/frameworks

Over to QAO to continue the session...

Treasury accounting advice? Email: fmhelpdesk@treasury.qld.gov.au











# **Technical update continued**

David Hardidge, Director, QAO





# Upcoming changes





Timely resolution of technical issues



## **Expectations**

- Prepare proforma financial statements by 30 April
- Resolve known accounting issues by 30 April
  - to resolve by 30 April will often need papers by end of March

## Accounting papers / position papers

Sometimes we mean documentation of accounting policies

• E.g. straight-forward revenue like some fees and charges

Others we mean selection of accounting policies

- need to be more comprehensive and consider alternates
- we have to apply scepticism
  - need to consider alternate approaches
  - a good story may not be enough



#### QAO Fact Sheet



#### Preparing position papers for accounting matters and valuation



Home » Reports and resources » Fact sheets

 Reports to parliament
 We produce fact sheets to share our insights and explain our role.

 Better practice
 Image: State in the produce fact sheets to share our insights and explain our role.

 Events
 Image: State instance in the produce fact sheets to share our insights and explain our role.

 Fact sheets
 Financial statement preparation maturity model.

 Fact sheets
 This document outlines QAO's financial reporting preparation maturity model. The model is entity driven, scalable to entities' sizes and complexities, and facilitates sharing of better practices across the public sector.

#### Measuring service performance

This document outlines how performance information is a tool for service management and improvement, and supports informed decision making.

Allocating corporate overhead costs to services

https://www.qao.qld.gov.au/reports-resources/fact-sheets



#### QAO Fact Sheet



#### Preparing position papers for accounting matters and valuation



#### Preparing position papers for accounting matters and valuation

Position papers are a key record of decisions for accounting matters and the outcomes of valuations. This fact sheet provides guidance on identifying topics and the type of information to include.

Helping to inform key decision makers in a timely way will support earlier delivery of financial statements and improve the quality of oversight.

#### Identifying areas for analysis

Entities can identify areas for analysis by undertaking a risk assessment of transactions and balances in the financial statements. This will help to identify complex areas where there is a greater risk of error. These areas will often require regular assessment, position papers and reporting to senior management and audit committees. There are usually two key areas requiring papers—accounting matters, and valuation processes and outcomes.

- Accounting matters could include:
- material, complex or significant one-off transactions
- new accounting standards or changes in accounting policies
   past issues identified, including material misstatements and disclosure deficiencies.
- Valuation processes and outcomes could include:
- · confirmation of asset valuation methodology and model

 confirmation of the depreciation or amortisation methodology (including componentisation), annual assessment of useful lives, and residual values

- key assumptions used to perform the asset valuation and changes from prior valuations
- outcome analysis to understand why, or why not, the valuation has changed, and whether the changes align with valuation assumption and business changes.

Prepare position papers if you consider any of the above accounting matters or valuation processes material for your financial statements.

#### Early consideration

Engaging with auditors early in the process provides a common understanding of any accounting matters and valuation outcomes. It also allows time to work through complexities and alternate views.

Earlier resolution allows audit committees and those charged with governance time to consider the accounting position papers and valuation analyses before 30 June.

•••

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### Accounting for grant income Conceptual change from AASB 1004

Revenue recognition changes







#### 'Grants' David's thoughts



What is the purpose of the funding?

Are there mechanisms for authorised or eligible expenditure? Are there linked refund obligations?

What are the identified promises, key performance indicators?

Is there a transfer of goods and services?

What are the distinct goods or services being transferred (performance obligations)?—refer guidance step 2 in AASB 15

Can you allocate the funding to the performance obligations?

Are there refund obligations for not meeting the performance obligations, key performance indicators?

• If not, are they really performance obligations?

If any performance obligations, when do you recognise revenue?

