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LGFP CFO Forum 2019

Accounting standards and other topical issues

Patrick Flemming Sector Director

● *Queensland*
● ● *Audit Office*
Better public services

Agenda



New accounting standards

- Financial Instruments (AASB 9)
- Revenue (AASB 15) and Income for NFPs (AASB 1058)
- Leases (AASB 16)

Internal Financial Reporting

Queensland Waste Levy

Restoration Provisions – Landfills

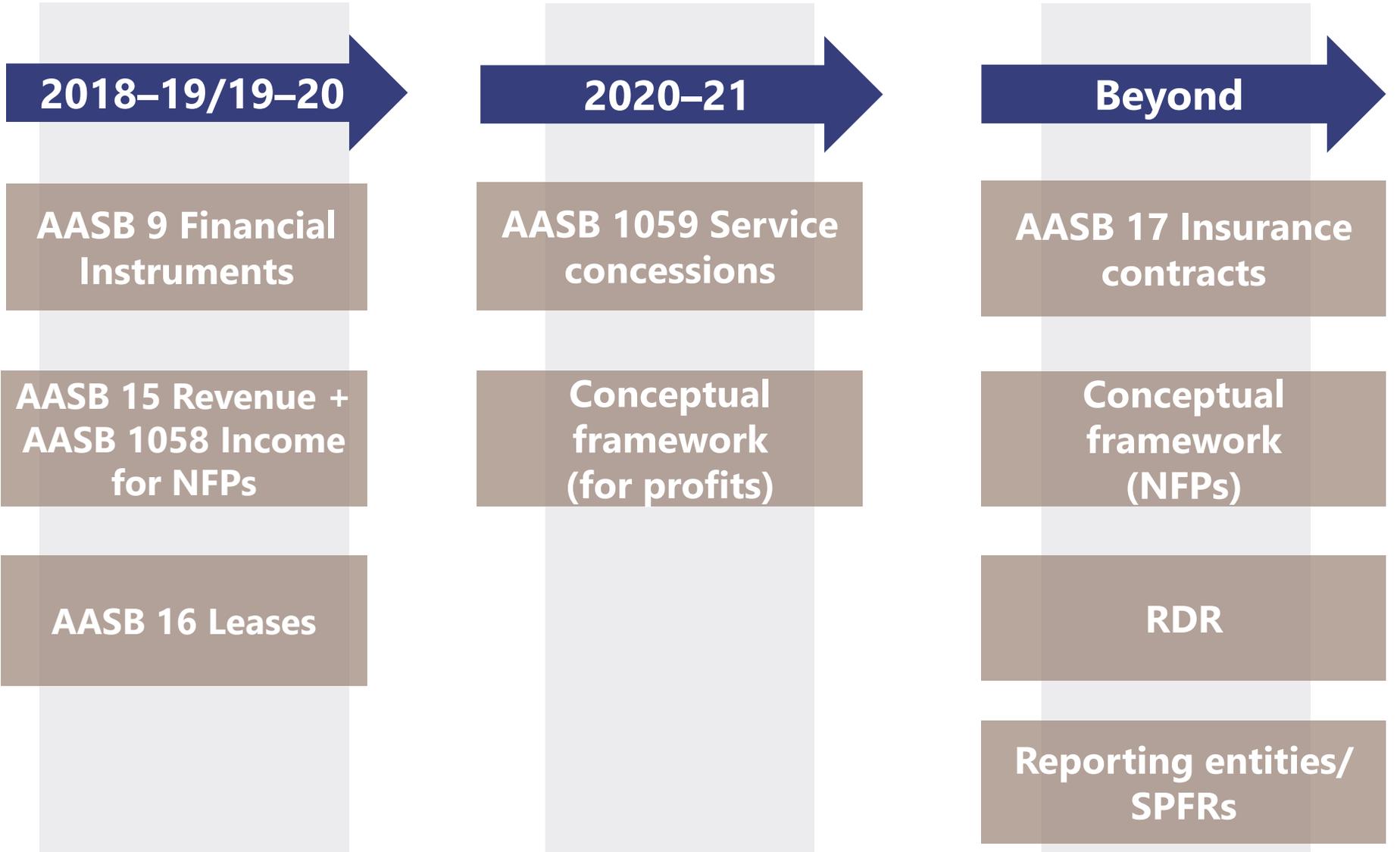
Managing the Costs of LG Services

Q&A



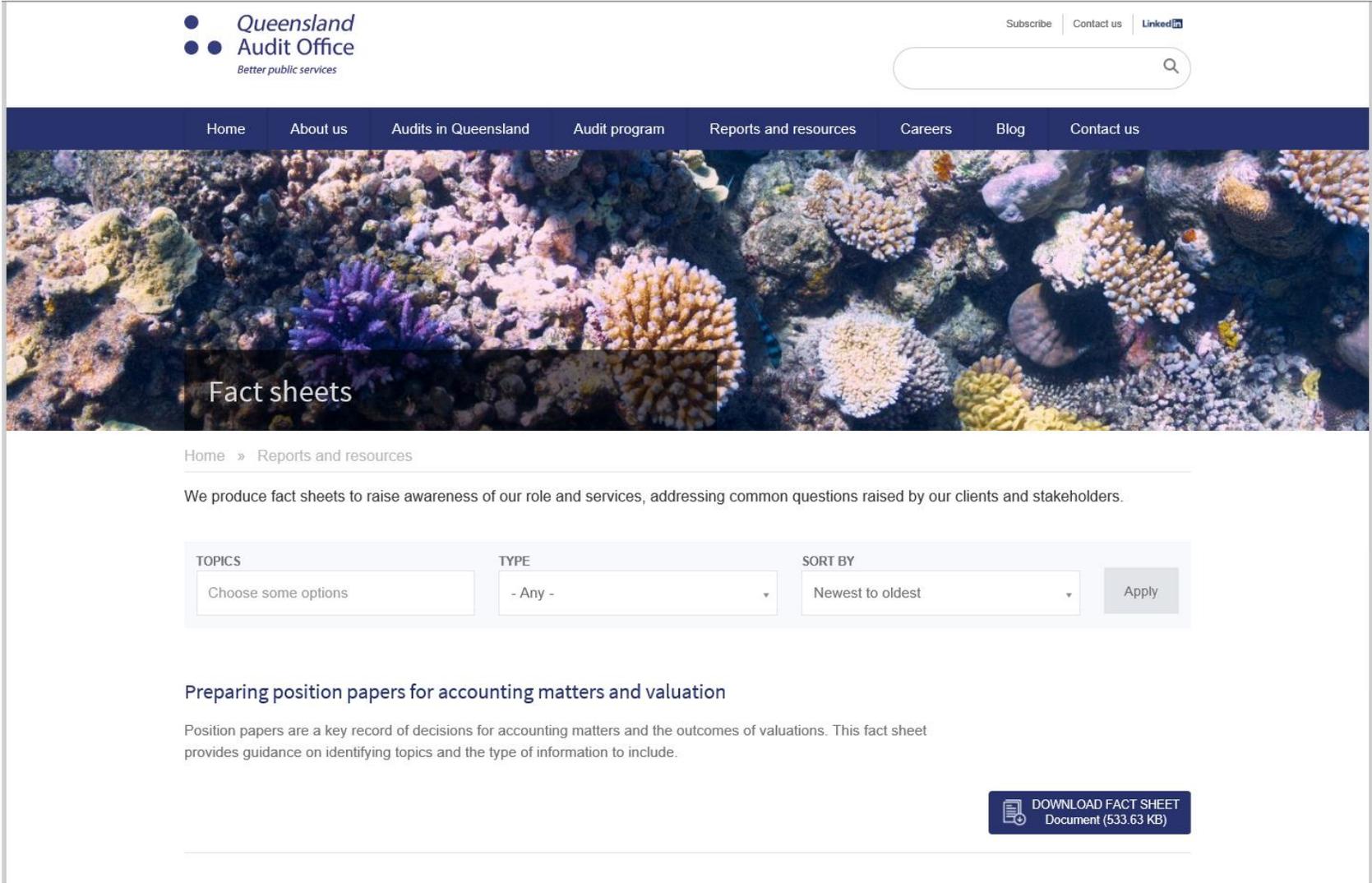


Upcoming changes



Preparing position papers for accounting matters and valuation

QAO Fact Sheet

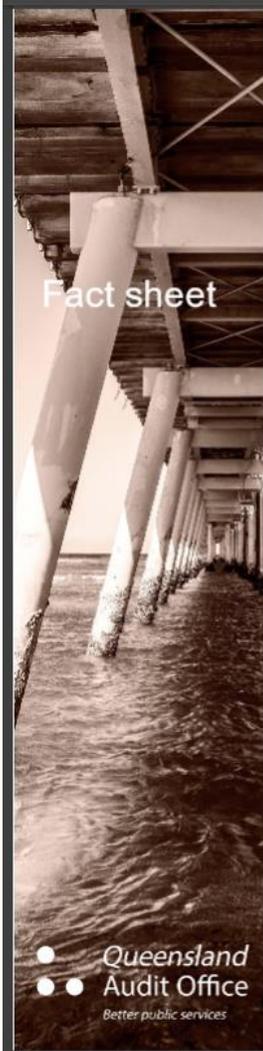


The screenshot shows the Queensland Audit Office website. At the top left is the logo with the text "Queensland Audit Office" and the tagline "Better public services". To the right are links for "Subscribe", "Contact us", and "LinkedIn". A search bar is located below these links. The navigation menu includes "Home", "About us", "Audits in Queensland", "Audit program", "Reports and resources", "Careers", "Blog", and "Contact us". The main content area features a large image of coral reefs with the text "Fact sheets" overlaid. Below the image is a