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# Technical audit update

**19 February 2019**

Brisbane

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# Welcome and agenda

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## **Welcome**

Brendan Worrall, Auditor-General

## **The new standards are here—part one**

Greg Hall, Principal Accountant, Queensland Treasury & David Hardidge, Director, QAO

## **Refreshments**

## **The new standards are here—part two**

David Hardidge, Director, QAO

## **Update on reporting**

Rachel Vagg, Sector Director, QAO

## **Closing**

Karen Johnson, Assistant Auditor-General





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# Welcome

Brendan Worrall, Auditor-General



**Recent  
months**

## **Machinery of government changes**

Many departments were able to apply effective reporting processes —no significant issues with quality and timeliness.

## **Recent environmental events**

We are aware of the impacts of recent events in the northern parts of Queensland

—we have changed our scheduled visits and hopefully are showing your agencies the necessary understanding.





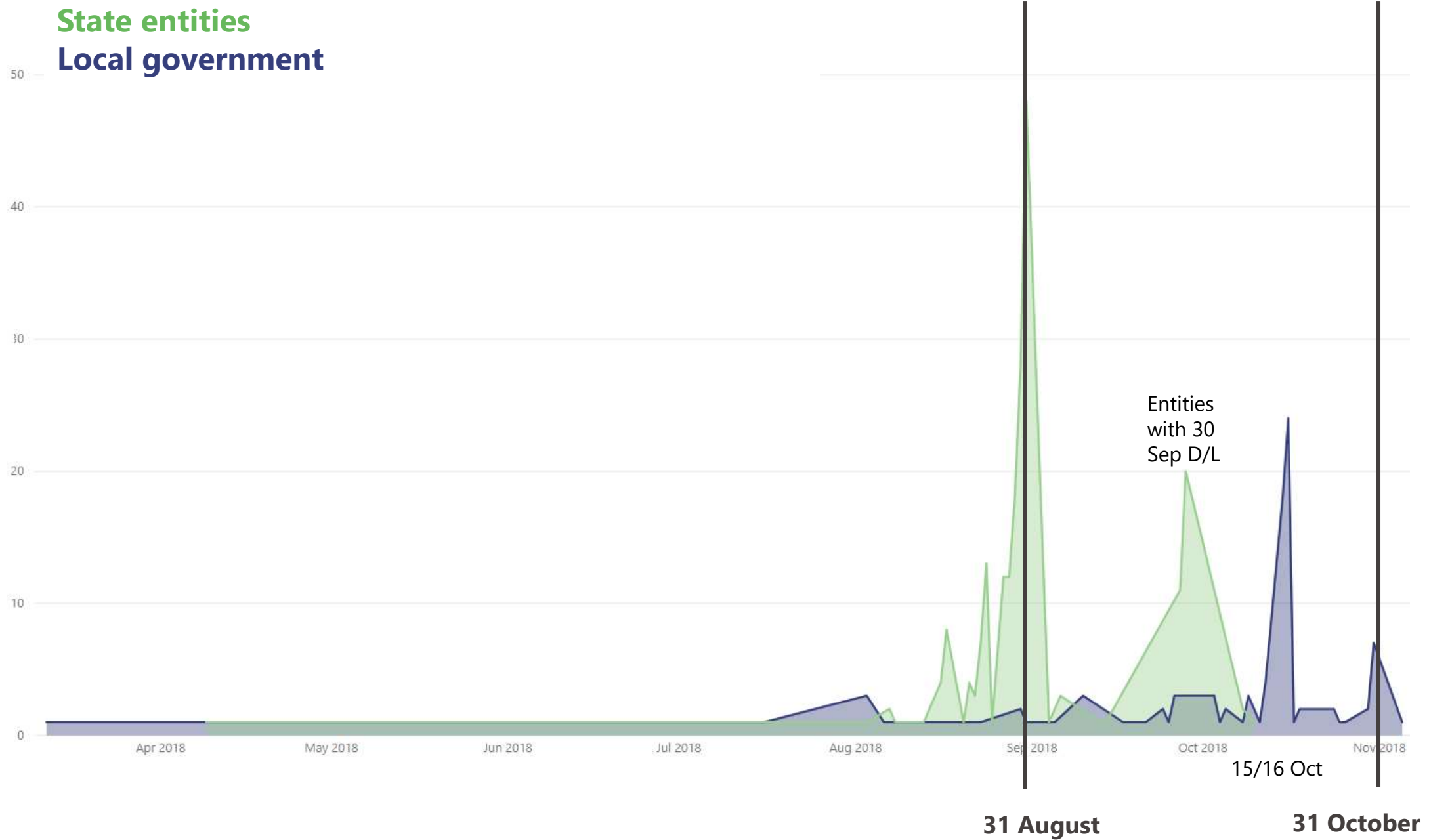


**Key points  
from 2017-18**

## **Timeliness**

- All departments, statutory bodies and GOCs met timeframes
- Nearly all provided draft statements by due date
- However, majority were only finalised in last three days of August
- Timing of audit committees impacted on finalisation of audit opinions

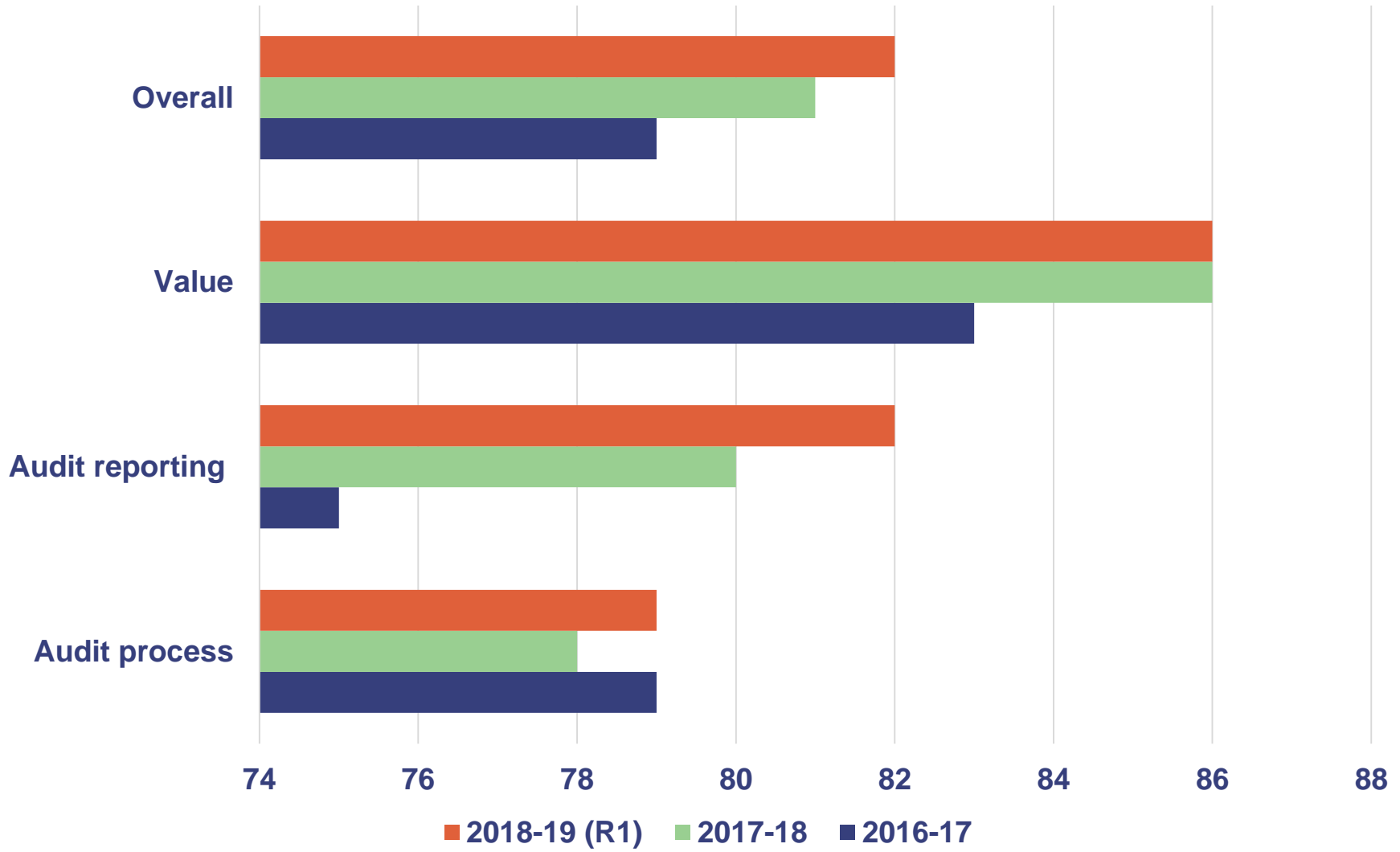
# Timeliness





# Client feedback

## Client satisfaction trend analysis



## Q&A

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# The new standards are here—part one