- Goods and services being transferred
- Capital grants construction



New revenue standards



## **Client action items / expectations**

- Sources of revenue
  - which sources have performance obligations?
  - which ones are capital grants?
  - accounting papers / position papers—prepared and agreed
  - QAO's fact sheet for preparing position papers is a useful tool
- Transition date adjustment
  - opening balance unearned revenue / contract receivables
  - implemented systems for periodically calculating balances
- Include required disclosures in the pro-formas



New lease standard



## **Client action items / expectations**

- FRRs
  - DHPW office accommodation leases
  - blog
  - Do you have any 'lease agreements' that are not leases, or any hidden leases?
- Lease term—focusing on optional renewals
- Transition date adjustment
  - what choice have you made?
  - opening balance lease assets and lease liabilities
- Include required disclosures in the pro-formas



Fair Value Measurement



## **AASB Fair Value Measurement project**

- Project Advisory Panel
- Public sector focus
- Restrictions and conditions
  - discounts—do you apply any? E.g. land under buildings
  - what is the justification for the discount?
  - what is the market or other evidence?
- Greenfield vs Brownfield
  - day 1 gain?
- Borrowing costs
- Peppercorn / concessionary leases



#### Local government elections

- Related party declarations—before
- Large number of new councillors
- Related party declarations—after

## **State government elections**

- Centrally coordinated—ministers—related party declarations
- Are you ready for more MOGs?



Reporting framework changes



AASB 16 Leases









## **Update on reporting**

**Damon Olive, Assistant Auditor–General** 





New financial reporting maturity model



#### We have been working on ways to improve our assessment model

One size doesn't fit all—scalability, responding to client specific factors

- Key components for quality and timeliness
- → Helps identify improvement areas
- Sharing better practice

		Level of maturity						
		Developing	Established	Integrated	Optimised			
Component	Quality month end processes and reporting	Entities should set the level of maturity that is						
	Early financial statement close processes	reflective of their size, complexity, age, and structure.						
		QAO does not expect that all entities will sit in the						
Com	Skilled financial statement	integrated	s aim					
Ŭ	preparation processes and use of appropriate		ose categories. Th should always be	<u> </u>				
	technology	0	the benefits that w					
	Timely identification and resolution of financial reporting matters	-						

We will discuss our judgements with clients, and use their self-assessments —outcomes reported to TCWG in management letters and closing reports





Finance teams can ensure they sit at their expected level of maturity, and benchmark actual level to expectation

Component		Developing	Established	Integrated	Optimised
Quality month end processes	Larger or established			€	⇒
	Newly established	<	>		
	Small	-	<b>«</b>	>	
Early financial	Larger or established	-		<b>~</b>	>
statement close process	Newly established	<b>«</b>	→		
	Small	<b>*</b>	>		
Skilled financial statement	Larger or established			<b>←</b>	>
preparation and use of technology	Newly established	<b>«</b>	>		
technology	Small	<b>*</b>		>	
Resolution of financial	Larger or established			•	>
reporting matters	Newly established	÷	>		
	Small	-	÷	- >	

Further details: <u>www.qao.qld.gov.au/fact-sheets</u>



# Support available



## Self assessment tool and fact sheet on QAO's website

 Self assessment tool on our website <u>https://www.qao.qld.g</u> <u>ov.au/reports-</u> <u>resources/better-</u> <u>practice</u>

→ Series of questions for

each component

→ Rating provided at a

detailed level



Home » Reports and resources » Better practice

Repor

Better

Event

Fact sheets

orts to parliament	We provide advice on better practice to help state and local
er practice	government public sector entities.
ts	They are developed in response to issues, challenges and opportunities we identify through our audit work and engagement. We offer a range of resources including guides, checklists and self-assessment tools.

#### Learnings for ICT projects

As part of <u>Effectiveness of the State Penalties Enforcement Registry ICT</u> <u>reform (Report 10: 2019–20)</u>, we provided lessons learned to guide all entities involved in information and communication technology (ICT) projects.



#### Financial statement preparation maturity model selfassessment tool

This self-assessment tool helps state entities determine their expected level of maturity against QAO's financial reporting maturity model.



