

# **2015 Technical Update for Departments and Statutory Bodies**

Improving financial reporting

26 March 2015

# **Improving financial reporting – LESS IS MORE**

**Karen Johnson  
Assistant Auditor-General  
Specialist Audit Services**

# Disclosure overload

- Do the financial statements provide only meaningful information to their users?

Department of Education, Training & Employment		
Year	No. of pages in Audited Financial Statements	No. of notes in Audited Financial Statements
2004	31	36
2014	60	40

# Question

Did your financial statements provide a clear and concise picture of your operations, which were easily understandable for a user?

# Reduced disclosure

Why should your entity take on this opportunity?

# Model financial statements

- Disclosure **guidance**
  - Sunshine Department Model Financial Statements
  - AASB 101
- “Agencies must comply with the **general form and content** of these model financial statements when preparing their own financial statements”  
source Qld Treasury
- Staged approach – refine over time

# Proforma financial statement review process

Ask 3 questions:

Is it relevant?

Is it material?

Is it clear?

# Is it relevant?

## **(ac) New and revised accounting standards (continued)**

The following Accounting Standards issued but not yet effective may impact Children's Health Queensland in future periods. The potential effect of the revised Standards and Interpretations on Children's Health Queensland financial statements has not yet been determined.

Standards effective for annual periods beginning on or after 1 July 2014:

- AASB 10 *Consolidated Financial Statements* redefines and clarifies the concept of control of another entity, and is the basis for determining which entities should be consolidated into an entity's financial statements. AASB 2013-8 applies the various principles in AASB 10 for determining whether a not-for-profit entity controls another entity.
- AASB 11 *Joint Arrangements* deals with the concept of joint control and sets out new principles for determining the type of joint arrangement that exists, which in turn dictates the accounting treatment. The new categories of joint arrangements under AASB 11 are more aligned to the actual rights and obligations of the parties to the arrangement.
- AASB 1055 *Budgetary Reporting* specifies the nature of budgetary disclosures and the circumstances in which they are to be included in the financial statements, as well as whole of government reporting.

All other Australian Accounting Standards and Interpretations with future commencement dates have been initially assessed as either not being applicable to Children's Health Queensland or have no material impact on the financial statements of Children's Health Queensland.



# Does it add any value?

	Notes	2014 \$'000	2013 \$'000
<b>Current assets</b>			
Cash and cash equivalents	17	38,968	26,669
Receivables	18	8,121	11,770
Inventories	<del>19</del>	2,603	2,985
Other current assets	<del>20</del>	136	142
		<b>49,828</b>	<b>41,566</b>

## 19 Inventories

	Note	2014 \$'000	2013 \$'000
Inventory held for distribution - at cost	2(j)	2,603	2,985
<b>Total</b>		<b>2,603</b>	<b>2,985</b>

## 20 Other current assets

Prepayments	136	142
<b>Total</b>	<b>136</b>	<b>142</b>

# Duplication of information

## Expenses from continuing operations

Employee expenses

Health services employee costs

Supplies and services

Grants and subsidies

Depreciation and amortisation

Impairment losses

Revaluation decrement

Other expenses

**Total expenses from continuing operations**

**Reference to PPE  
reconciliation note  
and remove note 13**

7	2,390	1,660
8	236,851	231,408
11	77,327	75,268
12	1,084	75
13	7,334	7,005
14	(44)	678
15	-	104
16	1,703	884
	<b>326,645</b>	<b>317,082</b>

## 13 Depreciation and amortisation

Depreciation and amortisation were incurred in respect of:

- Buildings

- Plant and equipment

- Intangible assets

**Total**

4,337	4,189
2,822	2,815
175	1
<b>7,334</b>	<b>7,005</b>

# Is it material?

Notes to and forming part of the financial statements  
for the year ended 30 June 2014

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## 26 Contingencies

### (a) Contingent liabilities - litigation

At 30 June 2014, the following number of cases were filed with the respective jurisdictions naming the department as defendant:

	Number of cases	
	2014	2013
Supreme Court	-	-
District Court	-	1
Coroner's Court	-	-
Other courts	-	-
Court not yet identified	-	-
	-	1