Greg Hall, Principal Accountant, Queensland Treasury  
David Hardidge, Director, QAO

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# 2018-19

# Financial Reporting Requirements Update

Greg Hall

Queensland Treasury

Accounting Policy & Advice team

19 February 2019

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

# Treasury Topics For Discussion

- **New and Amended Accounting Standards for 2018/19 Financial Year**
- **2018/19 Financial Reporting Requirements (FRRs)**
- **New Accounting Standards for Future Years**
- **Update on AASB 16 and Internal Government Leases**
- **2019/20 Budget Preparation and WOG Reporting**

## **AASB 9 Financial Instruments**

## **AASB 7 Financial Instruments: Disclosures**

- **New and revised disclosures reflecting AASB 9**

## **AASB 15 Revenue from Contracts with Customers (FOR-PROFIT ENTITIES ONLY)**



## Revised FRR 4E Financial Instruments

- Transitional and ongoing policy
- Guidance for impairment, inter-agency receivables and classification of financial assets at amortised cost
- Reflects FRR 1A guidance LAST YEAR - so no surprises
- Agency implementation should be largely completed

## AASB 7 Disclosures

- Easily overlooked...but don't!! Address in 'shell accounts'
- Many AASB 7 disclosures are **ENTITY SPECIFIC!**
  - E.g. Credit risk disclosures (paragraphs 35A-38)
  - E.g. Equity investments at FVOCI and reason held
- Sunshines are not agency specific...use as a guide, not as a 'boilerplate'!
- Materiality and relevance...are disclosures fit for purpose?

## AASB 9 KEY POLICY RECAP

Treasury is **MANDATING** 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;
- Adoption of the simplified approach (lifetime ECL) for measuring impairment for ALL trade receivables and contract assets.

## Disclosing Impacts of Upcoming Standards

- 1 July 2019 is 'day 1' for AASB 16 and AASB 15/AASB 1058
- AASB 16 – consider:
  - ROU asset and increase in lease liability on transition,
  - Impact on operating statement (e.g. depreciation, interest and supplies/services expenses)
- AASB 15 / AASB 1058 – consider:
  - Revenue deferral from eligible grants



# New Accounting Standards for Future Years

## FRR 1A Guidance

- Proposed transitional and other policies for AASB 16, AASB 15, AASB 1058 and AASB 1059
  
- AASB 1059
  - Amended by AASB 2018-5. Start date deferred by one year.
  - Opening balances now measured at CRC on 1 July 2019.
  
- AASB 16
  - separate line item for ROU assets on face of balance sheet.

# New Accounting Standards for Future Years

## Amending Standard AASB 2018-4 *Australian Implementation Guidance for Not-for-Profit Public Sector Licensors*

- 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 not performance obligations under AASB 15;
- Similarly, maintaining exclusivity is not considered a performance obligation;
- Pro-rata refunds alone are insufficient to defer revenue - although a separate refund liability may exist;

# New Accounting Standards for Future Years

## *Amending Standard AASB 2018-4 Australian Implementation Guidance for Not-for-Profit Public Sector Licensors*

- Licence revenue expected to continue being recognised upfront;
- Option exists to carve out short-term and low value licences;
- Treasury proposes to mandate policies that short-term and low value licences issued by Government will apply the recognition principles of AASB 15.

# New Accounting Standards for Future Years

## Amending Standard AASB 2018-8 *Right-of-Use Assets of Not-for-Profit Entities*

- Queensland Treasury **intends to mandate** that the **temporary cost option will be adopted** by all Queensland Government **not-for-profit agencies** through the Financial Reporting Requirements (FRRs);
- AASB's stated intent is this relief in temporary pending outcome of the AASB's Fair Value Measurement for Public Sector Entities Project;



# New Accounting Standards for Future Years

- In practice, AASB 2018-8 will mean for ‘peppercorn leases’ until otherwise advised by Treasury:
  - initially recognition of right-of-use assets at cost (para. 23 and Aus 25.1 of AASB 16);
  - subsequent measurement at cost (para. 29 of AASB 16).
  
- No need to engage professional valuers to measure the fair value of the right-of-use asset while the temporary option is available and applied in accordance with Queensland Treasury’s accounting policy determination.

- **Government Employee Housing (GEH)**
  - Endorsement received from QAO that substantive substitution rights exist and exempt from “on-balance sheet” accounting.
  
- **Queensland Government Accommodation Office (QGAAO) and QFLEET**
  - “In-principle” agreement from QAO that substantive substitution rights are met. Final approval is pending amendments to QGAAO and QFleet framework and operations manuals.

- Anticipate final resolution in weeks, not months;
- Substantive substitution rationale will be published in FRRs - don't assume the rationale automatically applies to other arrangements;
- Budget preparation - follow Treasury advice of 24 Oct 2018;
- Treat as supplies/services expense, not ROU asset and lease liability with depreciation and interest;
- Other internal-to-Government leases are **NOT COVERED** by these exemptions.



- WOGFIR name changes for AASB 9 included in latest WOGFIR manual (ver 40.1);
- 2019/20 Budget to be prepared applying new Standards;
  - For 2019-20 Budget, existing WOGFIRs are to be used for AASB 15 / AASB 1058 and AASB 16 - refer Treasury email of 11 February 2019;
- New WOGFIRs and/or WOGFIR name changes will be notified at a later date for actuals reporting.



- New Revenue Standards AASB 1058/AASB 15
  - ✓ Update to FRR 3E “Distinction between grants and procurement” including guidance on accounting for grant expenses
  
- AASB removal of the non-reporting entity concept and special purpose financial statements
  
- AASB review of Australian financial reporting framework - public sector



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# New standards are here—part one

David Hardidge, Director, QAO

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Can clients assess the impacts of the new accounting standards without external advice?

**Resolving  
technical  
issues**





## Improving position papers

### **We want you to come to us**

Engage with us early

- Have an understanding of the issue
- Agree approach upfront
- Not telling you what to do

### **Outcomes—position papers:**

- Consider more than the desired point of view
- Refer to detailed requirements of the standards
- Refer to relevant guidance
- Address key issues
- Avoid unnecessary rework and frustration



**Timely  
resolution of  
technical issues**

## **New focus—shared understanding of what the position paper should look like**

Some we mean documentation of accounting policies, for example, financial instruments:

- instruments meet SPPI test
- instruments meet business model test

Others we mean selection of accounting policies:

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







**Timely  
resolution of  
technical issues**

## **Aim**

- Prepare pro-forma financial statements by 30 April
- Resolve known accounting issues by 30 April

**Can be done earlier**

**Mutual agreement of issues and resolution**



## QAO Sign-off

### What does QAO sign-off mean?

#### Mutually agreed position

Intended position vs actual application

- Issues in practice when the rubber hits the road

QAO communications

- Management letter
- Briefing at audit committees
- Agreement of scope and regular status updates