Reporting the outcomes



#### Fact sheet on the model contains our proposed reporting

https://www.qao.qld.gov.au/reports-resources/fact-sheets

The aim of the model is identify areas of good practice and improvement

#### Reporting to clients:

- report outcomes to those charged with governance audit committees and directors-general/chief executive officers
- deficiencies in internal controls will be reported, if identified

#### Public reporting:

• themes and better practices will be included in reports to parliament



# parliament



Continue to have eight financial statement focussed reports

Two new features in the reports this year:



#### Results of our audits

Report on a page

Actions for entities

1. Entities in this report

2. Results of our audits

4. Initiatives of Queensland Government entities

3 Internal controls

Appendices

This report summarises the results of audits of Queensland state government entities for 2018–19, including the 21 government departments.

The financial statements of all departments and government owned corporations, and most statutory bodies and controlled entities, are reliable and comply with relevant laws and standards.

Most government departments have robust financial reporting processes and systems, allowing them to produce their financial statements in a timely manner. There is room to improve quality assurance processes, with six departments making changes to their final draft financial statements. They should only make changes if they will influence a reader's understanding.

The state government entities' controls for financial systems and processes are generally effective, which means management can rely on them when preparing financial statements. We also rely on the controls for our audits.

We raised several matters with entities relating to controls over information systems, financial delegations and conflicts of interest for procurement processes, asset valuations and payroll monitoring.

#### Departments are prepared for new accounting standards

Departments have prepared well for implementing the new accounting standards for revenue and leases that took effect on 1 July 2019.

Assets and liabilities are both expected to increase by around \$2 billion following the introduction of the new lease standard. The Department of Housing and Public Works manages office accommodation for the state and will record most of the changes from the new standard.

#### Fraud attempts are increasing

There was an increase in fraud attempts this year, mostly relating to requests to change employee and supplier bank account details. Entities must ensure they check all change requests with an independent source. Where frauds occurred, the requests had not been checked effectively.

#### Strong information systems controls are critical

Information systems continues to be the area in which we identify most issues, particularly in relation to user access to systems and governance over the transfer of information to new Departments are prepared for new accounting standards Fraud attempts are increasing Strong information systems

controls are critical Actions for entities

1. Entities in this report

2. Results of our audits

3. Internal controls 4. Initiatives of Queensland

Government entities

Appendices



From our analysis of the sector, we identified the following actions for all entities to consider

#### Decrease risk of fraud by checking requests to change employee and supplier details

Entities should treat all employee and supplier change requests cautiously, especially requests to change bank account details, as they increase the risk of fraud. When a request is received from a supplier, entities should:

- phone the supplier using a contact number obtained from an independent source, such as the supplier's website or the White Pages directory
- check the letter that initiated the change for likely errors in details, such as supplier's name, address, phone number, website, email contact details, financial controller's or chief financial officer's name; and remittance email address.

#### Secure information systems

Entities should secure information systems to prevent unauthorised user access that could result in fraud or error. They should consider:

- assigning employees the minimum access required to perform their job, ensuring that important stages of processes are not performed by the same person
- reviewing user access regularly to ensure it remains appropriate
- monitoring activities performed by employees with privileged access (which is held by users who can access sensitive data and create and configure within the system) to ensure they have been appropriately approved.

#### Control the transfer of information to new systems

To ensure there are no errors when moving information to a new system, entities must ensure they establish a robust governance process to oversee the project, with:

- an approved governance framework
- a project committee, with enough time and appropriate skills and experience to oversee the project
- a project plan that is supported by detailed risk assessments and task plans and includes assurance processes
- regular reporting to facilitate timely decision-making.

#### Strengthen procurement processes

Entities should ensure all procurement is appropriately approved and any conflicts of interest are declared and managed. To strengthen procurement practices, entities should:

- regularly review the appropriateness of financial delegations, ensuring controls adequately
  detect and prevent delegates exceeding their approved delegation limit
- educate employees on the importance of declaring conflicts of interest and how to recognise them, providing an appropriate means to report and record these.