# Is it material?

## Statement of Comprehensive Income - Controlled for the year ended 30 June 2014

	Note	2014 \$'000	2013* \$'000
<b>Income from Continuing Operations</b>			
Appropriation revenue for services	2	2,322,112	2,435,843
User charges and fees	3	10,036	9,606
Grants and other contributions	4	50,873	63,156
Other revenue	5	8,738	15,656
<b>Total income from continuing operations</b>		<b>2,391,759</b>	<b>2,524,261</b>
<b>Expenses from Continuing Operations</b>			
Employee expenses	6	535,763	575,885
Supplies and services	8	142,992	155,095
Grants and subsidies	9	1,650,674	1,729,341
Depreciation and amortisation	10	31,679	35,989
Impairment losses	11	503	(259)
Revaluation decrement	12	2,334	5,590
Other expenses	13	7,820	18,781
<b>Total expenses from continuing operations</b>		<b>2,371,765</b>	<b>2,520,422</b>
<b>Operating result from continuing operations</b>		<b>19,994</b>	<b>3,839</b>
<b>Operating result for the year</b>		<b>19,994</b>	<b>3,839</b>

# Consider under disclosure

## Extract from 2014 Provisions note

### (g) Other provisions

Other provisions comprise an outstanding commitment in the prior year to compensate a supplier for materials and project administration and engineering costs that were de-scoped from the XXXXXX capital program for the amount of \$XXX million. In accordance with the accounting standards, this commitment is recognised as a provision in the current reporting period as the consolidated entity has a present contractual obligation, relating to an event that has occurred, which is expected to be settled in the next reporting period.

# Disclosure overload

## 2014 Department of the Premier and Cabinet annual report:

- Report is 82 pages of which 48 are financial statements (59%)
- Policy notes – 9 pages
- KMP note – 6 pages
- Financial instruments note – 4 pages (and they only have cash and receivables)

# Takeaway points

You cannot achieve simplification without having the internal systems and governance structures to enable the month end/year end accounting.

## 1. Request removal of:

- Any non-applicable accounting policy disclosures
- Any disclosure of irrelevant scenarios
- Unnecessary carry forward information

## 2. Promote only material disclosure

## 3. Promote tailoring – what decision useful information is required?

# Month end processes and financial statement timetable



- Strategies outlined in letters from Under Treasurers in February 2013 and Jan 2014
- Timetable should work backwards from critical events
- Proforma financial statements and soft or hard closes are essential



# Month end processes and financial statement timetable

Strategies	Requirements
Monthly basis (with management review and endorsement)	<ul style="list-style-type: none"><li>• Variance analysis (with meaningful explanation)</li><li>• All key balance sheet reconciliations are prepared, issues resolved and approved</li><li>• Report on contingent assets and liabilities</li><li>• Management's strategies on emerging financial risks</li></ul>
From 2014 endeavour to have	<ul style="list-style-type: none"><li>• Soft Close</li><li>• Pro forma financial statement prepared by 30 April (includes comparatives and updated accounting policy notes)</li><li>• Accounting issues resolved by 30 April</li><li>• All asset stocktakes completed by 30 April</li></ul>
In longer term	<ul style="list-style-type: none"><li>• Non current asset revaluations completed by 31 March</li><li>• Utilise internal audit function for annual financial statement reporting process</li><li>• Independent members appointed to the department's Audit Committee (ideal ratio is 50%)</li><li>• Hard Close</li></ul>

# QAO assessment for 2014

Strategies	Met	Partly met	Did not meet	Not applicable
Monthly reporting processes	19	-	2	-
Completion of non-current asset valuations	6	3	9	3
Content of pro forma financial statements	16	-	5	-
Resolution of accounting issues	13	2	6	-
Completion of all asset stocktakes	16	-	4	1
Role of internal audit	10	-	11	-

# Areas where improvements can still be made

- Quality assurance of financial statement supporting work papers
- Non-current asset valuations
- Good quality pro forma statements
- Rigorous analysis of the balance reported in the financial statements

# Financial reporting update - 2014-15 hot topics!

Alison Cuthbert  
Principal Accountant  
Fiscal Strategy Division  
Queensland Treasury

# Presentation of Financial Statements

## *(refer to FRR 4)*

### Clarification –

- replacement of “general form & content” phrase (Form & Content of Financial Statements section)
- note disclosures where material to agency (also in Note Disclosures section) – consistent with future amendments to AASB 101 *Presentation of Financial Statements* (via AASB 2015-2)

# Materiality

*(refer to new APG 19)*

- Quantitative aspects -
  - percentages to use - <5% (immaterial), 5-10% (judgement), >10% (material)
  - comparators to use for assessments (e.g. total income, total expenses, total operating cash inflows etc)
  - 'cumulative' materiality of 'immaterial' judgements
  - **materiality of controlled entities**
- Qualitative aspects (nature) e.g. public interest

## Materiality (cont)

- Agency materiality strategy to manage judgements –
  - early documentation of strategy
  - early negotiation with external audit
  - early endorsement by Audit Committee
  - monitoring of cumulative impacts of multiple ‘immaterial’ judgements
  - **dealing with distortions in current year comparators**

