

QAO 2016 Technical Audit Update

25 February 2016



Welcome

Karen Johnson
Assistant Auditor-General




- 
- 1 Simplification of financial reporting
 - 2 Financial reporting and auditing changes
 - 3 Asset valuation
 - 4 Wider learnings from reports to Parliament
 - 5 The role of the public service in improving public services

Simplification of Financial reporting – reflection on 2015 and focus for 2016

Karen Johnson

Assistant Auditor-General

Achieving simplification

-  Effective internal systems and governance structures to enable accurate month end/year end accounting.
- 
- 



Removal of the irrelevant



Only material disclosure



Tailoring

Successful removal of these sort of notes!

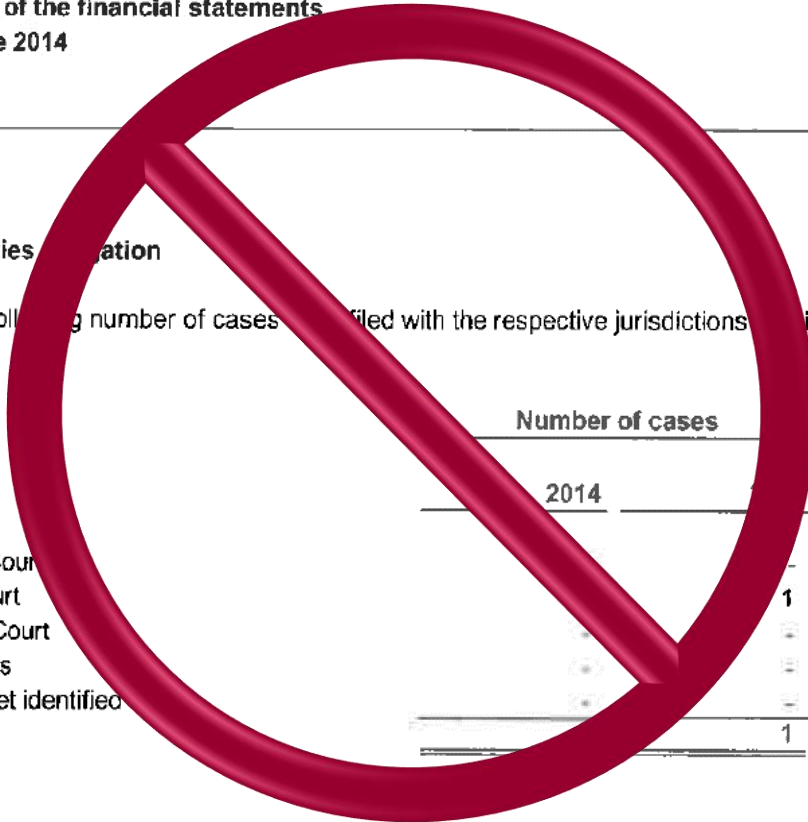
Notes to and forming part of the financial statements
for the year ended 30 June 2014

26 Contingencies

(a) Contingent liabilities – litigation

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

	Number of cases	
	2013	2014
Supreme Court	1	1
District Court	1	1
Coroner's Court	1	1
Other courts	1	1
Court not yet identified	1	1
Total	5	5



A significant improvement



Average reduction in number of pages



Average reduction in number of notes



Average reduction in size of the
accounting policy note



What does material mean?



Identify and understand
your users



Quantitative thresholds
are only a starting point –
judgement must also be
applied.



Strong governance
systems are required.

Considered material:



Accounting
policies



Triggers of non-
compliance



Contingencies and
uncertainties



Information and risks key
to operations (or future
performance)