#### Review payroll reports and reconciliations in a timely manner

Payroll reports and reconciliations should be regularly reviewed to ensure payments made to



# Data visualisations



#### **Check them out:**

#### hospital and health service data visualisation tool

local government visualisation tool

#### **Queensland electricity network map**



#### Townsville

Townsville is a Large regional HHS. The other Large regional HHS are Cairns and Hinterland, Darling Downs and Sunshine Coast.

Hospitals in Townsville: Ayr Hospital, Charters Towers Hospital, Hughenden Hospital, Ingham Hospital, Joyce Palmer Health Service and Townsville Hospital



revenue \$1.0B	expenses \$1.0B	ASSETS \$897M	LIABILITIES \$56.0M	ACTIVITY MEASURES			
~	~	~	~	~			
Employee Expen	ses	Townsville \$709M					
	\$0.0			\$794M			
	\$0.0 Employ the mic	vee Expenses reported for Que ddle value in the selected data	ensland HHS ranged from \$50	arge regional HHS \$701M \$794M .0M to \$2.1B. Median is			
Supplies And Ser	vices		\$	Townsville 249M			
	\$0.0			\$322M			
		Median of 4 Large regional HHS \$242M					
	\$0.0			\$322M			
			1 1111C 15 65	0 CM . 6007M M			

Supplies And Services reported for Queensland HHS ranged from \$28.6M to \$723M. Median is the middle value in the selected data range.



Themes from this year's reports



#### **Financial statement preparation process**

Good timeliness, with room to improve quality processes

Continue to bring forward audit committee review and endorsement

Departments are prepared for new standards

#### Strong information systems controls are critical

Most deficiencies we identify relate to information systems controls, particularly user access and governance:

Do staff have more access than required to do their jobs?

Do you monitor and challenge access levels regularly, inc privileged users?

#### **Increase in fraud attempts**

Must ensure that all bank account change requests are checked to an independent source



## Afternoon tea



# 2.20 – 2.40 pm 🕃









# Managing cyber security risks and ICT governance

**David Toma, Director, QAO** 





Introduction



The Queensland Government is set to spend \$2.6 billion on ICT projects 2018–19 to 2021–22

Heightened interest in ICT projects

To help manage the risk of project failure...

—must improve oversight and governance, and transparency on cancelled projects!

We assessed whether the ICT component of the State Penalties Enforcement Registry (SPER) was governed effectively

findings and lessons for all public

sector agencies and local governments

#### We'll discuss:

- software as service contracts
- defining contract deliverables
- reliance on consultants & contractors
- limited capacity of internal staff to work on transformation projects
- stop and rethink
- contracts
- organisational culture
- big-bang projects
- project steering committees
- statutory officers' roles



Lessons for ICT projects



#### Software as service contracts (SaaS)

Thorough due diligence of the vendor and the product is needed before contracts lock entities into long term relationships

-do not use outcomes basis as an excuse for not defining detailed requirements

Ensure you see the product working in action first-hand and be confident it is meeting your needs, and vendors will work well with you

#### Defining contract deliverables

Not doing this sufficiently up front is costly and vendor's and entity's expectations may be misaligned = may mean change requests and significant variations



### Lessons for ICT projects



#### Over reliance on consultants and contractors

Can result in lack of business understanding when requirements are defined

If you entity lacks expertise, engage a 'critical friend' independent of the delivery team and can provide objective advice to the project steering committee on risks

#### Limited capacity of internal staff to work on transformation projects

To reduce risk, involve staff who have detailed knowledge of your business in transformational projects. Their capacity may be limited so consider delegating their responsibilities to others

## Stop and rethink

Do not push ahead when major changes will impact your project. Pause, assess risks, and fully reconsider before moving forward



# Lessons for ICT projects



## Contracts

Be careful you don't commit to long-term software development and support contracts that are hard to terminate when things go wrong