# **AASB 1055 *Budgetary Reporting***

## **(refer to *FRR 9, APG 18 & Sunshine Dept model statements*)**

- Departments & statutory bodies included in annual Service Delivery Statements (SDS)
- Controlled statements
- Administered income/expenses/assets/liabilities
- Departures from AASB 1055 –
  - Statement of Changes in Equity
  - **variance analysis for total equity**
- Disclosure only in notes



## AASB 1055 *Budgetary Reporting* (cont)

- ✗ No comparatives
- Variances - \$ & % - all line items
- ✗ No replacement of original budgets with revised budgets;  
no additional column for revised budgets
- Substitution of original budget only for –
  - machinery-of-Government changes (i.e. DAN)
  - new/abolished agencies

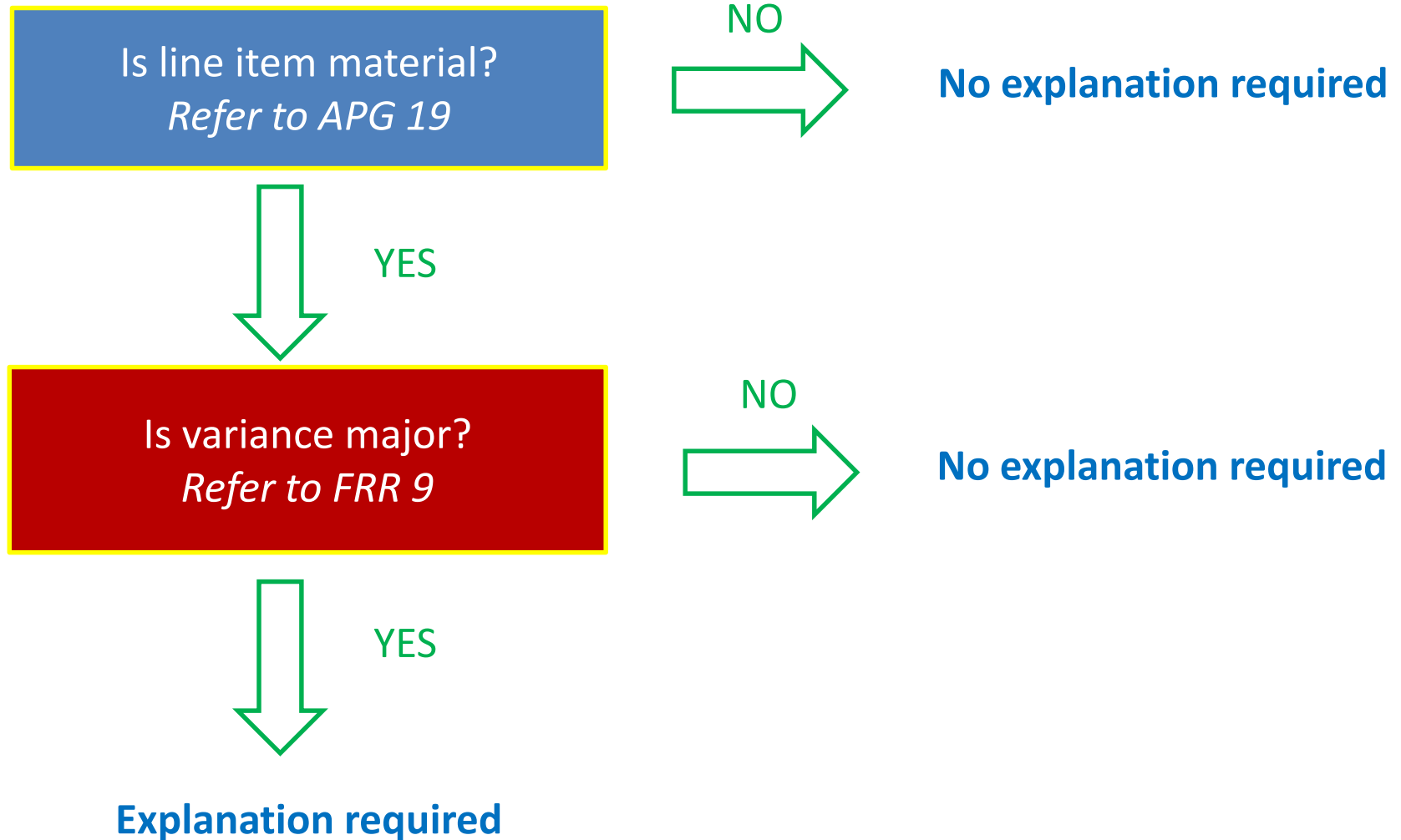
## AASB 1055 *Budgetary Reporting* (cont)