1. Plain language



Remove accounting jargon



Use short sections and sentences



Easy to read design features

2. Inform the reader

ASA 701– *Communicating Key Audit Matters In The Independent Audit Report*



Meaningful analysis of the balance or variance



Meaningful commentary on unusual transactions and cashflows



Explain significant judgements and complex calculations



Explain valuation approaches and assumptions

3. Fully communicate financial risks



Impairment



Going concern/financial sustainability



Once-off complex transactions e.g. Large infrastructure projects or PPPs

Financial reporting and auditing changes

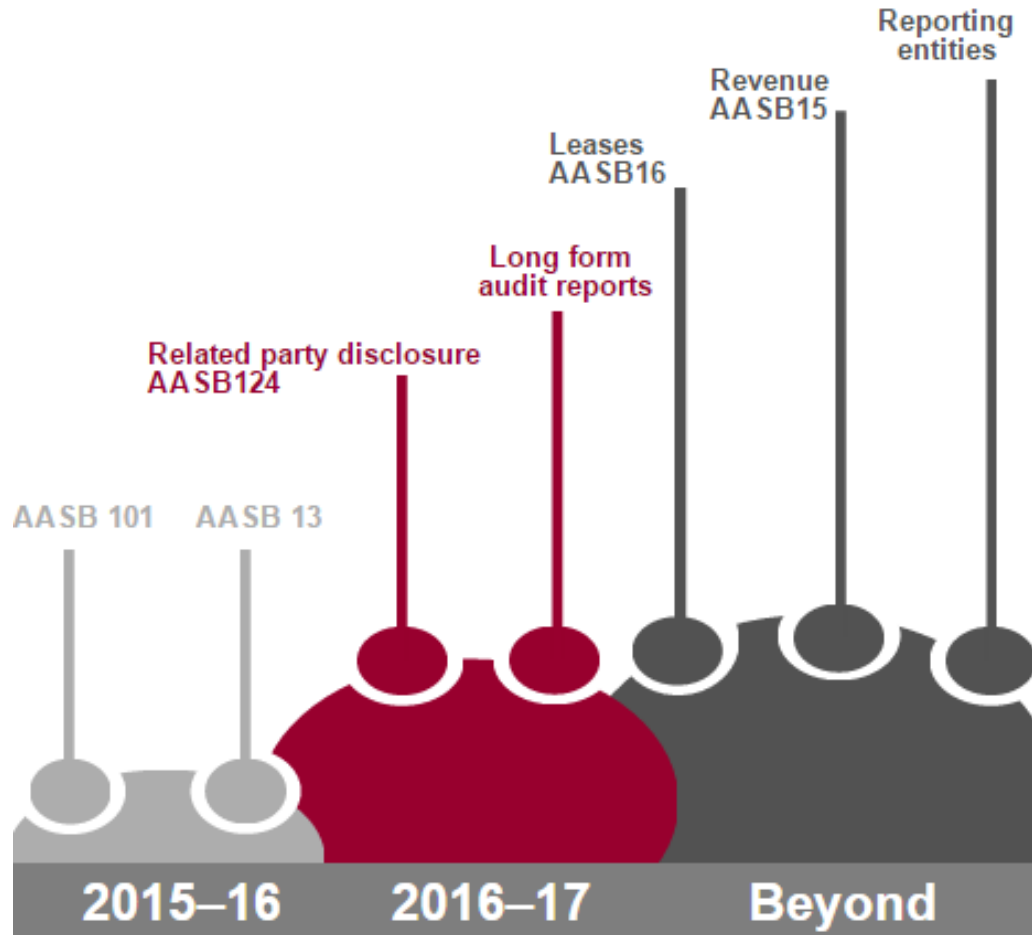
Rachel Vagg

Director, Specialist Audit Services

Greg Hall

Senior Accountant, Whole-of-Government Reporting
and Accounting

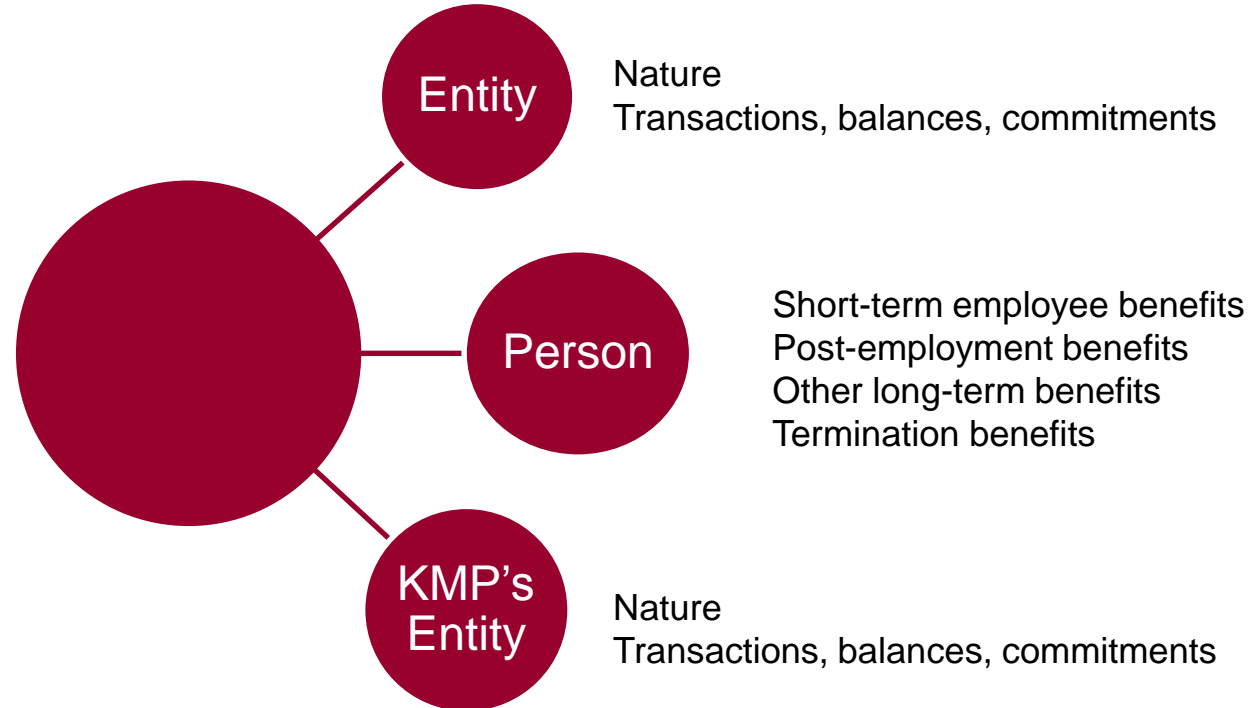
Changes for 2015-16 and beyond



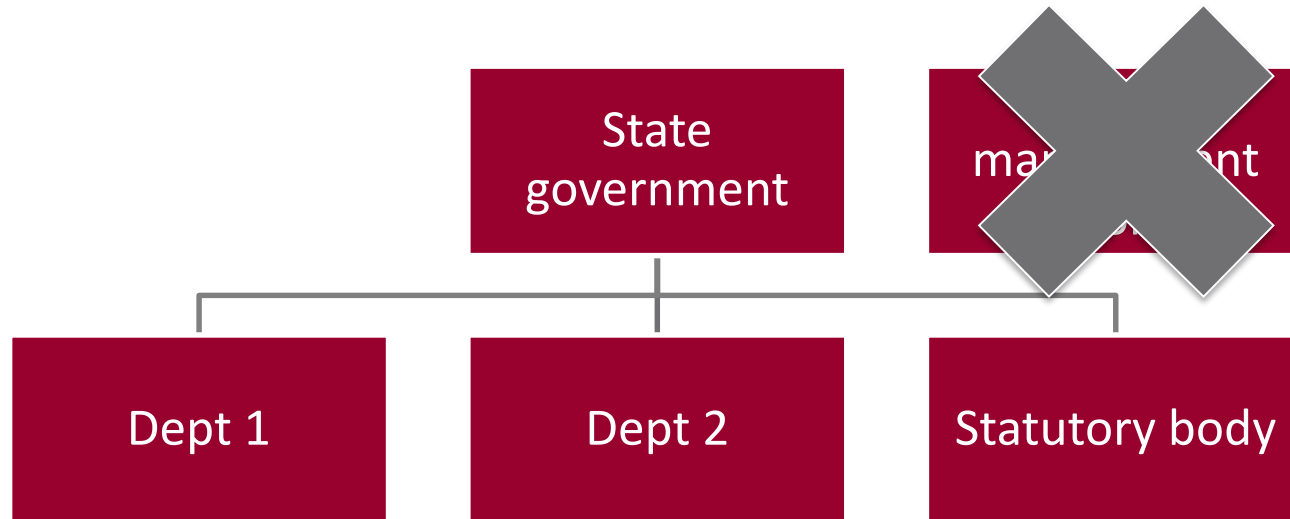
AASB124

- Apply to public sector
- Expanded KMP

Who are your related parties?