## Upcoming changes

**2019-20**

**AASB 9 Financial Instruments**

**AASB 15 Revenue +  
AASB 1058 Income  
for NFPs**

**AASB 16 Leases**

**2020-21**

**AASB 1059 Service concessions**

**Conceptual framework  
(for profits)**

**Beyond**

**AASB 17 Insurance contracts**

**Conceptual framework  
(NFPs)**

**RDR**

**Reporting entities/  
SPFRs**





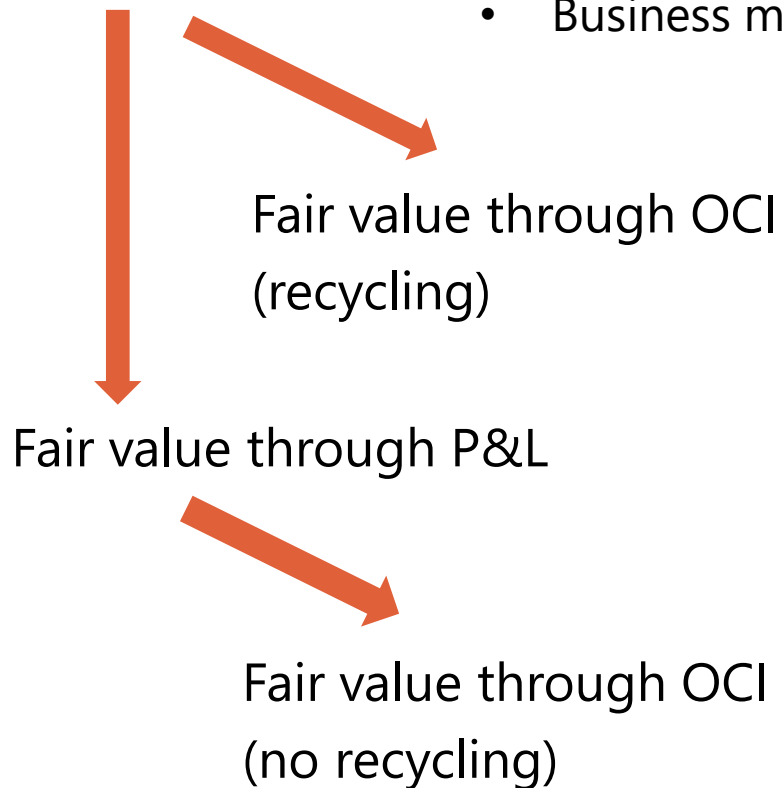
**AASB 9  
Classification  
and  
measurement**

**New**

Amortised cost

Tests

- SPPI
- Business model



**Loans—the odd ones**

- Interest free
- Non-recourse
- Limited recourse
- Contingent payments
- Profit share / equity kickers

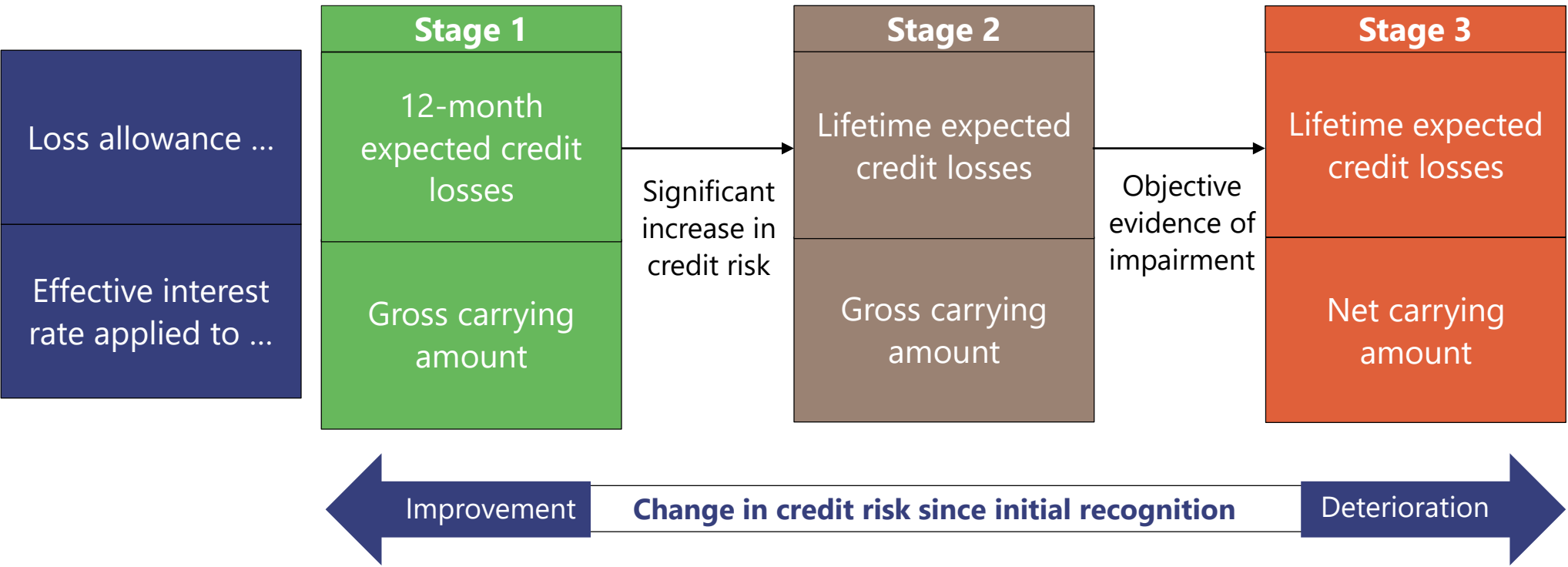
**Investments**

- Available for sale removed
- Are they debt securities (SPPI)?
  - Impairment
  - FVOCI (recycling)
- Are they equity securities?
  - FVOCI (no recycling)



Three buckets:

**Impairment—  
general  
approach**



**Impairment—  
simplified  
approach**

**Trade receivables will have provision matrix where:**

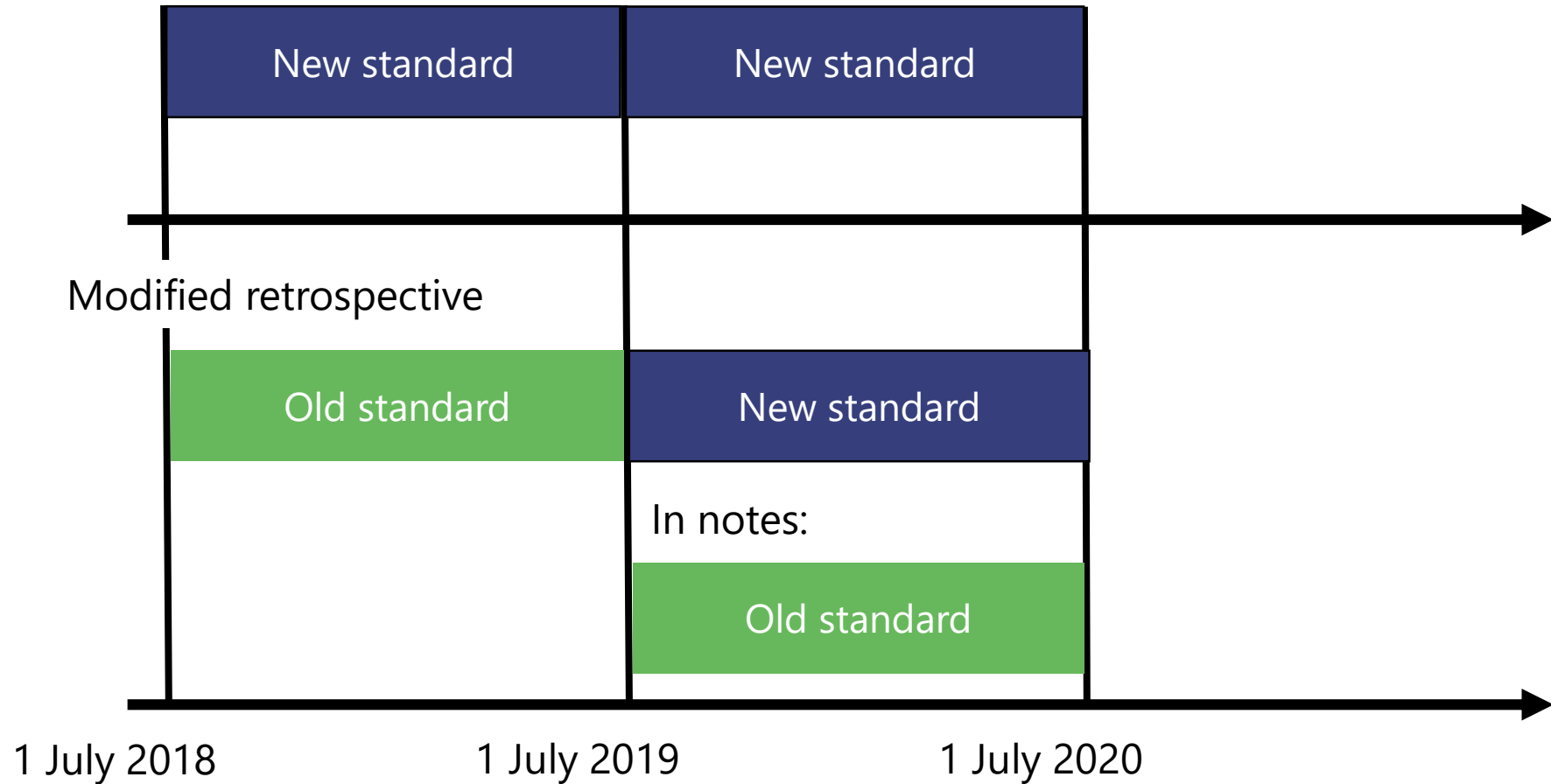
- Expected credit losses for each ageing bucket need to be estimated
- All ageing buckets cannot have same expected credit loss. Longer the term, higher the expected loss