breadcrumb trail: "Home » Reports and resources". A paragraph states: "We produce fact sheets to raise awareness of our role and services, addressing common questions raised by our clients and stakeholders." Below this is a filter section with three dropdown menus: "TOPICS" (with the text "Choose some options"), "TYPE" (with the text "- Any -"), and "SORT BY" (with the text "Newest to oldest"). An "Apply" button is to the right of these filters. The main heading for the fact sheet is "Preparing position papers for accounting matters and valuation". The text below reads: "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." At the bottom right, there is a blue button with a document icon and the text "DOWNLOAD FACT SHEET Document (533.63 KB)".



Preparing position papers for accounting matters and valuation

QAO Fact Sheet



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.

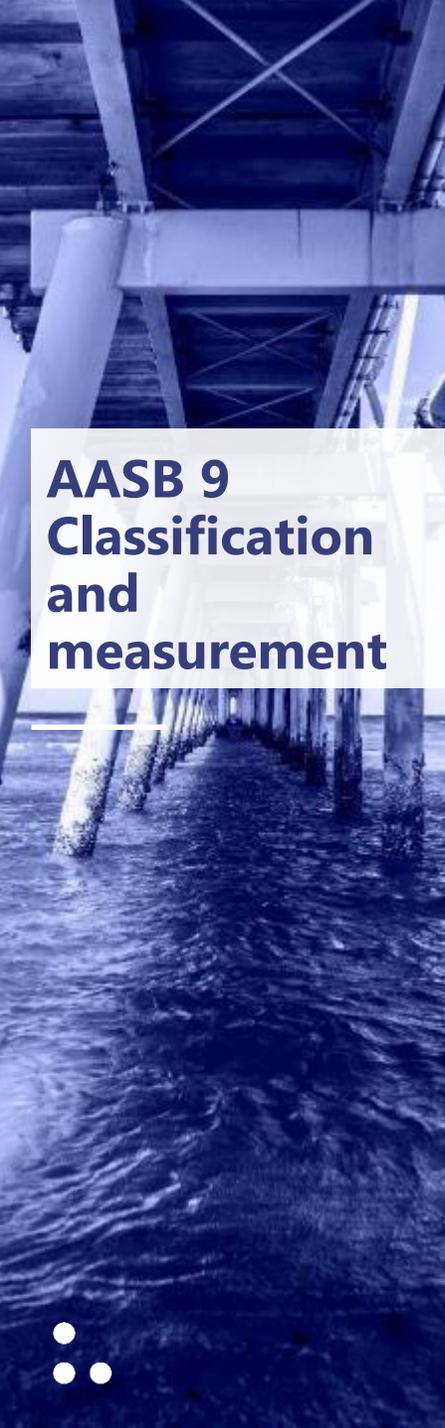
Prepare position papers if you consider any of the above accounting matters or valuation processes material for your financial statements.

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.

Queensland Audit Office
Better public services



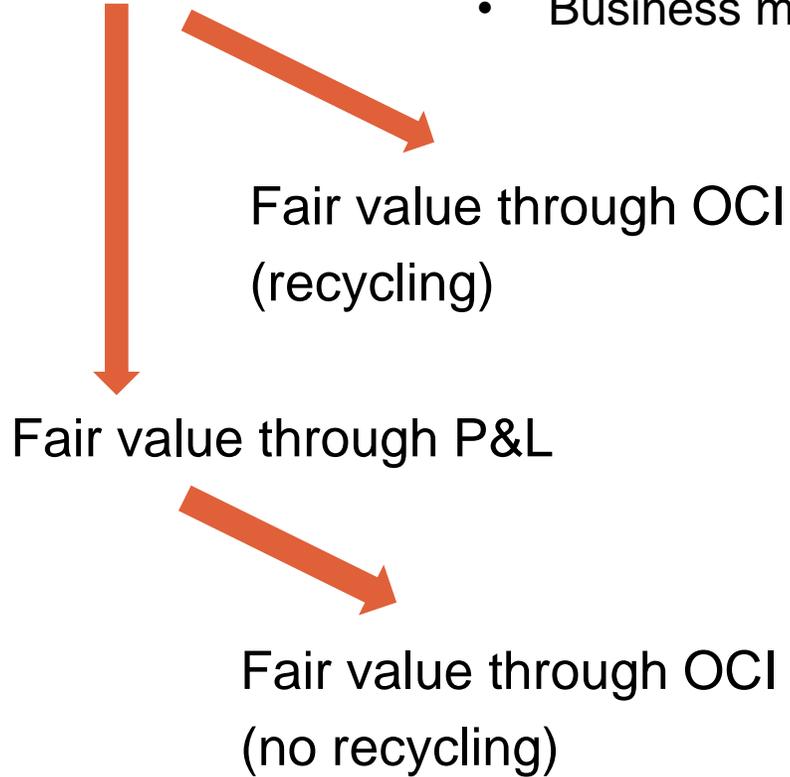
**AASB 9
Classification
and
measurement**