Exemptions for government



AASB16

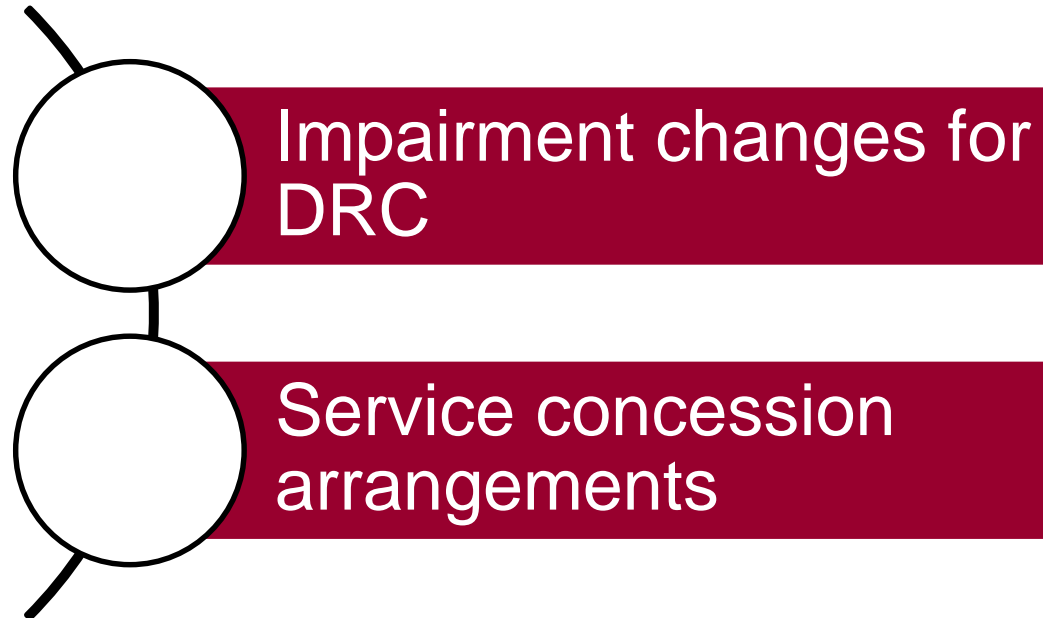
- All leases will be on balance sheet
- Below market leases?