	<b>Current</b>	<b>1–30</b>	<b>31–60</b>	<b>61–90</b>	<b>Over 90</b>
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%



Transition—  
first year—  
not-for-profit

## Revenue and Income-for-NFPs Retrospective—restate prior period



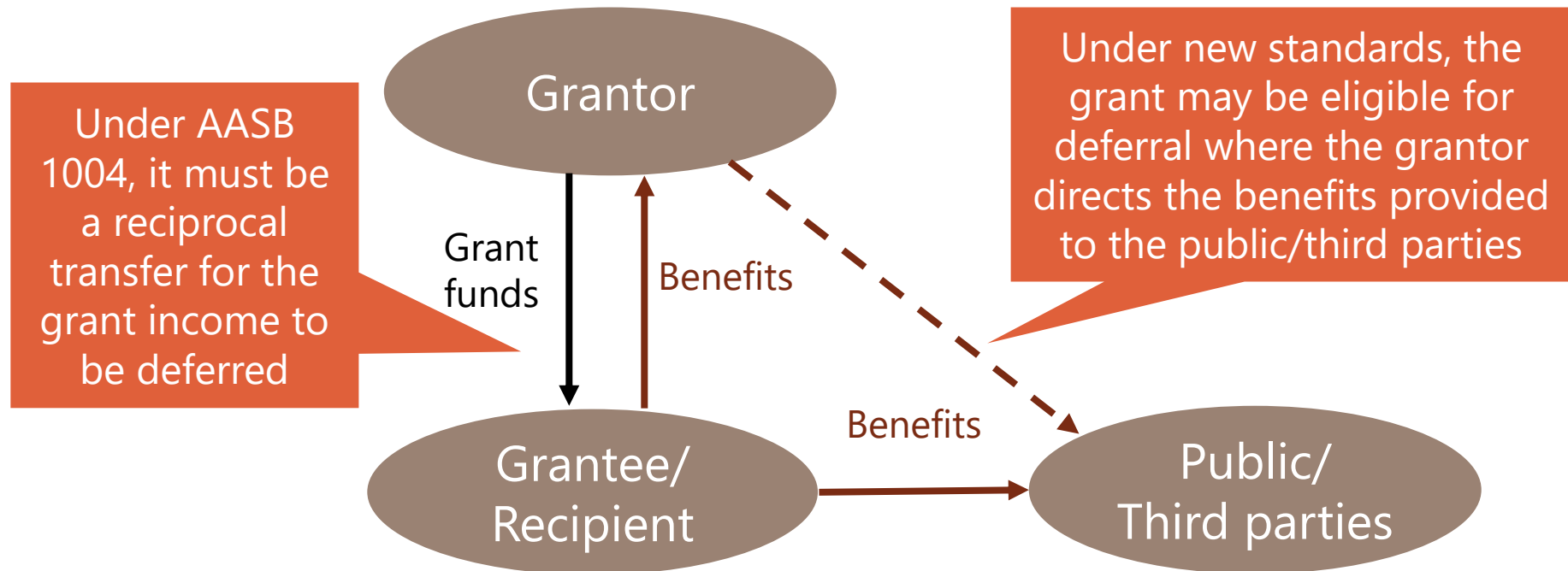
**Note:** Replace July with January for entities with 31 December year ends



# Accounting for grant income

## Conceptual change from AASB 1004

### Revenue recognition changes



**Broadly all funding to NFPs is intended for the entity to deliver goods or services to beneficiaries.**

**When is there an obligation / liability (for deferral of revenue)?**

- Enforceable arrangement
- Need to transfer goods or services
- Sufficiently specific to enable the entity to determine when it has satisfied that obligation

If resources provided for use in an entity's operations, without imposing an obligation for an outflow of resources to another party is not a performance obligation

- Consumption-based stipulations





## Revenue and income sources

- 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
- Developer contributions / contributed assets
- Sponsorship
- Rates
- Taxes
- Interest
- Dividends

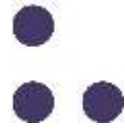


## Revenue and income sources

- Appropriations
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- Rates
- Taxes
- Interest
- Dividends