New

Amortised cost

Tests

- SPPI
- Business model



Loans—the odd ones

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

Investments

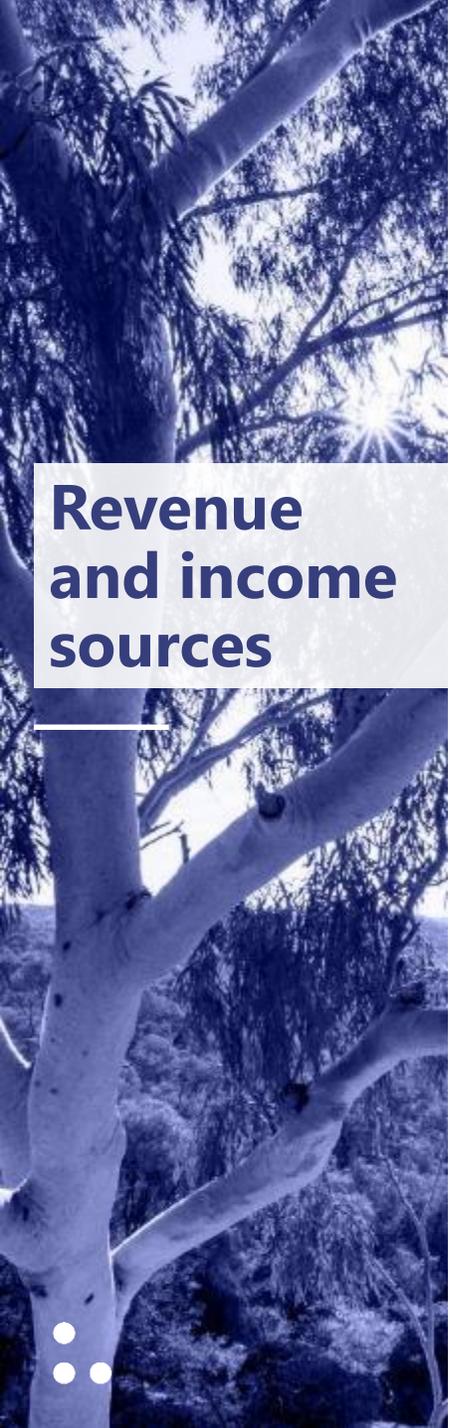
- Available for sale removed
- Are they debt securities (SPPI)?
 - Impairment
 - FVOCI (recycling)
 - Are they equity securities?
 - FVOCI (no recycling)

**Impairment—
simplified
approach**

Trade receivables will have provision matrix where:

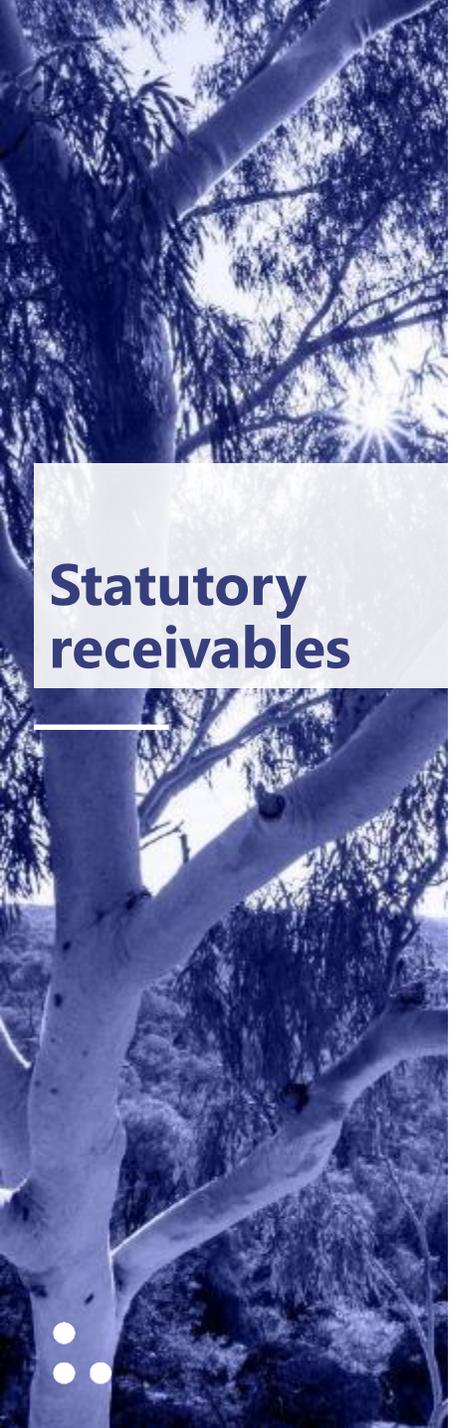
- Expected credit losses for each ageing bucket need to be estimated
- All ageing buckets cannot have same expected credit loss. Longer the term, higher the expected loss

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



Revenue and income sources

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



**Statutory
receivables**

Statutory receivables initial recognition to be part of AASB 9, for example:

- Rates
- Taxes
- Fines
- Infrastructure charges

Based on timing of the taxable event—what is the fair value of fines receivable?

Effective 1 Jan 2019 with AASB 15 for NFPs—not 1 Jan 2018

Transition?

- **Current thinking—mandatory retrospective to 1 July 2018**



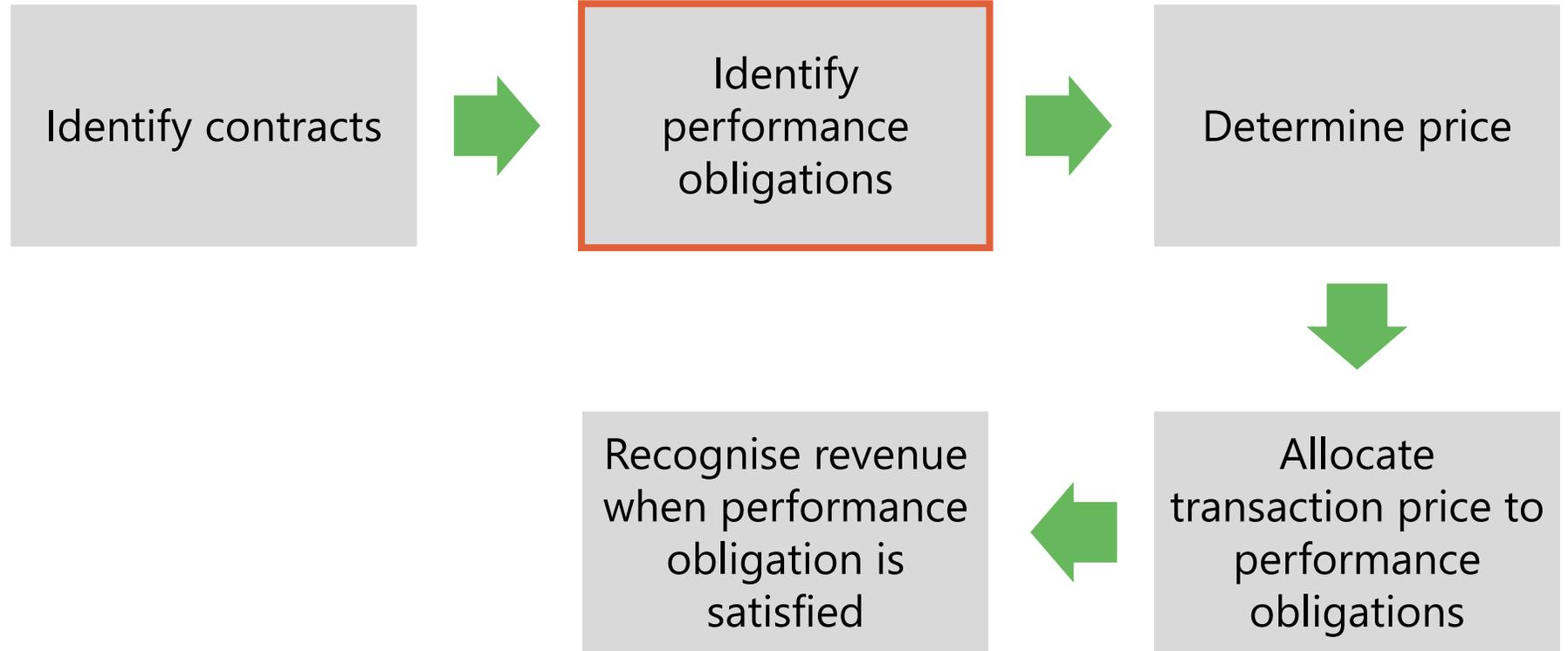
Developer contributions / Infrastructure charges