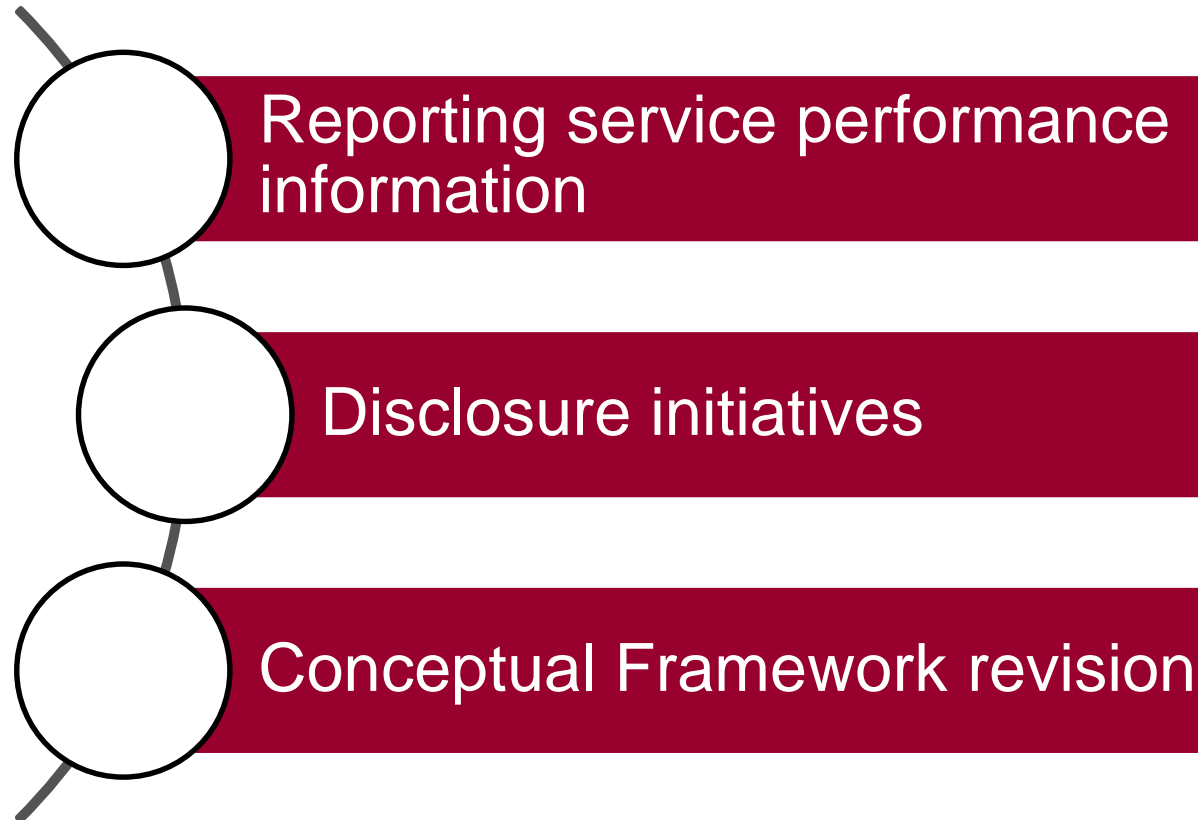
AASB15

- Revenue recognition now related to performance obligation

Income of not for profit

- Standard this year
- Remove reciprocal/non-reciprocal



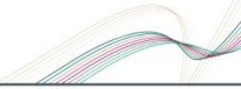


Financial Reporting Update 2015-16

Greg Hall

**Senior Accountant | Fiscal Strategy Division | Queensland
Treasury**

25 February 2016



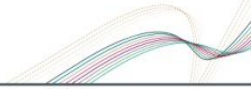
- 2015-16 FRR Update – a more radical review...
 - New FRR framework and drivers for change
 - New and removed Policy
 - Sunshine/Future Bay Model Financial Statements.
- 2015-16 Accounting Standards early adopted.
- What's on the horizon for the year ahead.

2015-16 FRR Update: Recap on Basis for FRRs

- Minimum Reporting Requirements (MRRs)
 - Have authority under the *FPMS*:
 - Section 42(1) for Departments; and
 - Section 43(1) for Statutory Bodies.
- MRRs are clearly identified in bold black print and now shaded in the draft 2015-16 update.

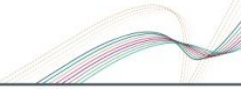
NEW FINANCIAL REPORTING REQUIREMENT FRAMEWORK

DRIVERS FOR CHANGE



- Two stage release given significant structural change.
- Current structure had become difficult to navigate.
- MRRs + guidance (Part B) + extra guidance in APGs (Part C).
Topics located in multiple places.
- **Solution – integration of all policy and guidance.**

- Confusion over role of APGs – guidance often assumed to be policy and sometimes reflected positions of Treasury that were not negotiable.
- **Solution – elevate selected guidance to MRRs.**
- MRR disclosure requirements over and above Accounting Standards.
- **Solution – remove unnecessary disclosures.**

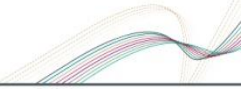


- Repetition of accounting standard and legislative requirements.
- **Solution – remove unnecessary repetition.**
- Improved navigational functionality - the outcome is a more simplified FRR package that maintains the overall objectives of the FRRs.
- **Finalisation of FRRs – target is late March 2016.**

NEW AND REMOVED MRR POLICY FOR 2015-16

- The following items are now elevated to **POLICY**:
- Selected APG 9 criteria on transactions qualifying as equity transfers.
- Selected APG 20 principles on distinguishing grants from procurement.
- Selected APG 8 principles on the controlled vs administered distinction including default position.

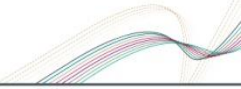
- The following policies/disclosures are **removed**:
- Other Expenditure Commitments – only need disclose commitments required by Accounting Standards.
- Temporarily idle physical assets, assets at their residual value or with zero WDV that are still in use.
- Statement of Changes in Equity for Budgetary Reporting disclosure.



- moG Transfers – receiving department disclosure of full year income and expenditure.
- Disclosures for grant revenue exceeding AASB 1004 requirements.
- Duplication of disclosure requirements that are already required by Accounting Standards – agencies must still comply with Accounting Standards.

EARLY ADOPTION OF ACCOUNTING STANDARDS FOR

2015-16 FINANCIAL YEAR AND 2016 CALENDAR YEAR



- **AASB 2015-2** amends AASB 101
- Allows **flexibility in note ordering and location of significant accounting policies**. Emphasis on material disclosure only.
- Early adoption facilitates continued simplification by agencies.
- Model financial statements illustrate how this might be applied in practice (but are not the only ways).
- **AASB 2015-7** amends AASB 13
- Exemption covers property plant and equipment only categorised within 'Level 3' of the fair value hierarchy.
- Disclosure is **no longer required** for the significant unobservable inputs used to determine fair value and the sensitivity analysis of changes in those unobservable inputs.

RELEASE OF SUNSHINE DEPARTMENT AND FUTURE BAY REGIONAL HEALTH FOUNDATION MODEL FINANCIAL STATEMENTS

Illustrative Model Financial Statements for 2015-16

- Simplification initiatives began in 2014-15.
- 2015-16 update is about demonstrating flexibility that agencies have to continue simplification.
- Consider co-locating accounting policies within note disclosures.
- Layout and structuring of the notes as illustrated is **not mandatory** for agencies to follow – tailor to suit your individual circumstances.

Illustrative Model Financial Statements for 2015-16

- Layout changes need not be major but layout adopted should be clear and contain an index.
- Any restructuring of the notes layout should have a clear objective and result in enhanced disclosure.
- Possible approaches - 'blank canvas' vs incremental enhancements over several reporting periods.
- Requires **careful planning and consultation** with audit committee, management and external audit.