**Examples**



Queensland Audit Office



Hospital and Health Services



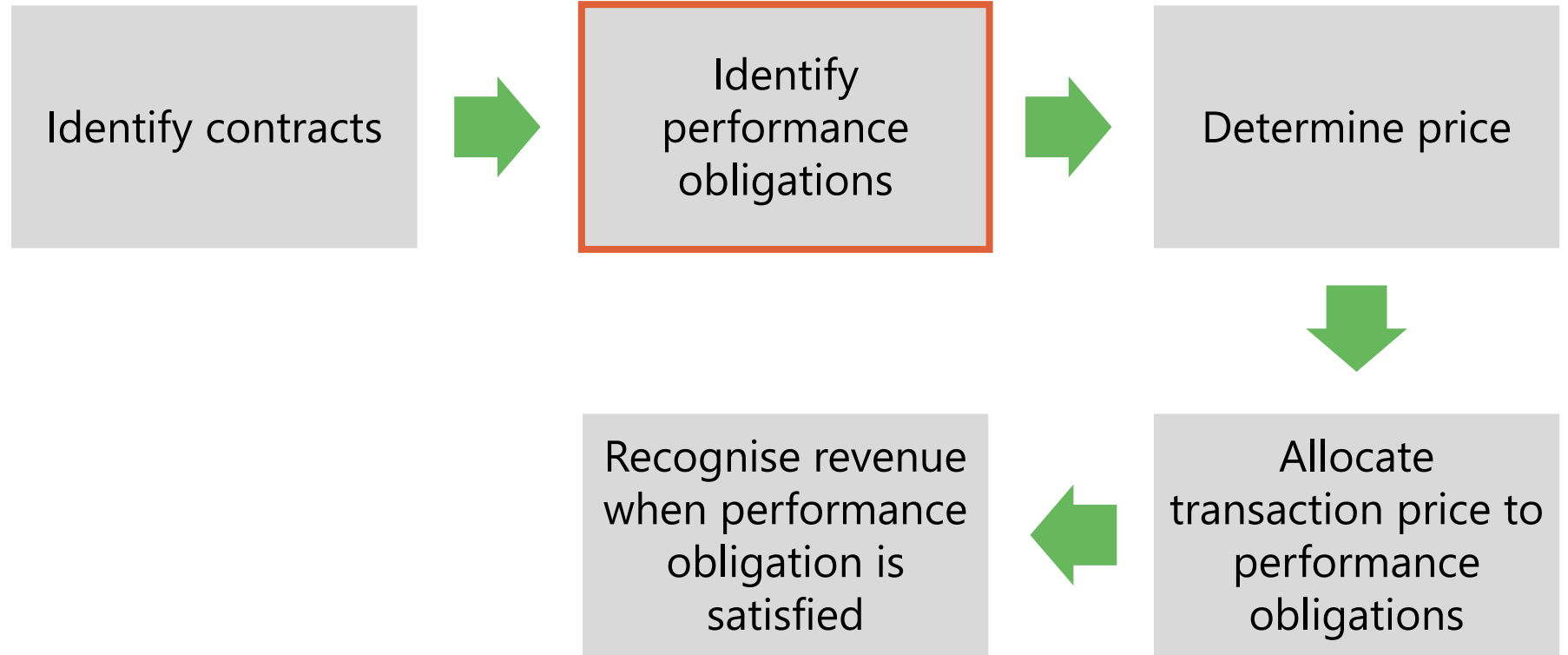
Research grants

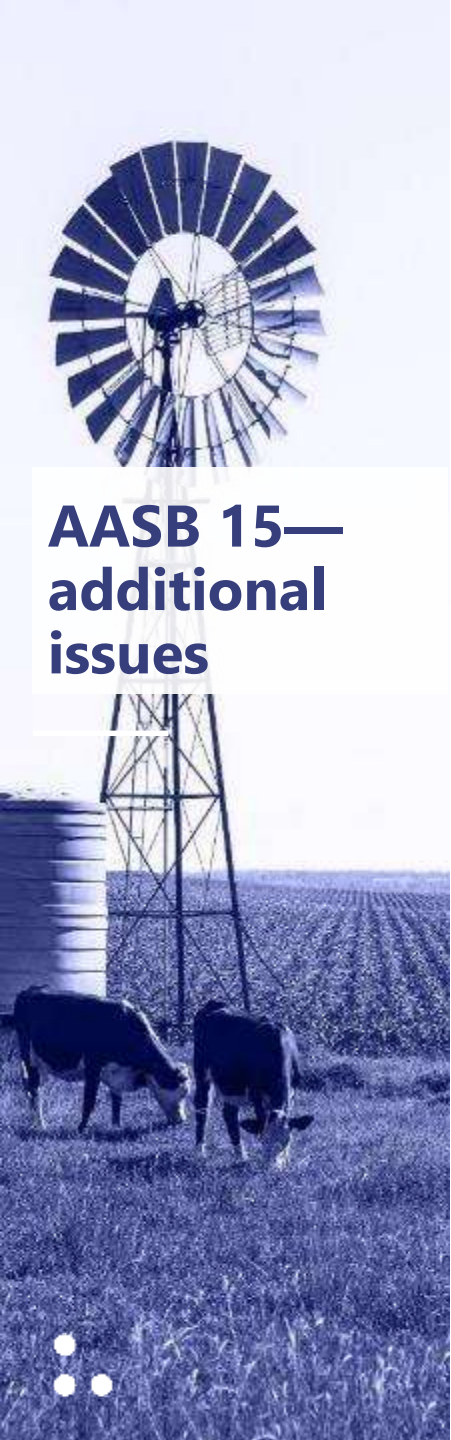




## Revenue recognition process

### Five steps:





## **AASB 15— additional issues**

- Principal versus agent
- Contract costs
- Options and material rights
- Breakage
- Significant financing component
- Non-cash consideration
- Payments to customers
- Warranties
- Repurchase agreements
- Bill-and-hold arrangements
- Right of return exists
- Onerous contracts
- Licences of intellectual property





**Morning tea**

**10.40 – 11.05 am** 





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# The new standards are here—part two

David Hardidge, Director, QAO

## New standards Part two

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- AASB 16 Leases
- AASB 1059 Service Concession Arrangements (PPPs)





**AASB 16**

## Leases—why did we need the change?

'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



**Putting  
operating  
leases on  
balance sheet**

## **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**





# Lease—the right to control the use of an identified 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

What operating leases go on balance sheet?







## Identified asset

### **Lease—the right to control the use of an identified asset**

- Your obligations (lease liability)
- Your right to use (lease asset)

### **Substantive substitution right**

- If the lessor can substitute the asset—do you have the right to control the use of that identified asset?
- Must be substantive
  - If substitute for repairs and maintenance—not enough

### **Examples**

- Rubbish trucks
- Rail cars (IFRS 16 Illustrative Example)

**DHPW leases**



## **Internal office accommodation**

—General... not specialised buildings



## **Employee housing**



## **Qfleet**



## Peppercorn leases

### **What is a peppercorn lease?**

- Concessionary leases

Mandated fair value—temporary deferral—class-by-class

Existing policy to fair value finance leases

### **What is fair value of an operating lease?**

- No market
- Restrictions for not-for-profit
- Termination clauses—e.g. 99 year lease and 2 year termination notice by lessor
- Contingent rentals, for example, 10 per cent of revenue



## Discount rate

### **Incremental borrowing rate—adjusted for the terms and conditions of the lease**

- Currency
- Type of asset
- Term—ensuring that the borrowing rate is for similar term
- “Amount” (size of the “loan”)
- Security
  - bank borrowings not usually for 100 per cent of the asset
  - lease asset is fully secured.
- The rental arrangement
  - different rental arrangements (fixed vs CPI)

QTC Link website





Sign in to access QTC Link

Username

Password

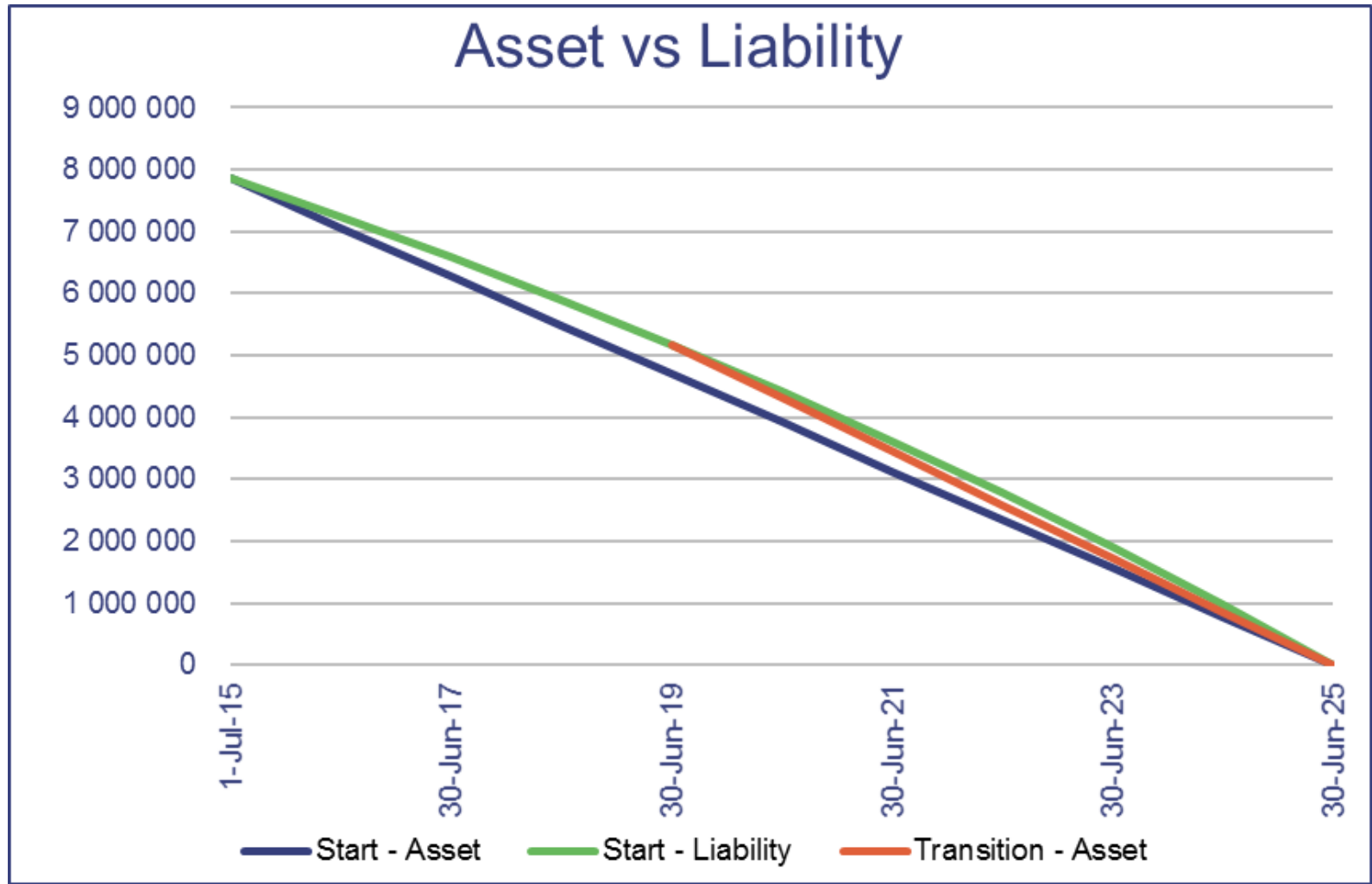
[SIGN IN](#)

[FORGOT YOUR PASSWORD?](#)

QTC Link  
website



# Transition



Lease—commences 1 July 2015  
\$1,000,000 pa., 10 years, 5% discount rate  
Transition date 1 July 2019

Asset	4,708,481
Liability	5,179,109
R/Earnings	-470,628



## Transition

	Recalculate ROU	ROU = lease liability
Lease asset (ROU)	4 708 481	5 179 109
Lease liability	5 179 109	5 179 109
Retained earnings	-470 628	0

**Option 1**—Recalculate lease asset (transition date discount rate)  
Lower retained earnings

**Option 2**—Lease asset = lease liability  
No effect retained earnings  
Lower future results



**AASB 1059  
Service  
Concession  
Arrangements**

## 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

## Deferred—transition

- Valuation 1 July 2019
  - one year later
- Calculating the liability

## Lifecycle payments

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



**Criteria  
AASB 1059**

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

- (a) **providing public services ...; and**
- (b) **managing at least some of those services under its own discretion...**

5 The grantor shall recognise an asset provided by the operator and an upgrade ... if the grantor controls the asset. The grantor controls the asset if, and only if:

- (a) **the grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**
- (b) the grantor controls ... **any significant residual interest** in the asset at the end of the term of the arrangement.