- New agency since SDS for that year's budget process –
  - if reallocation of functions – use latest SDS Adjusted Budget figures
  - if no reallocation of functions from another agency – out-of-scope for 1<sup>st</sup> year only
- Abolished agency's final financial statements –
  - if part or full reallocation of functions – use unallocated part (if any) of original budget figures
  - if no reallocation of functions to another agency – use original budget figures

## AASB 1055 *Budgetary Reporting* (cont)

- Otherwise impacted by moG – use SDS Adjusted Budget
- APG 18 Machinery-of-Government Changes – suggested wording to explain basis for figures used
- Line item format as per general purpose financial statements
- Major variances – 2 tests re need to explain

# Explanations of major variances



## AASB 1055 *Budgetary Reporting* (cont)

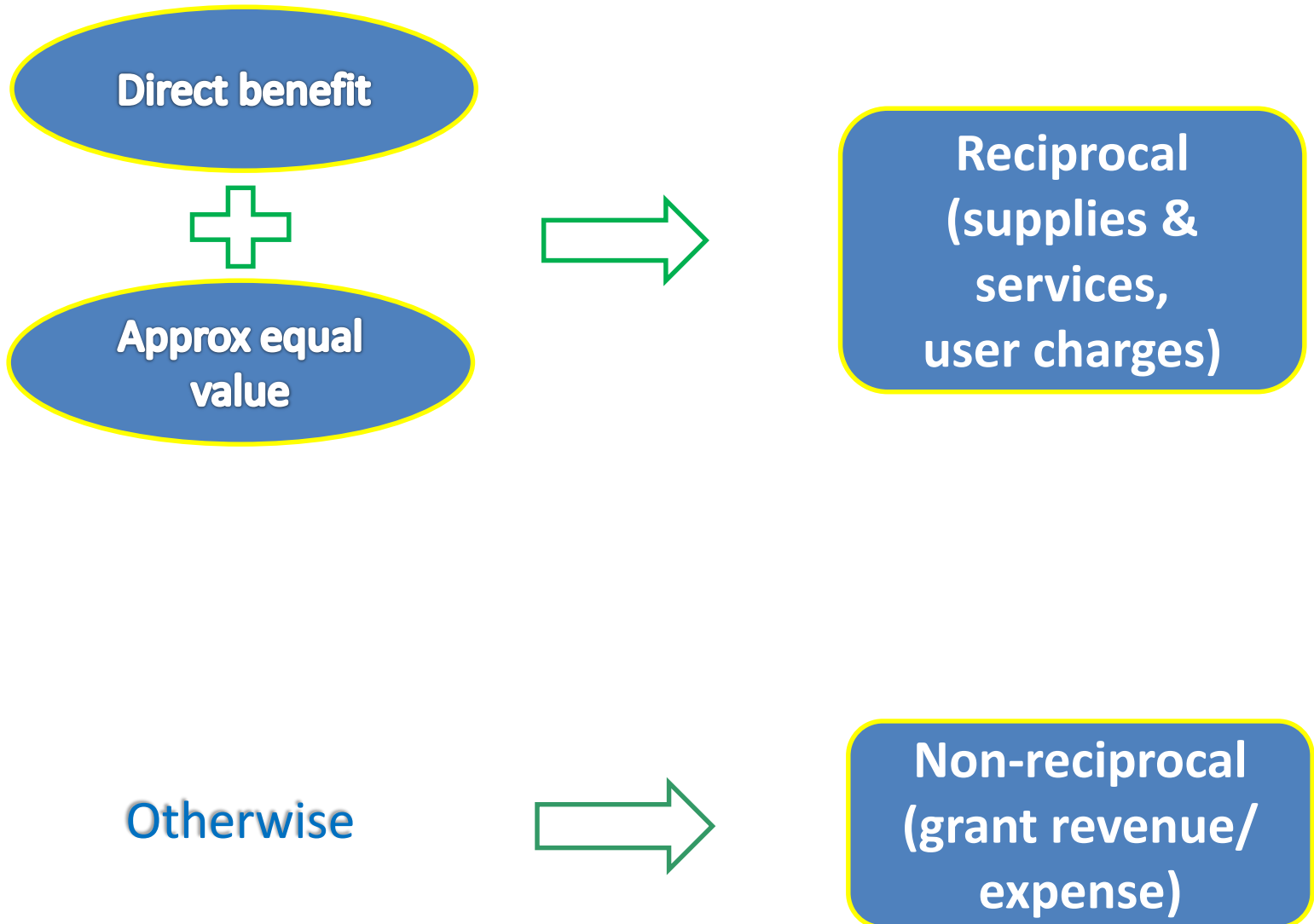
- Explanations of major variances need to cover -
  - specific transactions/balances relating to variance
  - quantification of how much relates to each (where possible)
  - underlying cause, with reference to budgeted amount
- Minimise duplication of explanations