Illustrative Model Financial Statements for 2015-16

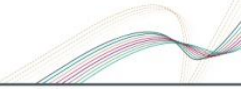
- 'Plain Language' is welcomed – decision rests with agencies to what extent it is adopted.
- Some language modernisation reflected in Sunshine model statements – but Treasury is limited in how much we can illustrate – ultimately depends upon subject matter. Agency discretion comes into play.
- Wording must accurately convey message and not be ambiguous or open to multiple interpretations.

Illustrative Model Financial Statements for 2015-16

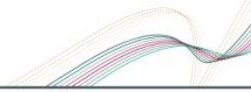
- Differing views on what constitutes plain English phrasing need to be considered and wording agreed.
- Engagement with audit committee, management and external audit necessary depending on extent of use.
- Feedback window on Sunshine and Future Bay Statements closes on **9 March 2016**.

WHAT'S ON THE HORIZON...





- Treasury will standardise, & agree with QAO, as much as possible regarding related party information collection process.
- Agencies must understand AASB 124.
- **Treasury will issue revised suggested wording** for disclosure about future impact of AASB 124.



AASB 124 *Related Party Disclosures* (cont.)

KMP

- For 2015-16 – no change.
- 2016-17 & beyond – Treasury will advise agencies later in 2016 – including detail of disclosures.
- Comparative disclosures still required.

Related Party Disclosures

- Treasury will develop self-declaration form, including guidance.
- Agencies to co-ordinate collection process for internal KMP's declarations.
- Treasury seeking legal advice to address concerns.
- Agencies should start informing their KMP of AASB 124 requirements.

Contact with Accounting Policy & Advice Team



Financial Management Help Desk:
fmhelpdesk@treasury.qld.gov.au



To be added to our email distribution list:
fmbregistrations@treasury.qld.gov.au

Long form Audit

Rachel Vagg
Director, Specialist Audit Services

New order of information

- Other matters paragraph

Key audit matters

- Areas that require significant audit attention
- Higher risk of misstatement
- Significant management judgement

Details

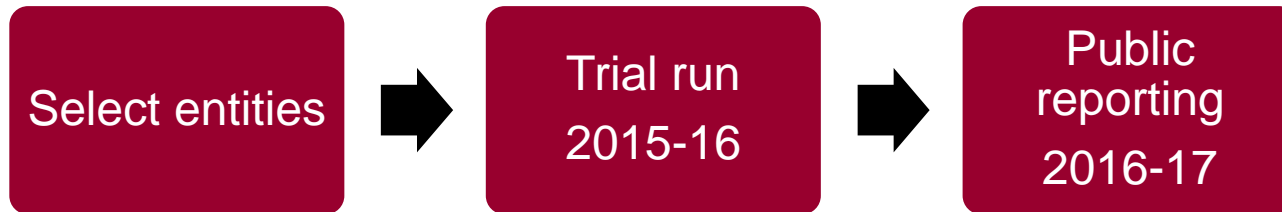
- Why it is significant
- Our observations

Audit

- What we did
- What were our judgements

Outcome

- Our results



Q&A

Asset valuation

David Adams

Director, Financial Audit Services

Asset metrics & why we care



Capital purchases are nearly \$8B per annum.



Utility related assets make up a quarter



Within infrastructure road & related assets make up half of the total infrastructure assets



PPE makes up three-quarters of the states \$312B in assets.



Depreciation is now over \$5.5B on a fixed asset base of \$148B (ex land).



Depreciation is nearly 10% of total state expenses \$57B



Infrastructure assets comprise half of the total value of the non-land assets

High materiality

Significant judgements
(subjective inputs and complex)

Sustainability and asset
management issues

Method
selection



Timing

Accounting



Budget V actual
explanations

What do we need to get better at:



Componentisation/segmentation.



Unit Rates (new construction rates vs reconstruction rates).



Measuring service potential consumed.