- New standard—timing
- Change of use—when does council know?
- Multi-stage developments—charges and contributions in advance
- On maintenance & cut-off
- Upfront recognition (part), deferral remainder



Revenue recognition process

Five steps:

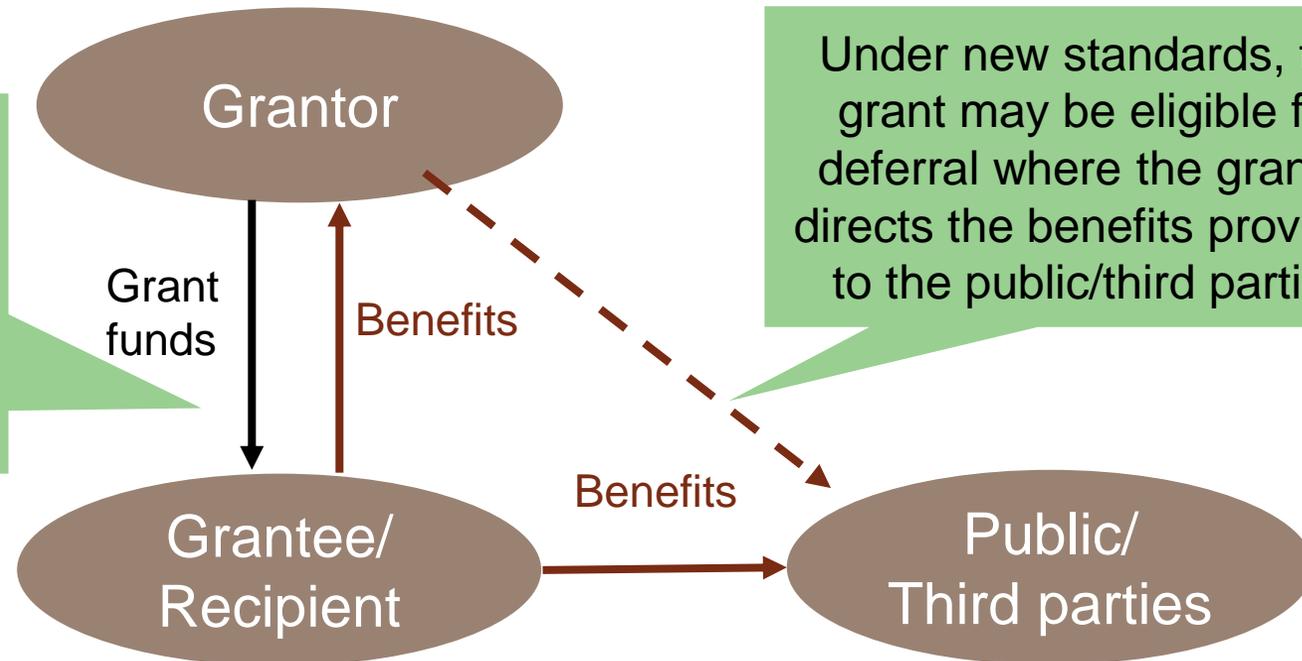


Accounting for grant income

Conceptual change from AASB 1004

Revenue recognition changes

Under AASB 1004, it must be a reciprocal transfer for the grant income to be deferred



Under new standards, the grant may be eligible for deferral where the grantor directs the benefits provided to the public/third parties

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

A vertical image of a waterfall cascading over dark rocks, serving as a background for the left side of the slide.

Federal

Per LGAQ website:

- Black Spots (Roads)
- Bridge Renewal Program
- Drought Assistance
- Drought Communities (Infrastructure) Programme
- Heavy Vehicle Safety and Productivity Program
- Regional and Remote Aviation
- Roads to Recovery (R2R)
- Future ready incubation package
- Financial Assistance Grants (FAGs)
- Natural Disaster Relief and Recovery Arrangements

Council grant sources (some)

State (Queensland)

Per LGAQ website:

- Local Government Grants and Subsidies Program (LGGSP)
- Community Resilience Fund (CRF)
- Natural Disaster Resilience Program (NDRP)
- Building our Regions
- Transport Infrastructure Development Scheme (TIDS)
- QCoast2100 Program - Coastal Hazard Adaptation Planning Grants
- Sport and Rec - Get in the Game
- Queensland Destination Events Program
- Innovation and Improvement Fund

Objectives

- Avoid having 77 councils review the same agreements, and likely arriving at different conclusions
- Have some examples to assess other grants – especially with applying ‘sufficiently specific’