You should be able to conduct assurance activities over the vendor and incorporate this into the project assurance

#### **Mini Organisational culture**

Can inhibit project governance effectiveness if staff are operating in silos, and when bad news is not communicated

Stopping a project before it incurs costs is better than doing so after significant money is spent

## Big-bang projects

It's high risk to do everything at once when it comes to business transformation projects. Implement change in segments so you can review, learn and assess risk



#### Lessons for ICT projects



#### Project steering committees

Include representation from internal ICT areas and the newly created Office of Assurance and Investment

When committee members are part of a governance group for a long time, they will find it hard to question previous decisions

If you're highly dependent on external consultants, engage an independent expert— 'critical friend'— to challenge you

### **T** Statutory officers' roles

Responsibilities are defined in legislation which gives them independence from CEOs. But they and CEOs must work collaboratively



## Cyber security



# Cyber attackers are targeting government entities

-trying to compromise Australia's economic interests and national security

Protecting government information assets with secure systems is critical

In *Managing cyber security risks* we compromised ICT environments and accessed sensitive data, demonstrating gaps in mitigation strategies

Everyone (staff, third parties) are responsible for protecting data

What makes it easy for cyber attackers

- Poor physical security
- Poor password practice
- Known password breaches
- Vulnerable information assets
- Multi-factor authentication not used
- Admin accounts used for business as usual
- Networks not being segmented
- Outdated systems with known vulnerabilities
- Descriptive subdomains
- Insecure channels for online operations







# Our report provides 17 recommendations relevant for all

Implement controls on cost-benefit basis, but assess against our first three recommendations to:

- ✓ have a framework for managing cyber security risks
- know what information assets you have
- know to what extent those assets are exposed



Eight insights statements provide examples of better practice

Areas that our report recommendations cover

- Cyber security framework
- Information classification
- Identifying and assessing cyber security risks
- Information asset management
- Cyber security risk management strategies
- Monitoring and logging



# More information



#### The reports

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

### **These learnings**

Better practice guide <u>www.qao.qld.gov.au/reports-resources/better-practice</u> Blog posts <u>www.qao.qld.gov.au/blog</u>

Subscribe to QAO for news and alerts www.qao.qld.gov.au/contact-us





Q&A









## **Business insights and using data**

Rob Kilbride, Director, QAO





Thinking

Technology

**Techniques** 

Accessible



SQL Server

MindBr



Journal



#### Is there journal processing occurring out of hours?





Expected

people



Financial Transactions Days and times

<b>Traditional</b> Identify transactions	Date	Description	Amount	Day of week	Public holiday	Subset
that fail a rule	14/8/2019	Dagwoods	\$5,000	Wednesday	Ekka	Lacks
	7/10/2019	Staplers	\$100,000	Monday	Labour Day	context

processing

**Understand the** question

**Out of hours** 

Material transactions

**Geographical context** 

By people I would not expect

**Understand the** data you need



Visual that facilitates insight



#### Journals in the FAS App



Journal

analysis

2

.

User String	• User • System Details	FY16 NET \$	FY17 NET \$	FY18 NET \$
		2,761	3,109	3,356
WF-BATCH Workflow System	-	1,614	1,046	2,012
10003692 Noe	Shared	1,179	714	1,035
10006054 Anton	Department	-33	1,347	307



# Bad visualisation





Source: The Australian, 13 February 2020, Business baulks at Labor's ability to spend hand over fist, Sarah Elks



Note: NFPS—non-financial public sector; GGS—general government sector.

Source: Queensland Audit Office

# They actually used wrong scale

## Rate off time peiasers as not that different under LNP

Q&A



#### Evolution

 Challenge approach and techniques

#### Integration

 Facilitate integration of different teams

#### Automation

Opportunities to utilise robotics

#### Insight

 Enhanced risk, client and public sector









# Closing

#### Karen Johnson, Assistant Auditor-General, QAO



# Queensland Audit Office

Better public services