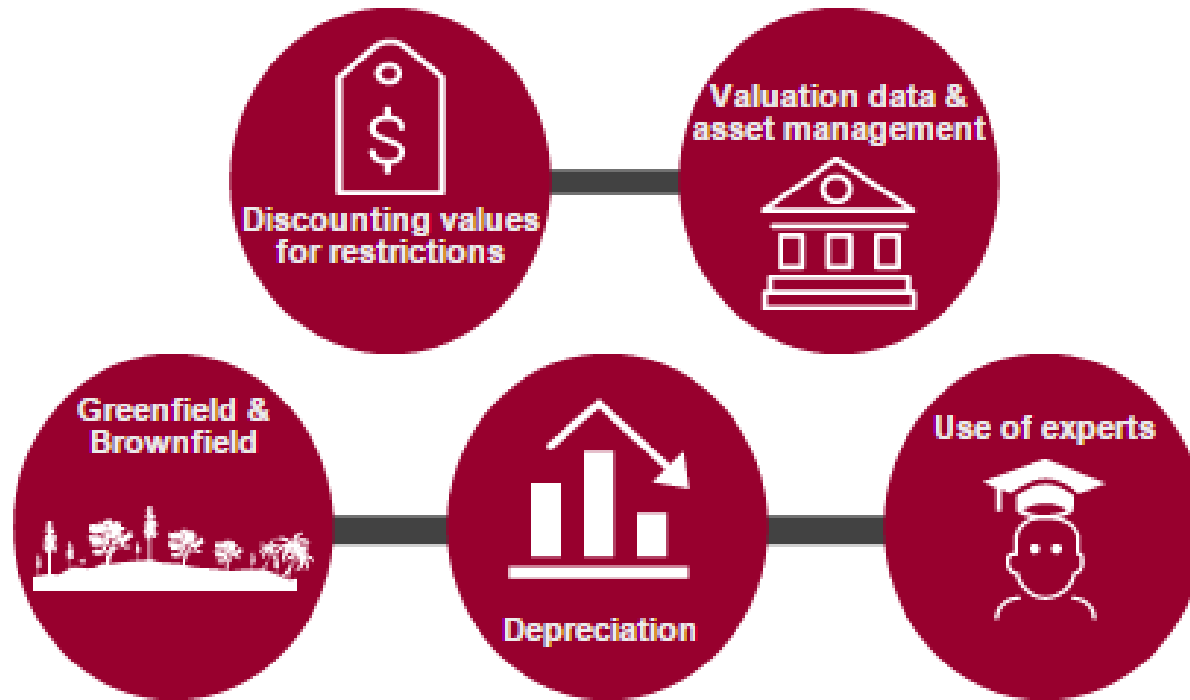
Useful life.



Residual value.



Cash flow forecasting.





Methodologies:

Not well understood or challenged.



Internal experts:

Not always used.



External experts:

Scope of work is not clearly defined.

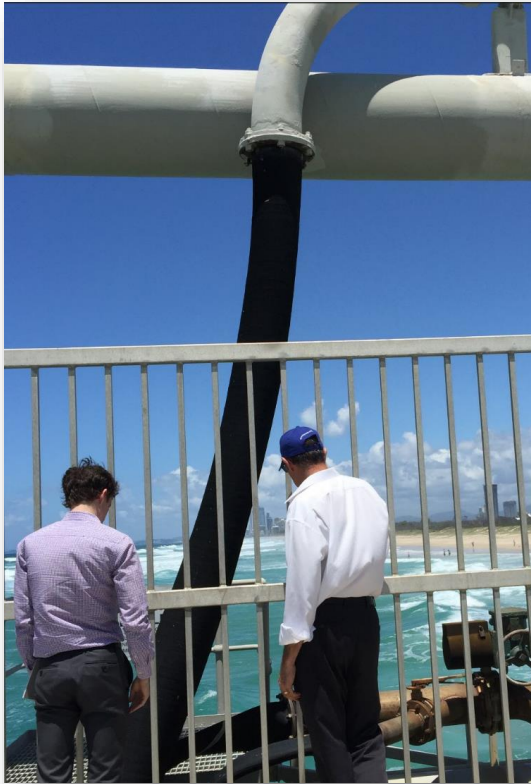


Build consensus:

Early engagement with all stakeholders.



Gold Coast Sand Bypass System



Southport Broadwater & Channels



Gold Coast Seaway





Need to know

- AASB – no change
- Disclosure relief for level 3.
- More simplification required.
- Communicate to Audit Committee.
- Engage early with Audit.
- Consider internal experts.
- Don't accept expert advice without challenge.
- Audit Committees recommend valuation approach & outcome.
- Inputs, estimates and assumption must be understood by all.
- Where judgement exists, risk of material misstatement lives.

Need to do



- Plan early.
- Agree expectations.
- Involve the Audit Committee early.
- Seek early feedback from Audit.
- Earlier revaluations.
- Resolve differences.
- Monitor & challenge experts.
- Educate stakeholders on key judgements, assumptions & estimates.
- Valuation workbook.
- Trial financial statement disclosures early.

Q&A

Wider learnings from reports to Parliament

Improving public services

Andrew Greaves
Auditor-General

Key issues



Processes – lack transparency and accountability.