# Grants vs Procurement Classification

*(refer to new APG 20)*

- Replaces Guideline “Distinction between Grants & Service Procurement Payments”
- Applies to –
  - transferor & transferee
  - cash & non-cash transfers
- Reciprocal vs non-reciprocal

# Reciprocal vs non-reciprocal

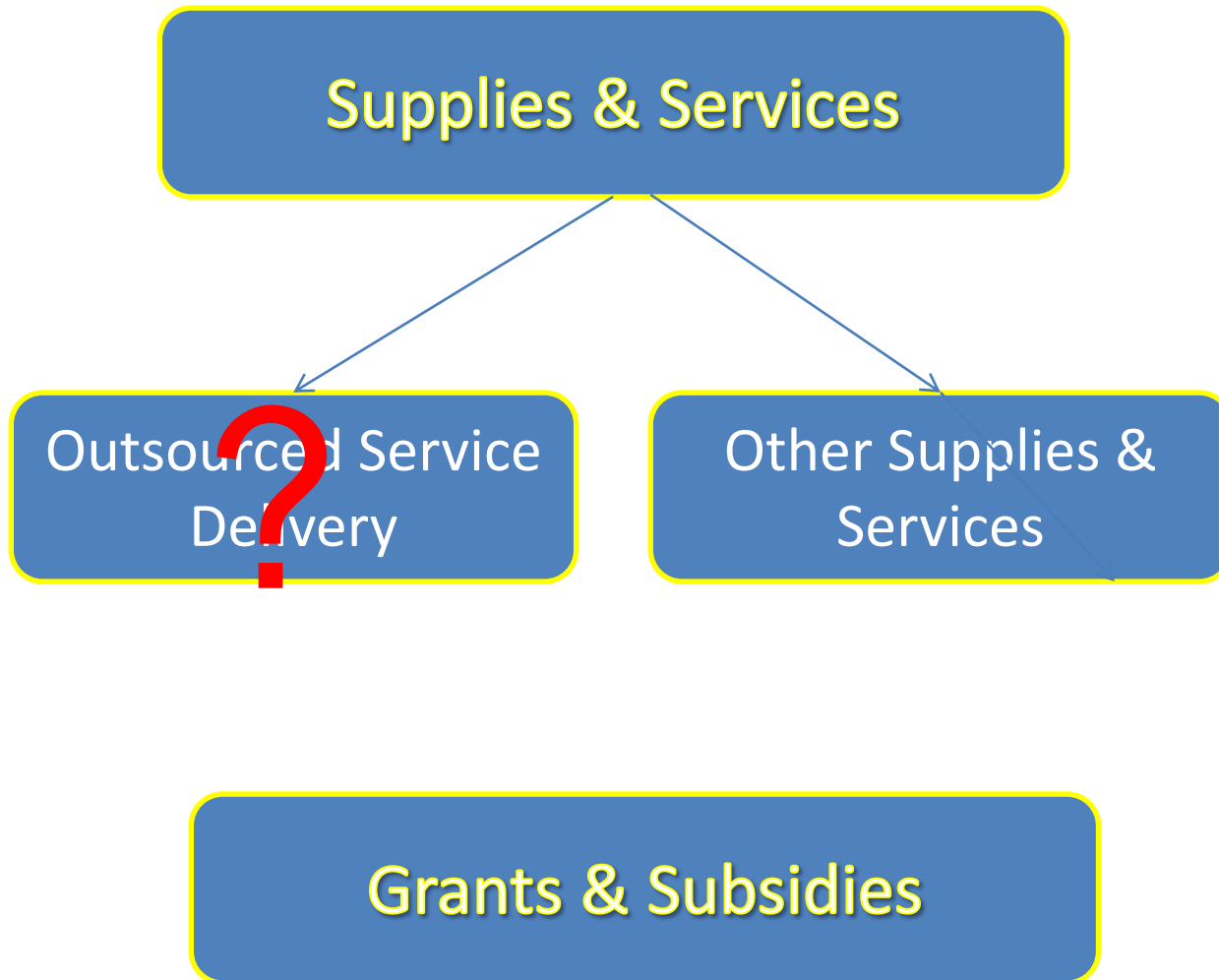


## Grants vs Procurement Classification (cont)

- Requires –
  - substantial judgement
  - understanding of business context, extent of agency obligations
  - case by case assessment
- Timing of recognition –
  - non-reciprocal – full revenue/expense upfront
  - reciprocal – revenue/expense to extent that direct benefits received/provided