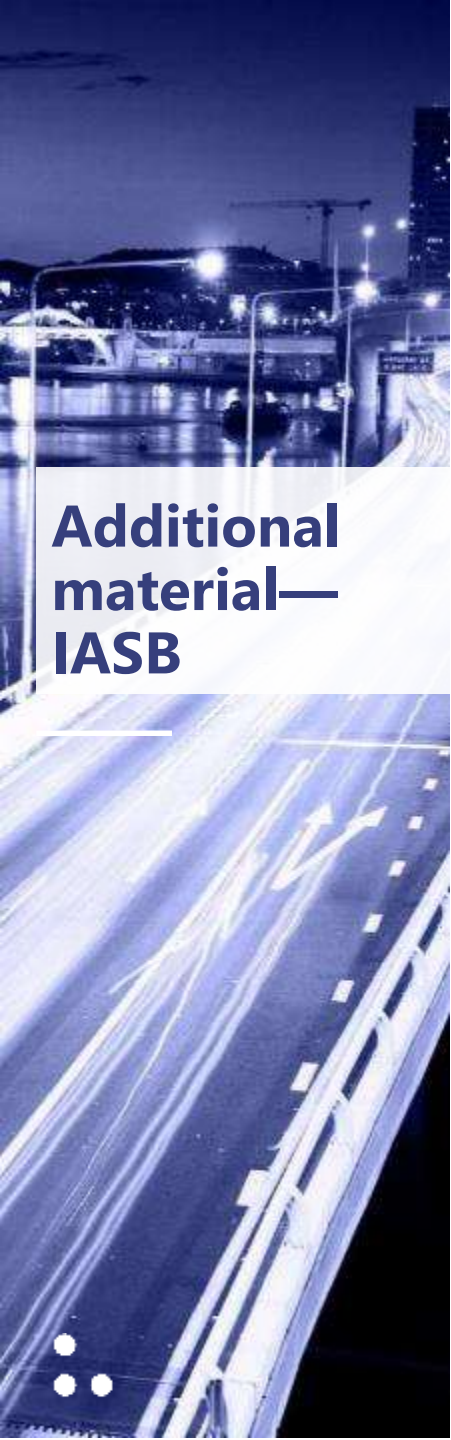


## AASB List of Standards—links to additional material

Additional  
material

<a href="#"><u>13</u></a>	Fair Value Measurement	<a href="#"><u>Extra</u></a>	Aug 2015	1 Jan 2018
<a href="#"><u>14</u></a>	Regulatory Deferral Accounts	<a href="#"><u>Extra</u></a>	Jun 2014	1 Jan 2016
<a href="#"><u>15</u></a>	Revenue from Contracts with Customers	Compiled <a href="#"><u>Extra</u></a>	Sep 2018	1 Jan 2019
<a href="#"><u>16</u></a>	Leases	<a href="#"><u>Extra</u></a>	Feb 2016	1 Jan 2019
<a href="#"><u>17</u></a>	Insurance Contracts	<a href="#"><u>Extra</u></a>	Jul 2017	1 Jan 2021
<a href="#"><u>101</u></a>	Presentation of Financial Statements [For for-profit entities only]	Compiled <a href="#"><u>Extra</u></a>	Dec 2017	1 Jan 2018
<a href="#"><u>102</u></a>	Inventories	<a href="#"><u>Extra</u></a>	Jul 2015	1 Jan 2018
<a href="#"><u>107</u></a>	Statement of Cash Flows	Compiled <a href="#"><u>Extra</u></a>	Mar 2016	1 Jan 2017



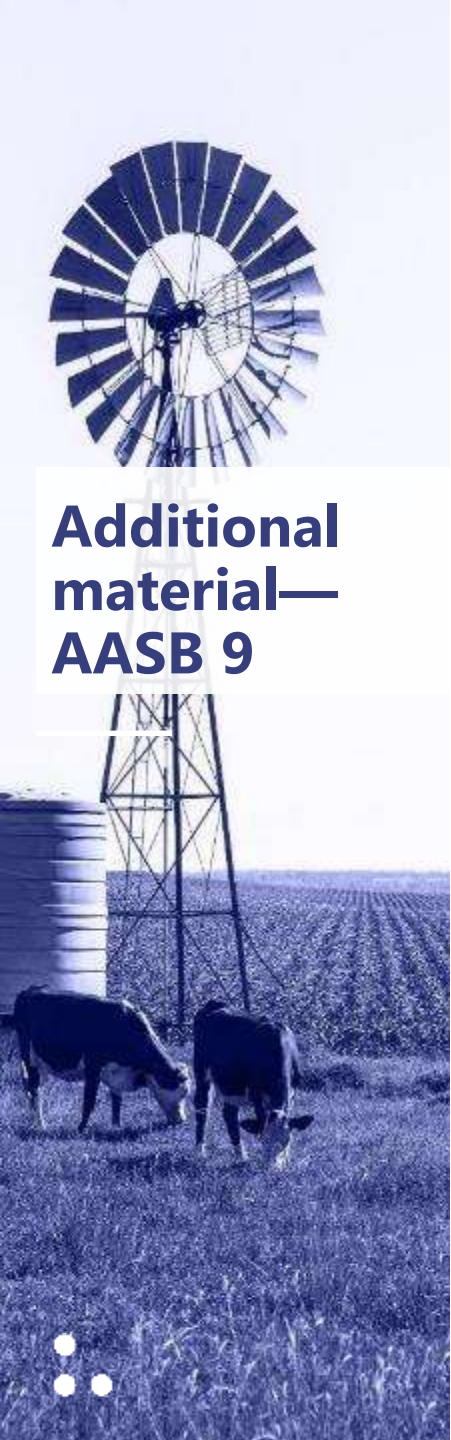


**Additional  
material—  
IASB**

13	Fair Value Measurement	<u>Jan 2012</u>	<u>IE Jan 2012</u> <u>IN May 2011</u>
14	Regulatory Deferral Accounts	<u>Jan 2014</u>	<u>IE Jan 2014</u>
15	Revenue from Contracts with Customers	<u>May 2014</u>	<u>IE May 2014</u> <u>IN May 2014</u>
16	Leases	<u>Jan 2016</u>	<u>EA Jan 2016</u> <u>IE Jan 2016</u>
17	Insurance Contracts	<u>May 2017</u>	<u>EA May 2017</u> <u>IE May 2017</u>
101	Presentation of Financial Statements	<u>Jan 2012</u>	<u>IG Jan 2012</u> <u>TC Jan 2012</u>
102	Inventories	<u>Jan 2012</u>	
107	Statement of Cash Flows	<u>Jan 2012</u>	