Boards and departments cannot demonstrate that:

- applicants are dealt with equitably
- evaluation criteria is applied consistently
- decisions have maximised potential community benefit.



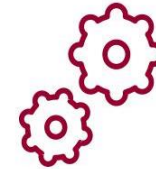
Administration of grants – inefficient and monitoring of payments is weak.





Some non-state schools are getting more recurrent state grants than they are entitled to – others receive less.

Board has not established a robust framework.



DETE has not sought assurance from the Board in regards to accuracy of student numbers.

*Oversight of recurrent grants to non-state schools
Report 12:2014-15, March 2015*





Decision making documentation does not demonstrate economy in procurement – weakens accountability.

Lack of transparency weakened program administration.



Leaves process open to accusations of favoritism.

*Procurement of youth boot camps
Report 13:2014-15, April 2015*





The decision on the capacity of the Gold Coast Desalination Plant did not benefit from the rigorous cost-benefit analysis.

For the scheme's business case, as compared to costs, less rigour was applied to estimating potential benefits and these benefits were overstated.

Consideration of the water supply needed and the cost of this supply were not balanced against a realistic assessment of benefits.



*Maintenance of water infrastructure assets
Report 14:2012-13, June 2013*





Poor health service and investment planning has cost the state more than expected.

The decision to build before a preliminary evaluation of options, and before business cases, put the planning process out of step with the Project Assurance Framework.



QH took the position that the announcements set the scope and expectations for each project. Other options were not explored.

*Hospital infrastructure projects
Report 2:2014-15, October 2014*





The quality of the business cases varied significantly, particularly in:

- the rigor of analysis, absent in some cases
- the level of detail provided to support decision-making.

In the case of the 2008 amendments, QH was unable to provide financial or workforce analysis or other documentation to support them.



QH has failed to analyse adequately the financial implications to quantify success, or to schedule and complete reviews.

*Right of private practice
Report 1:2013-14, July 2013*





The trial was not well planned, implemented or evaluated:

- planning was rushed

- no benchmarks to gauge success



- unintended consequence of restricting the ability of the police service to use its resources where and when needed.

Unrealistic time frames impacted set up and design – caused problems throughout.



*Drink safe precincts trial
Report 13:2012-13, May 2013*

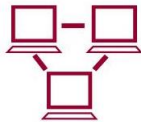


Challenges



Poor data and inadequate systems continue to hinder EHPs planning and risk assessments.

Monitoring and enforcement efforts cannot be targeted to where they are needed most.



Exacerbated by lack of coordination and sharing of information across agencies.





Teacher data is fragmented across four systems.

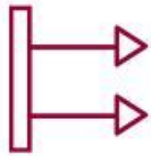
Lack of integration creates inefficiencies sourcing appropriately qualified teachers.



Increases risk of teachers being placed in schools without the capabilities and competencies required.

*Supply of specialist subject teachers
Report 2:2013-14, October 2013*





Little alignment between scheme oversight objectives and the management information to support effective decision-making.

Insufficient information is available to monitor and discharge obligations, or for proactive governance.



The desire for more in-depth information...has not been supported with well-targeted and sufficient investment in integrated information technology infrastructure.





...departments did not have complete records of all their contracts. Or centralised records of contract management activities.

Their systems were inadequate and did not:

- integrate with their financial systems
- provide automated alerts to enable early planning for contract expiry
- support and record details about the entire contract life-cycle.



- They [Ministers] make decisions without all the information and without fully understanding the consequences
- The responsibility for this unfortunate situation lies with chief executives
- What is often needed is a more sophisticated analysis of priorities and programs
- Departmental advice should be better structured and better considered than anything that could be produced in a minister's office

*Don Russell, former Industry department Secretary
ANU, March 2014*

"The bureaucracy has been cowed both by the prospect of being sacked and by a reward system which punishes taking risks"

Ken Henry

[he] laments the consequences of "blurring of boundaries" between public servants and political advisors, as well as the "relentless focus on message over substance" in government.

Martin Parkinson

Political amnesia: How We Forgot How to Govern
Laura Tingle, AFR

- Good governance depends on departments providing frank and impartial advice to ministers
 - Public servants should be prepared to back their advice with a clear recommendation about which of several potential courses of action would be in the best interests of the state
 - The public service must give best advice and firm recommendations before decisions are made
- But, [they] "avoid providing advice or recommendations simply because they believe the government of the day does not want to hear them".

Editorial, The Age

Q&A

Any questions please contact the Queensland Audit Office:

Phone: (07) 3149 6000

Email: gao@gao.qld.gov.au

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