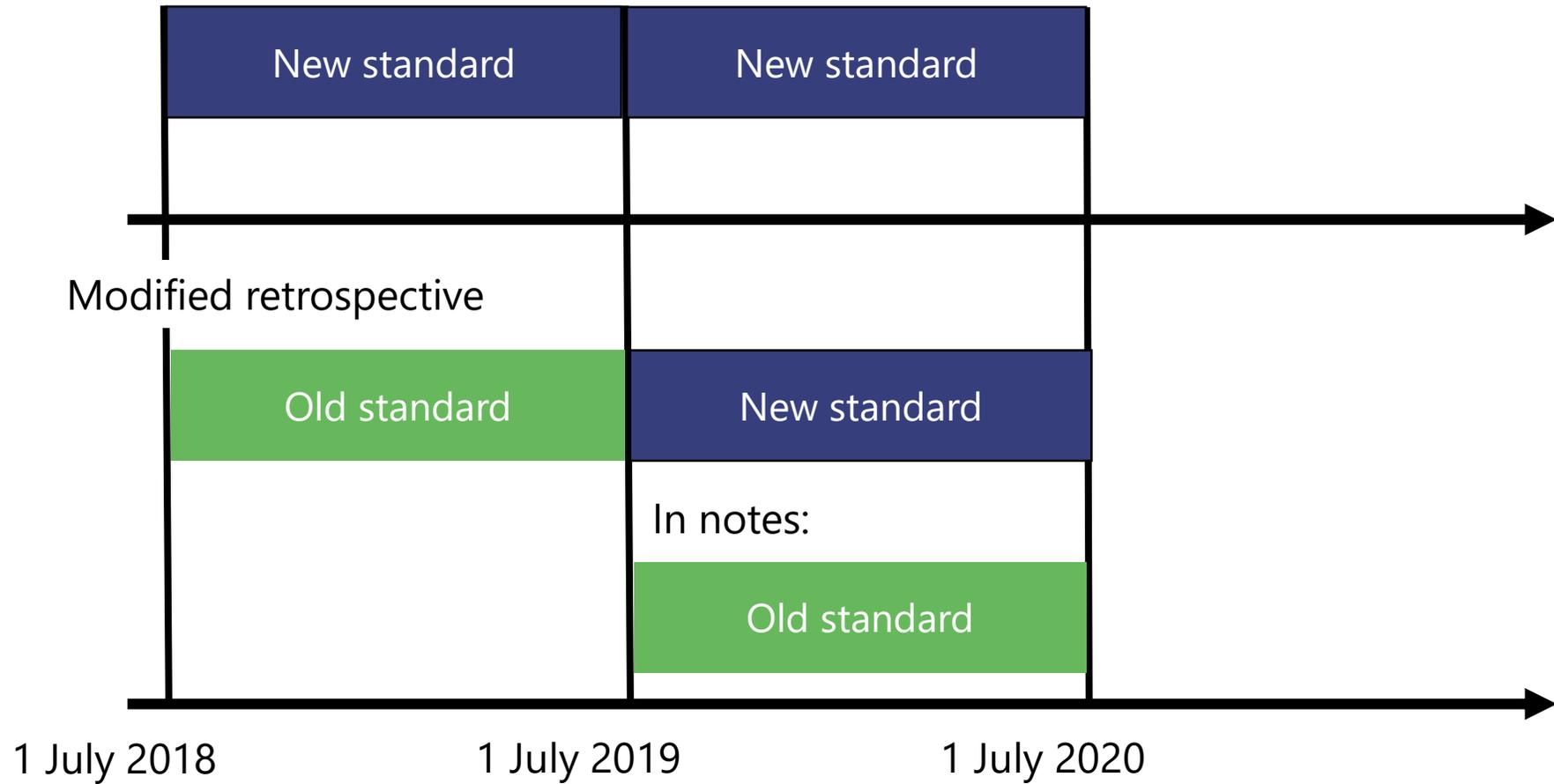
Reality

- Many of the listed grants appear to be capital
- Unlikely to be useful for ‘sufficiently specific’
- We want to focus on material contracts, not all contracts
- Need to expand reasoning on assessments
- Few volunteer councils - lack of resources (councils, DLGRMA, QAO)
- Need to assess if confidentiality will affect examples
- Need to assess extent of amendments of standard agreements to individual councils



**Transition—
first year—
not-for-profit**

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





**Putting
operating
leases on
balance sheet**

Similar 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

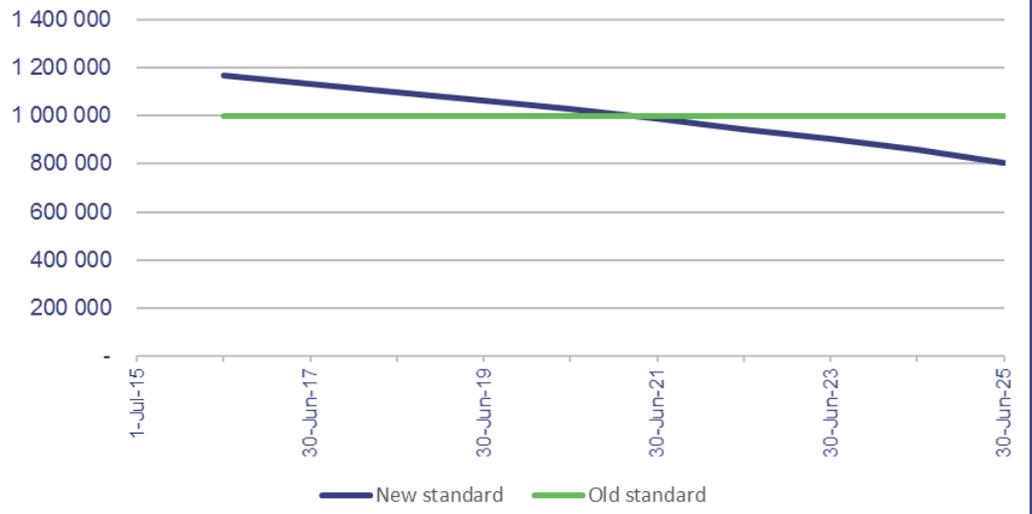
Parallel universe

- e.g. CPI escalation

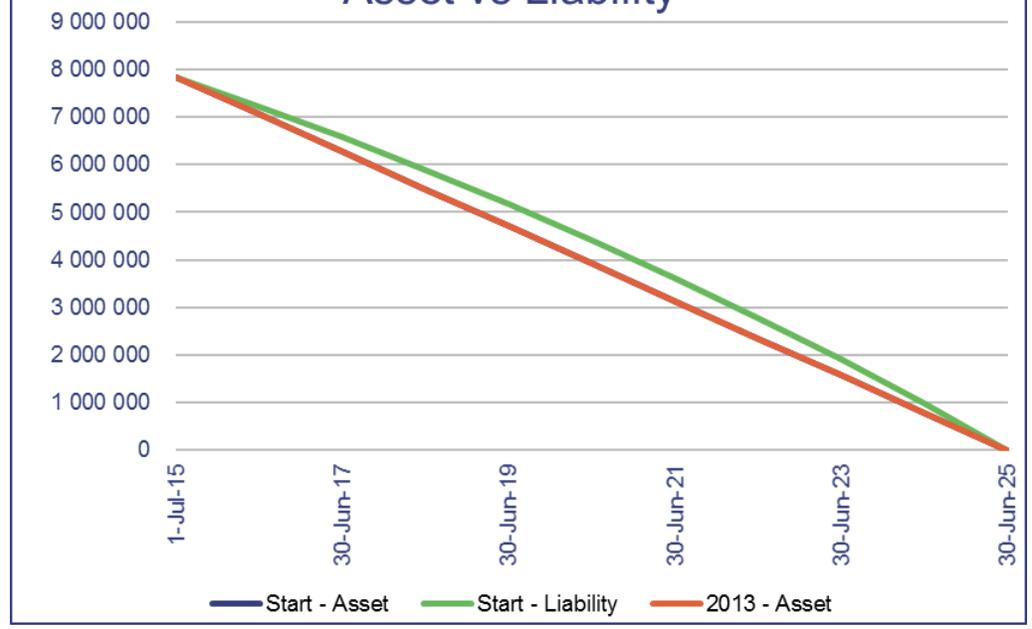


Leases— profit or loss effect

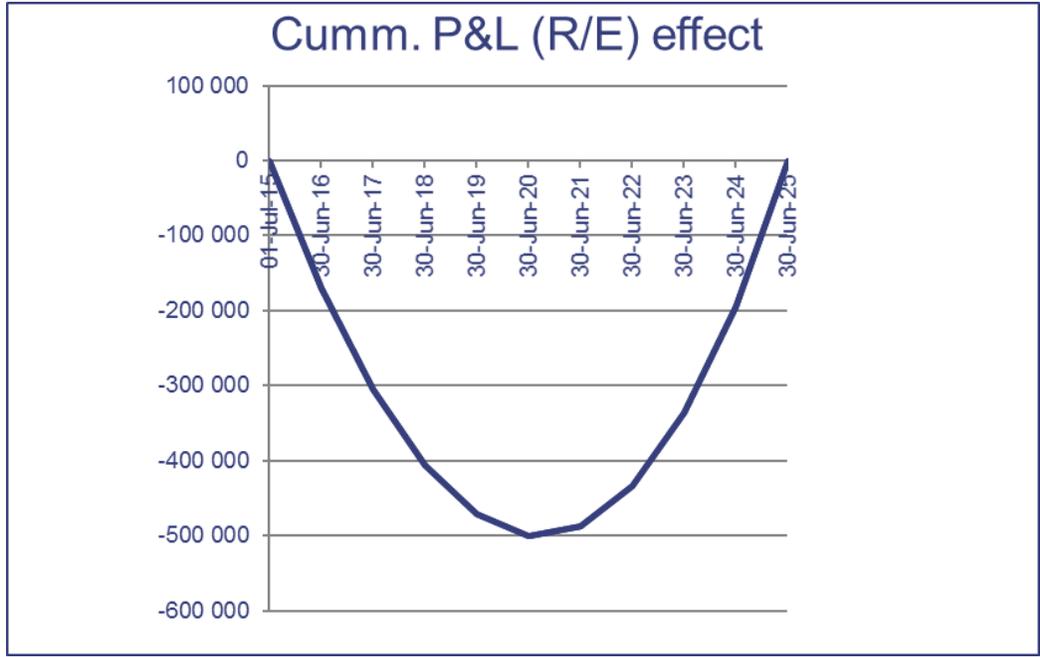
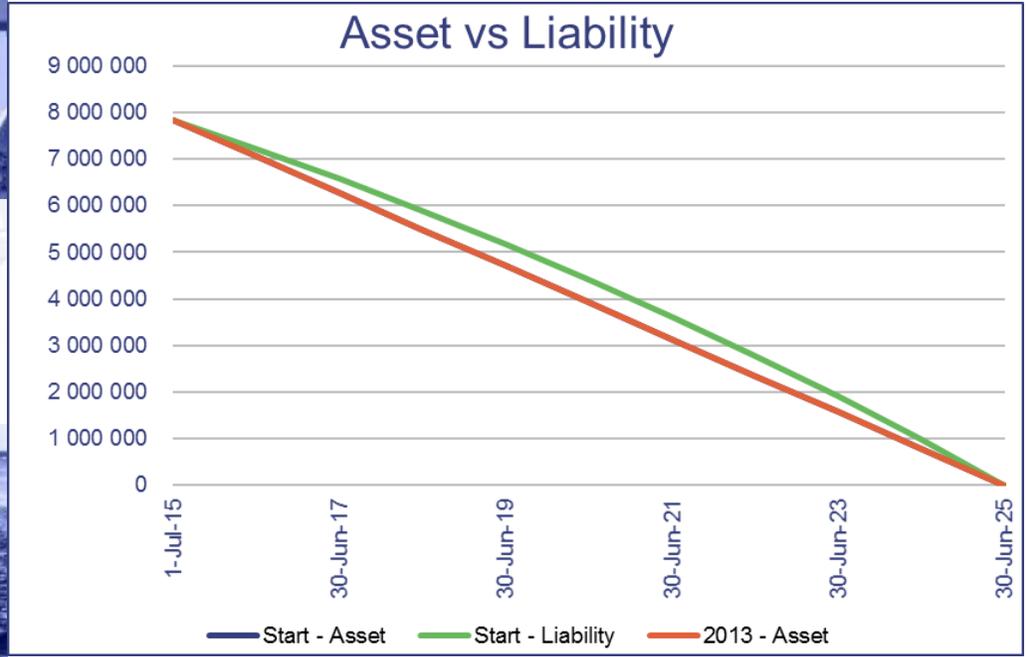
Gross effect P&L Interest and dep'n c/f lease payment