# Expense classifications



## Net method of revaluation

*(refer to NCAP 3.6, NCAP 5.6, Transitional Guidance)*

- Market/income valuations – net method
- Depreciated replacement cost valuations – gross method
- Also applies to subsequent indexation
- No impact on revaluation schedule re indexation, specific appraisals, rolling revaluations etc
- Example explanatory wording included in model financial statements

## Forward Plan ...

More radical review of entire FRRs for 2015-16 –

- ✓ mandatory policies (Part B)
- ✓ guidance (Parts B & C)
- ✓ model financial statements (Parts D & E) – organisation of notes

(effectively early adopting AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*)

# Contact with Accounting Policy & Advice Team



Financial Management Help Desk:  
[fmhelpdesk@treasury.qld.gov.au](mailto:fmhelpdesk@treasury.qld.gov.au)



To be added to our email distribution  
list:  
[fmbregistrations@treasury.qld.gov.au](mailto:fmbregistrations@treasury.qld.gov.au)

# **Technical Audit Update**

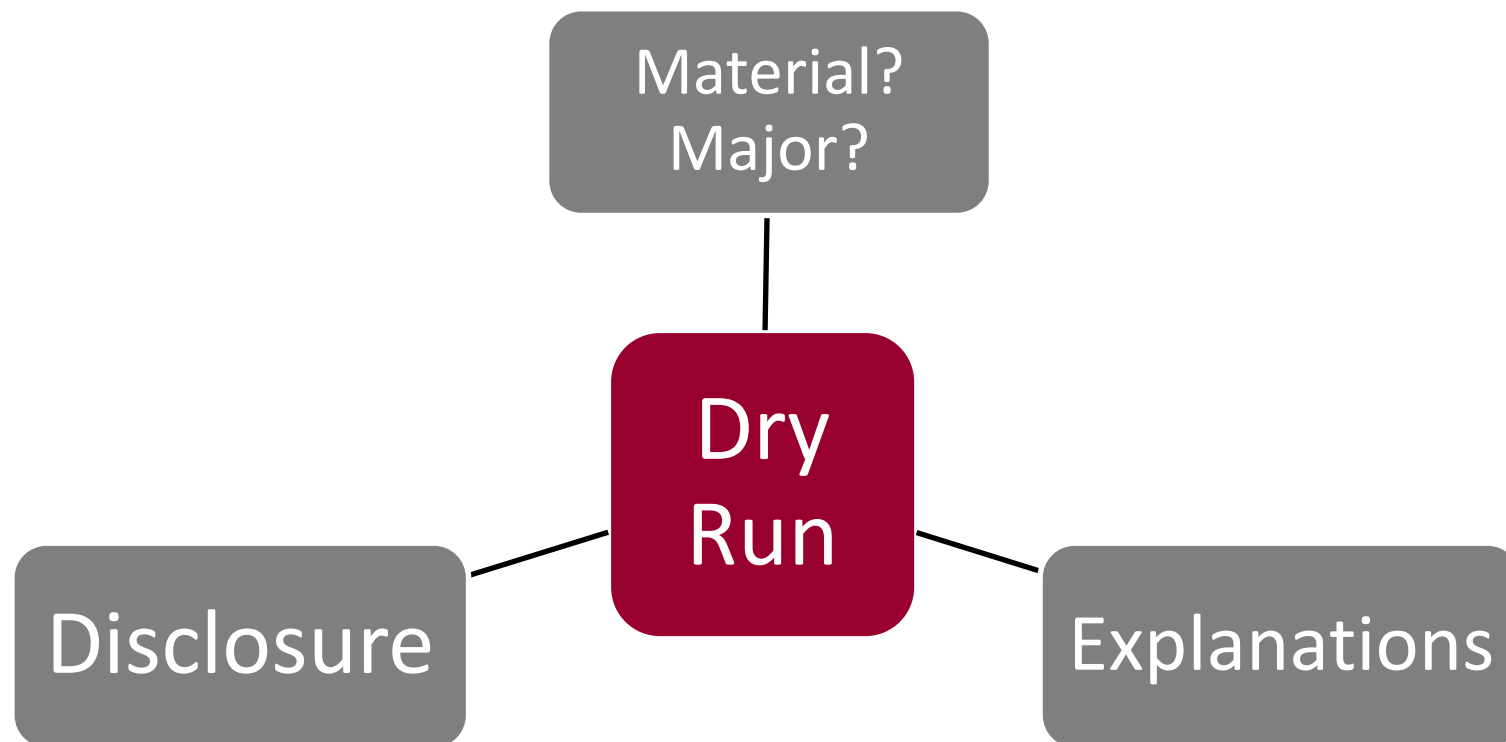
**Rachel Vagg**  
**Director, Queensland Audit Office**