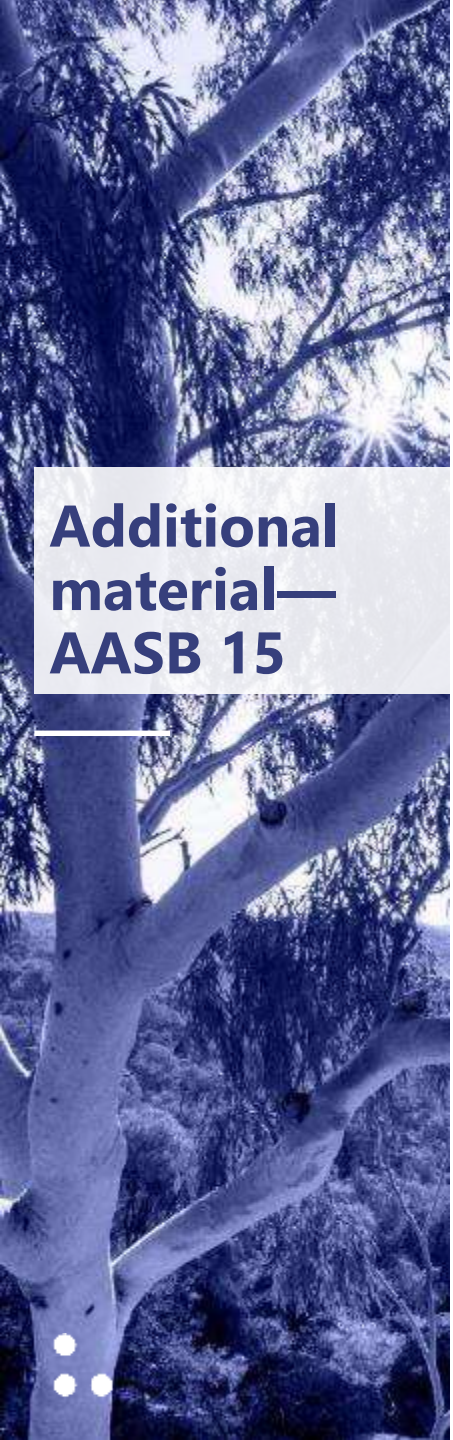
Basis for conclusions

Illustrative examples



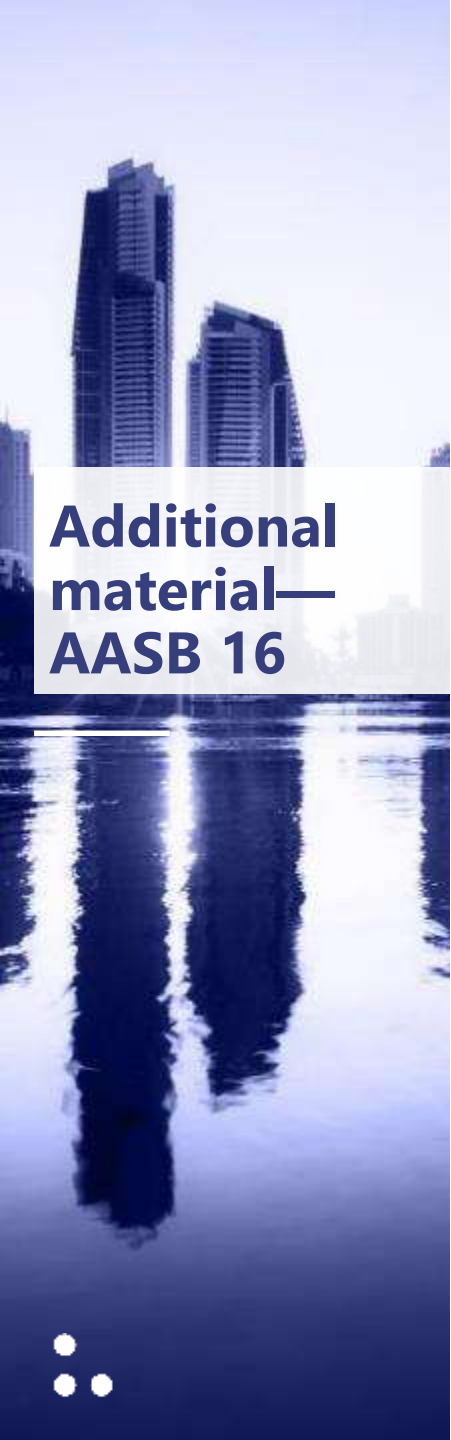
**Additional  
material—  
AASB 9**

<b>Description</b>	<b>IFRS</b>	<b>AASB NFP amendments</b>
Standard	AASB 9	N/A
Application guidance	AASB 9	N/A
Implementation guidance	Extras	N/A
Illustrative examples	Extras	N/A
Basis for conclusions IFRS 9	Extras	N/A
Basis for conclusions— AASB amendments	N/A	N/A



**Additional  
material—  
AASB 15**

<b>Description</b>	<b>IFRS</b>	<b>AASB NFP amendments</b>
Standard	AASB 15	AASB 15 compiled Jan 2019
Application guidance	AASB 15	AASB 15 compiled Jan 2019
Implementation guidance	N/A	AASB 15 compiled Jan 2019
Illustrative examples	Extras	AASB 15 compiled Jan 2019
Basis for conclusions IFRS 15	Extras	N/A
Basis for conclusions— AASB amendments	N/A	Missing



**Additional  
material—  
AASB 16**

<b>Description</b>	<b>IFRS</b>	<b>AASB NFP amendments</b>
Standard	AASB 16	AASB 16 not yet compiled with AASB 2018-8
Application guidance	AASB 16	N/A
Implementation guidance	N/A	N/A
Illustrative examples	Extras	N/A
Basis for conclusions IFRS 16	Extras	N/A
Basis for conclusions—AASB amendments	N/A	AASB 16 not yet compiled with AASB 2018-8



Q&A

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# Update on reporting

Rachel Vagg, Sector Director, QAO

## Financial audit reports

### Three assessment areas

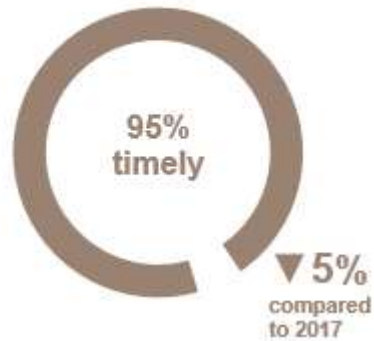
- Timeliness of draft financial statements
- Quality of draft financial statements
- Year end close processes



# Timeliness

Rating scale	Assessment criteria—timeliness of draft financial statements
● 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

## Timeliness



All departments, government owned corporations and major statutory bodies met their legislative timeframes





Audit committee dates

Delivery of working papers on a progressive basis

Delivery of notes earlier will not impact on our rating of timeliness



# Quality

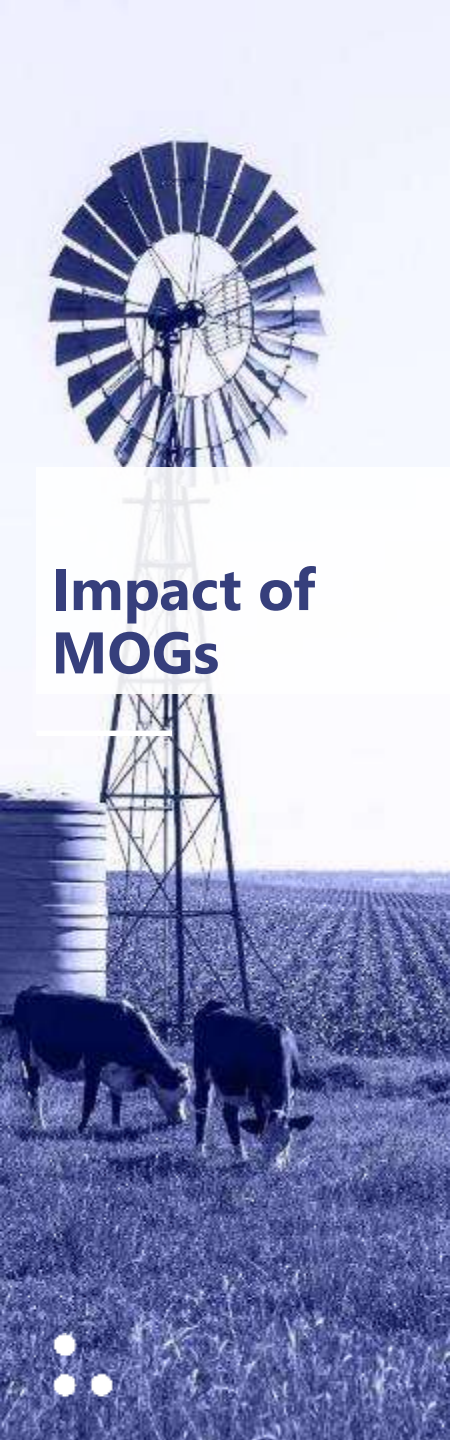
Rating scale	Assessment criteria—quality of draft financial statements
● No adjustments	No adjustments were required
● No significant adjustments	Immaterial adjustments to financial statements
● Significant adjustments	Material adjustments to financial statement components

What were the results?