Asset vs Liability



Lease— balance sheet effect



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?





Peppercorn
leases

What is a peppercorn lease?

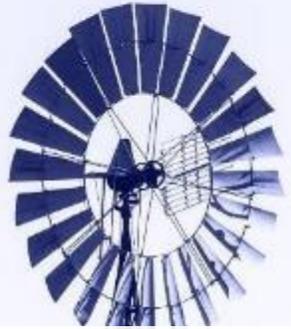
- Concessionary leases

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

Do you have an 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



**Further
advice**



QAO blog: www.qao.qld.gov.au/blog

Subscribe: www.qao.qld.gov.au/subscribe

The screenshot shows the QAO blog homepage. At the top is a blue banner with the word "Blog" in white. Below the banner is a breadcrumb trail: "Home » Blog". To the left is a "Browse by category:" section with three buttons: "Advice (9)", "News (3)", and "Technical (14)". Below that is a "Browse by date:" section with three buttons: "February 2019", "January 2019", and "December 2018". In the center is a "This month's featured article" section. It features a photograph of a field with a fence and a cow. To the right of the photo is the article title "Regulatory compliance", the publication date "Published 11 February 2019", a blue "ADVICE" tag, and a short description: "Regulatory compliance is an entity's adherence to laws, regulations, policies and guidelines relevant to its business processes." A "READ MORE >" link is at the bottom right of the article card. Below the featured article is a "Recent posts" section.

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Internal financial monthly reporting

Right people

those charged with governance (TCWG)

executive management

operational management

All key stakeholders need financial information to support the decisions they need to make.

Right information

What's presented
- *relevant*
- *reliable*

How it's presented
- *comparable*
- *understandable*

The quality of reporting information concerns both what information is in reports as well as how information is presented. Good management reports contain relevant and reliable information that is comparable and understandable.

Right time

Process
- *accessible*
- *streamlined*
- *responsive*

Good management reports need to be underpinned by streamlined and responsive processes to make reports easily accessible and get information to decision makers as quickly and efficiently as possible.



Queensland Waste Levy

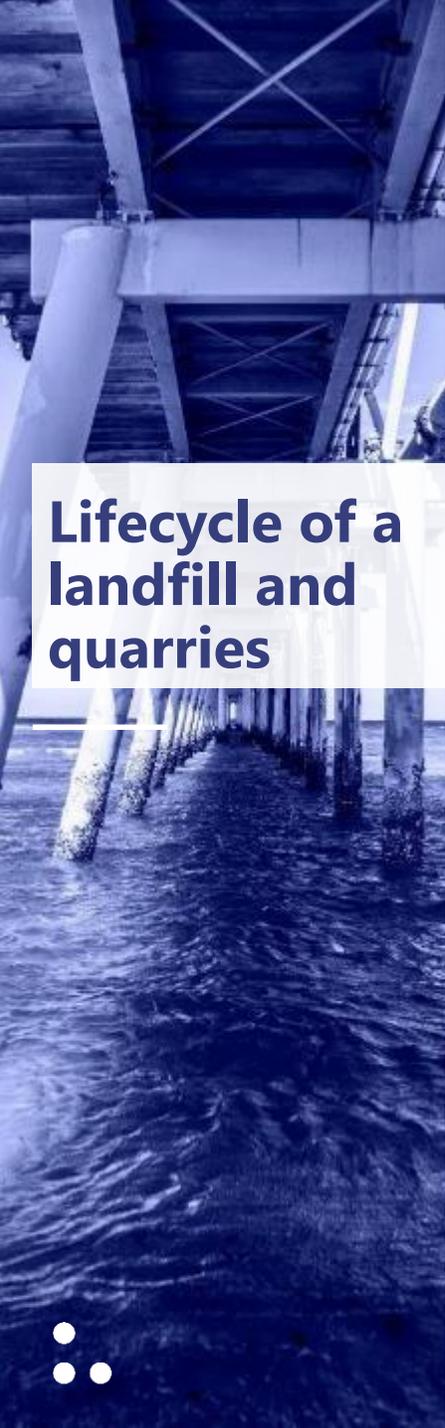
Background

- 43 councils impacted
- Waste Reduction and Recycling (Waste Levy) Amendment Regulation 2019
- Regulation specifies that an Annual Payment would be made to councils to mitigate any direct impacts on households
- Councils must include a statement on their 2019-20 rates notices to households acknowledging the State's payment.
- May 2019 – affected councils were advised that the full 2019-20 payment would be paid before 30 June 2019
- Several councils and the LGFP provided position papers to QAO suggesting this was a reciprocal grants under AASB 1004