# Budgetary Reporting

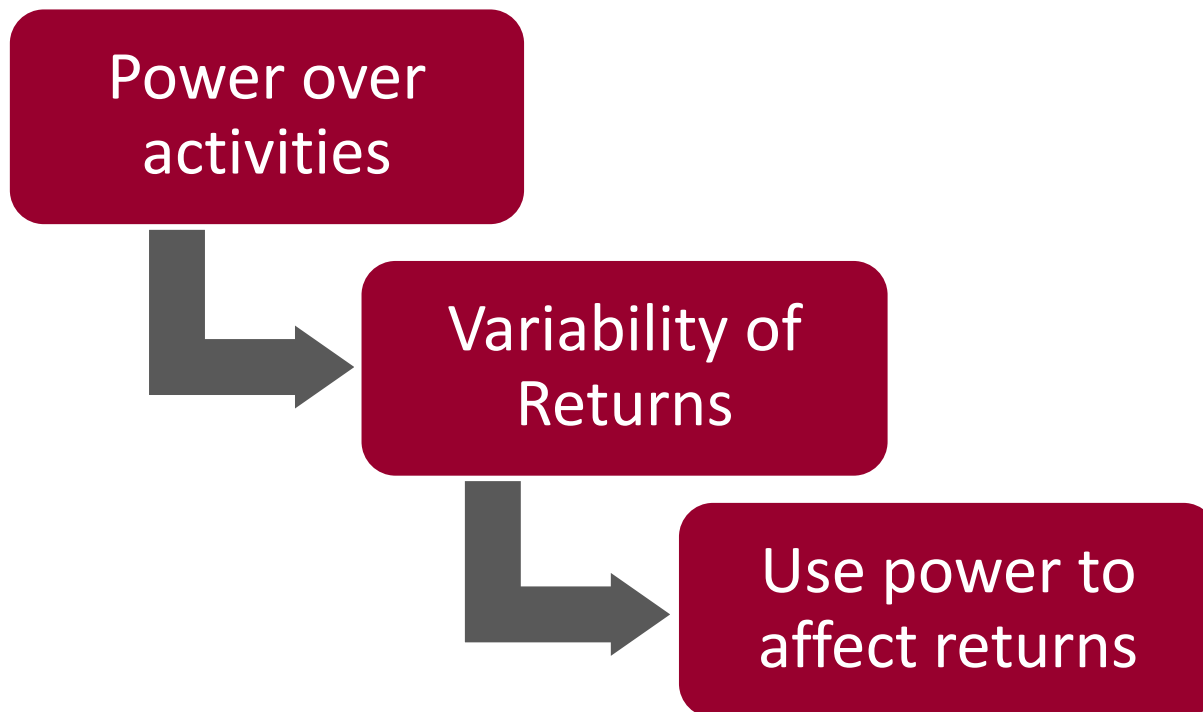
1. Understand budget preparation and monitoring
2. Original budget
3. Actual performance
4. Explanations - provide the reasons for the difference

More than a variance analysis

# Preparation hints



# Controlled Entities Suite





# Controlled entities

- Consolidate material controlled entities
  - Nature of the subsidiary is important
- Disclosure
  - Uniform accounting policies

# **Appreciating Depreciated Replacement Cost**

# Depreciated replacement cost

## What is it?

- Arrive at the amount of what it would cost today to replace the remaining service potential of the asset



# What is Depreciated Replacement Cost?

Full replacement cost

Adjusted for age

Adjusted for condition

Adjusted for residual value

# Full replacement cost of the asset

Modern  
Equivalent

- Current engineering
- Modern materials

Adjusted  
for

- Gold plating
- Greater service potential
- Obsolescence?