## Quality

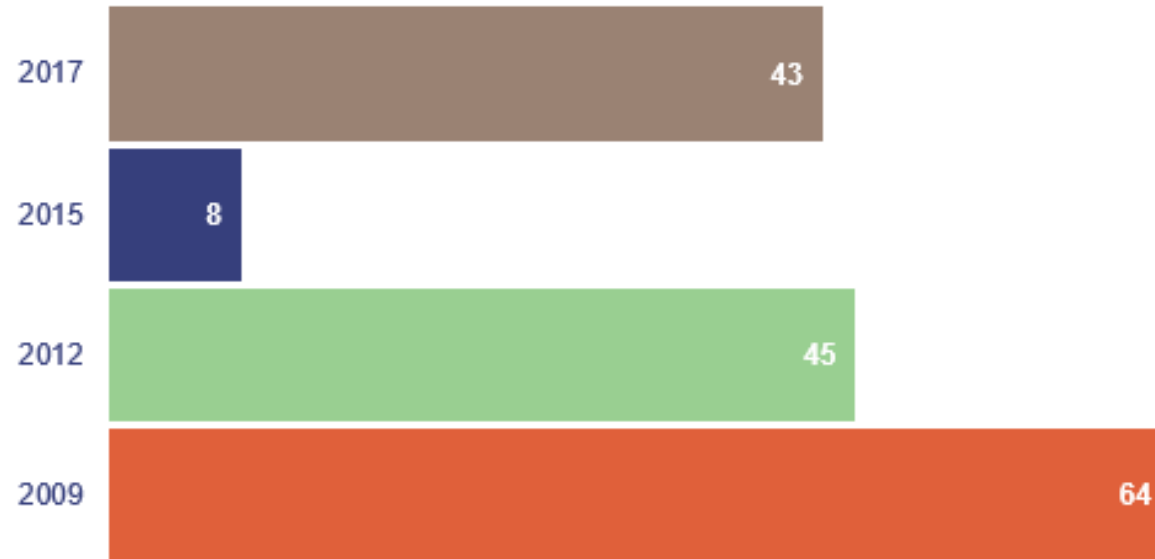






## Impact of MOGs

Number of functions transferred as a result of machinery of government changes following state elections





**Quality**

## **Timing of the rating**

### **2017–18**

Based on changes to the agreed set of financial statements

### **This year**

Based on changes to the agreed set of financial statements  
Feedback on quality of changes to earlier material through summary of differences

### **Next year**

Quality based on adjustments to balances/notes provided as per the timetable (not the financials statements)





## Processes

### Our ratings

Rating scale	Assessment criteria—year-end close process
● Fully implemented	All key processes completed by the target date
● Partially implemented	Three key process completed within two weeks of the target date
● Not implemented	Less than two key processes completed within two weeks of the target date



## Processes

- Prepare pro-forma financial statements by 30 April
- Resolve known accounting issues by 30 April
- Complete non-current asset valuations by 31 May
- **Complete early close processes**
- Conclude all asset stocktakes by 30 June



## Processes

### Strategies:

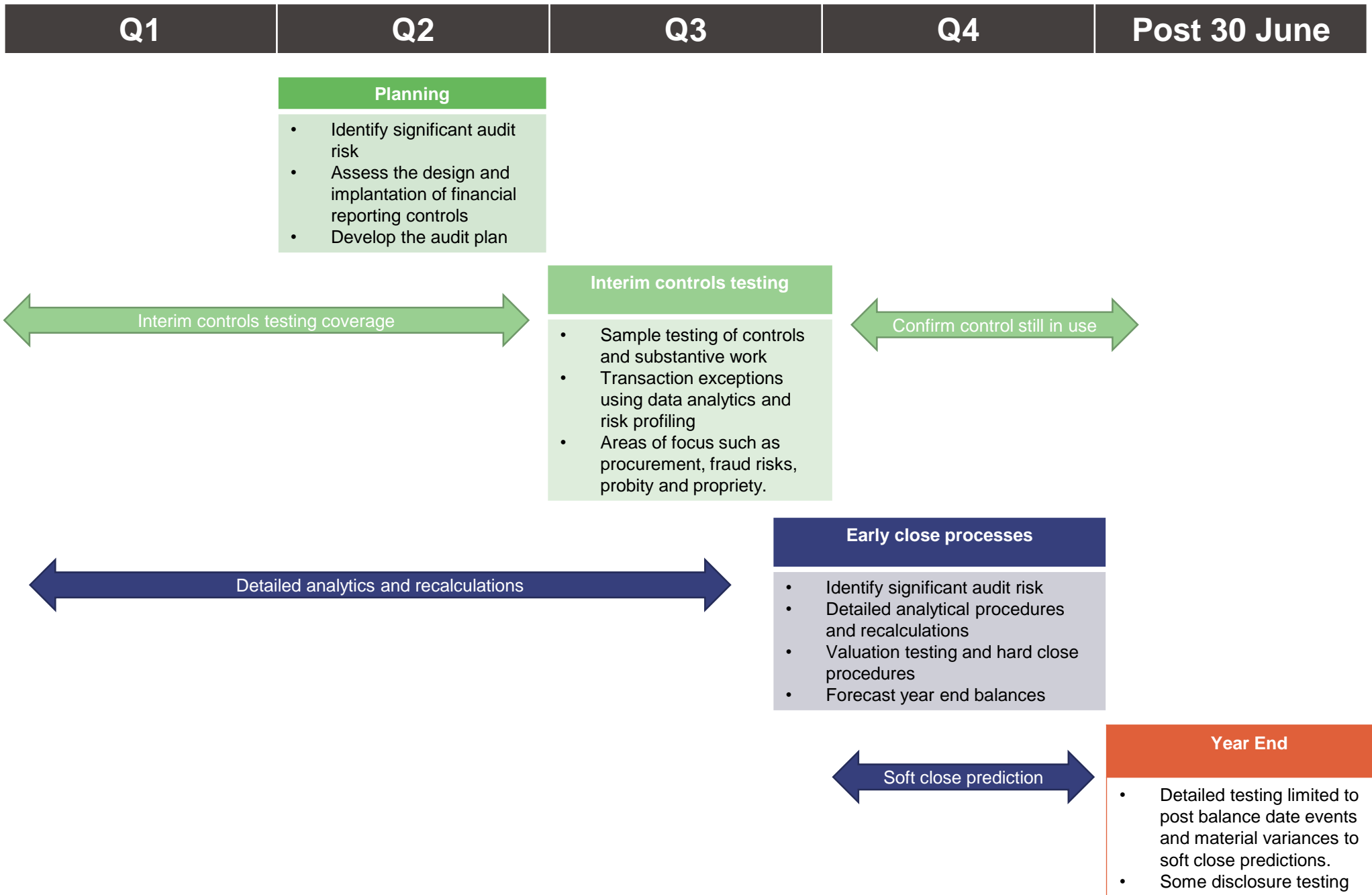
- Monthly variance analysis, reconciliations, reporting on assets
- Regularly identify and outline strategies to address new and emerging risks:
  - New standards
  - New transactions
  - Changes to estimates

Timing of valuation processes—moving toward 31 March





## Link to audit processes





**Early close  
processes**

**Balances:**

- Revaluations for property, plant and equipment
- Provisions
- Management judgements and estimation uncertainty
- Key account reconciliations
- Budget to actual

Disclosures

Proformas

**Year End**

- Detailed testing limited to post balance date events and material variances to soft close predictions.
- Some disclosure testing

## Q&A

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Engage



Challenge



Deliver



Care

## Closing remarks

Karen Johnson, Assistant Auditor-General, QAO




Further  
advice

QAO blog: [www.qao.qld.gov.au/blog](http://www.qao.qld.gov.au/blog)

Subscribe: [www.qao.qld.gov.au/subscribe](http://www.qao.qld.gov.au/subscribe)

The screenshot shows the QAO blog homepage. At the top, there is a blue header with the word "Blog" in white. Below the header, there is a breadcrumb trail: "Home » Blog". The main content area is divided into two columns. On the left, there is a "Browse by category:" section with three links: "Advice (9)", "News (3)", and "Technical (14)". Below this is a "Browse by date:" section with three links: "February 2019", "January 2019", and "December 2018". On the right, there is a "This month's featured article" section. It features a thumbnail image of a field with a fence. The article title is "Regulatory compliance", published on "11 February 2019", and is marked as "ADVICE". The article text reads: "Regulatory compliance is an entity's adherence to laws, regulations, policies and guidelines relevant to its business processes." There is a "READ MORE >" link at the bottom right of the article. Below the featured article, there is a "Recent posts" section.

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