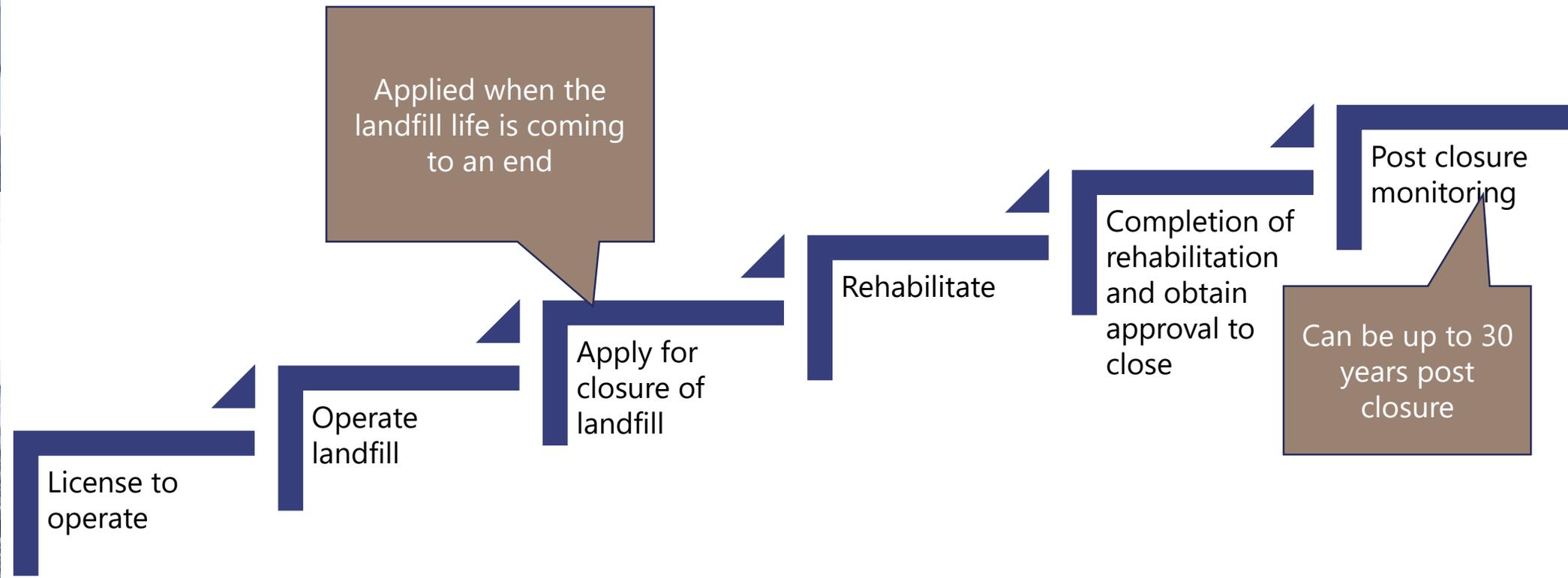
Treatment: The advance payment of the rebate/refund should to be accounted for as a liability (Waste levy refund received in advance) at 30 June 2019

Key facts

- Payment is a rebate/refund for the portion of the waste levy that relates to households
- Levy only payable from 1 July 2019
- First payment provided to councils within the last 2 weeks of year end
- Councils must use these funds to mitigate the impacts of the levy on households
- State pays councils and councils use this money to pay the State for waste levies collected for households.
- Calculation and payment of the rebate/refund to councils is in the same legislation that creates the levy