# Age and Condition adjustments

- What should your valuer do?
- In intervening years?
- Accounting impact

# Residual values

**Scrap or disposal value at the end of the useful life**

**Consider -**

- Useful life
- Components
- AASB staff paper

# Use of experts

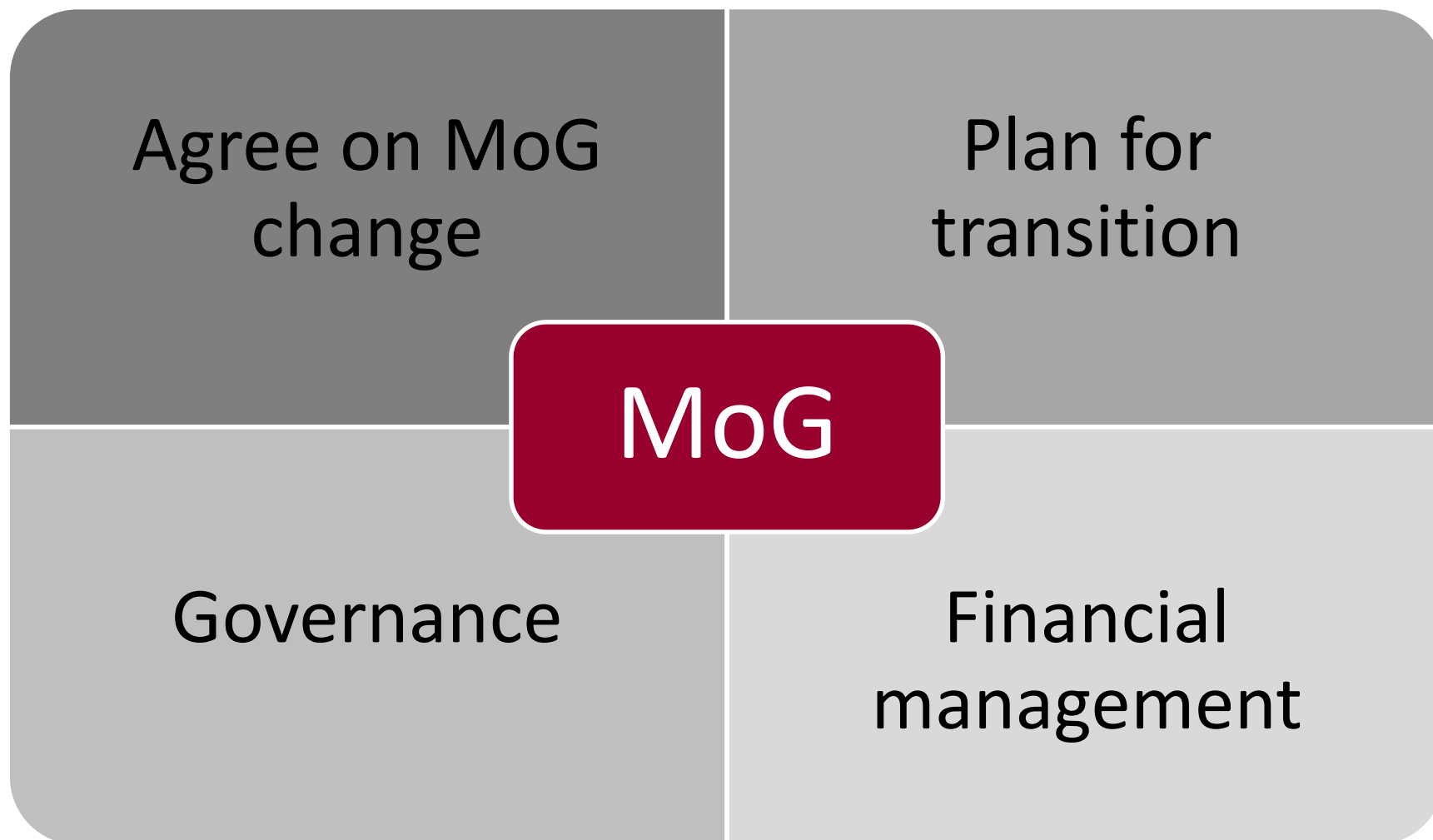
- What should a valuer do for your entity?
- Questions to ask - checklist
- NCAPs



# **Machinery of Government changes**

**Paul Christensen**  
**Director – Audit Policy**  
**Audit Policy and Standards**

# Practical issues to consider



# Impact on financial statements

## Effective Date

- 1 March 2015

## Impacts

- Transfer of balances
- Financial systems
- Financial statement disclosures

# Specific areas to consider

## Asset values

- Transferor must assess fair value **prior to** transfer
- Cannot transfer revaluation surpluses

## Equity Adjustments

- Adjust value of net assets transferred against equity
- Contributed equity should not be reduced below \$0

# Specific areas to consider

## Departmental Services

- Description of services in summary of significant policies
- Statements by Major Departmental Services, CBUs and SSPs

## Other Notes

- Assets and liabilities transferred in/out
- Revenues and expenses for each activity/project (receiving dept)

# Key actions

1

- Agree on what's changed

2

- Plan for transition and commence implementing changes

3

- Assess impact on 2014-15 financial statements

# Available guidance

- QAO
  - Checklist for managing MoG changes
- Treasury:
  - Financial Reporting Requirements
  - Information Sheet 4.6 Machinery of Government
- DSITI (State Archives)
  - Machinery of Government Changes Checklist
- PSC
  - Principles for the allocation of resources following a machinery-of-government change