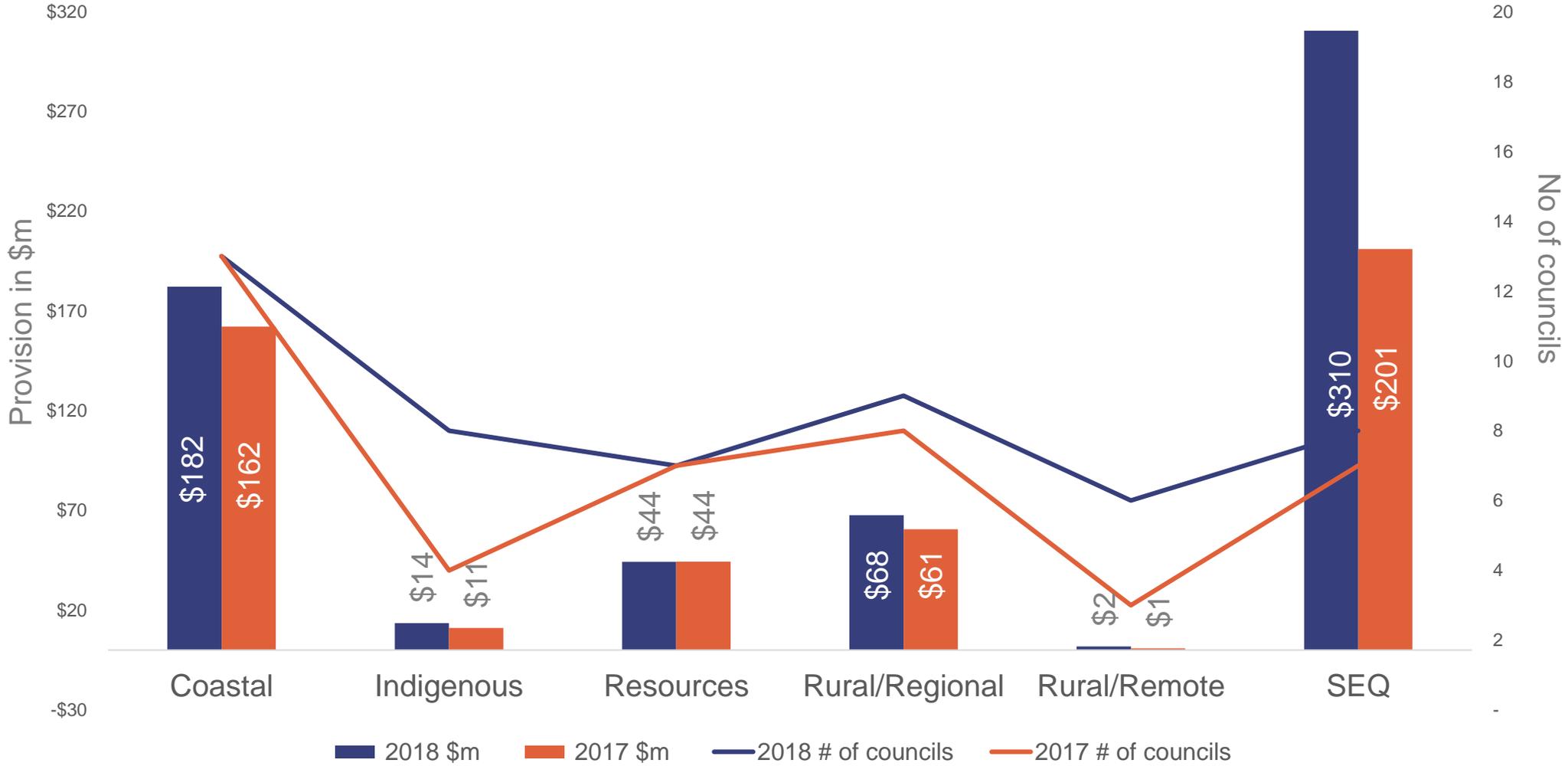
Lifecycle of a landfill and quarries





Some statistics on LG landfill provisions

Landfill provisions





What is involved in provisioning for landfill

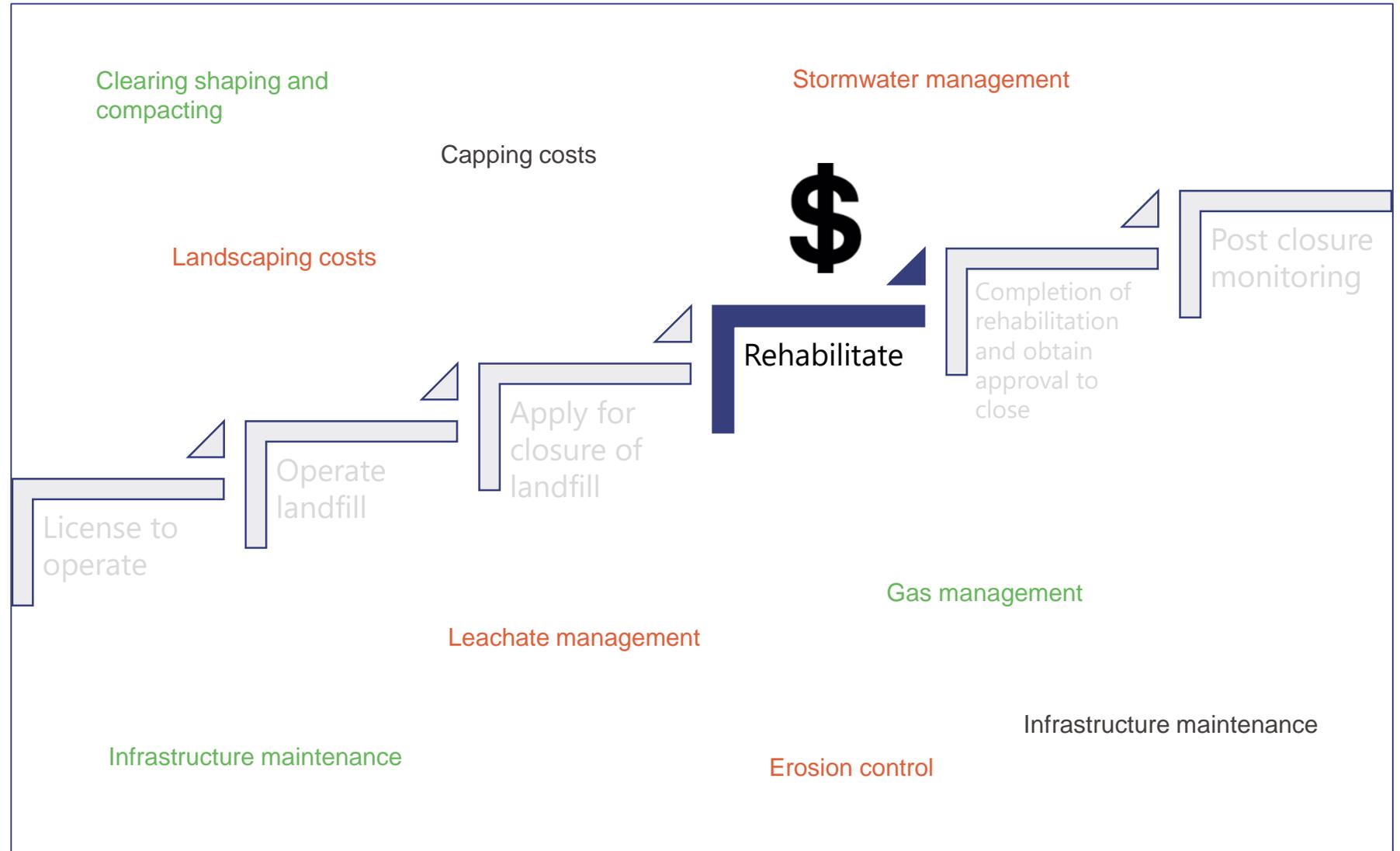
Identifying the landfill sites and key characteristics of sites

Determining costs associated with aftercare management (ongoing monitoring)

Determining costs associated with rehabilitation

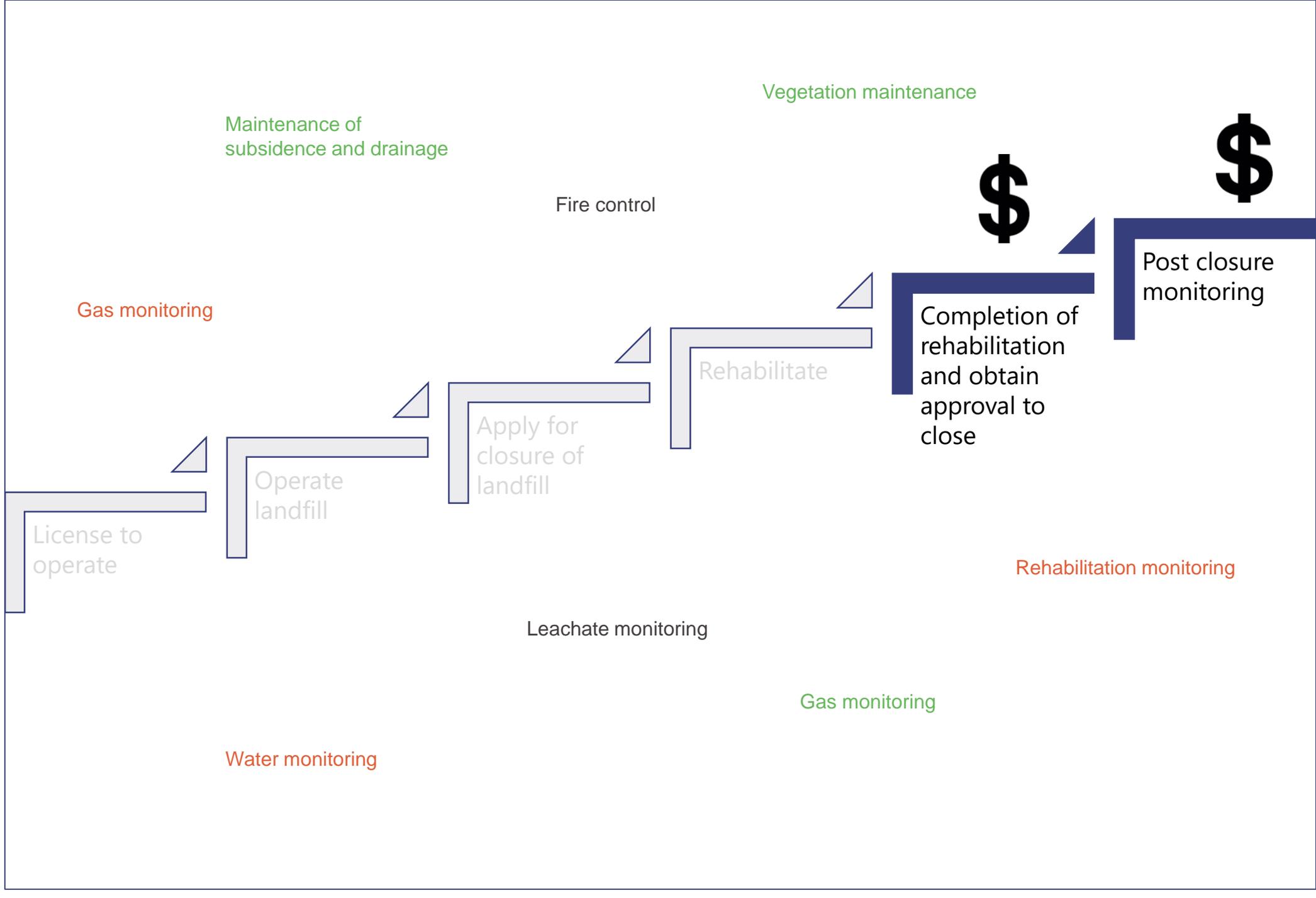


Typical costs in rehabilitation





Typical costs in monitoring and inspection after closure





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Performance audit update

Managing the costs of local government services

Rachel Vagg Sector Director

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Financial sustainability performance audit program

Sustainability performance audits

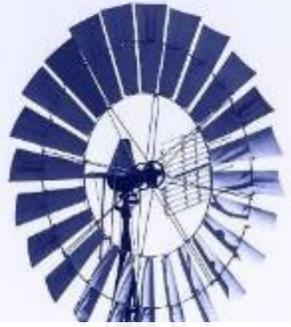
Forecasting long-term sustainability of local government
(Oct 16)

Managing local government rates and charges
(June 18)

Managing the costs of local government services
(Sept 19)

Strategic asset management in local government
(2020-21)





Managing the cost of LG services

What did we do

1. Approach to planning and managing

- Identification of services
- Community feedback
- Identification of the full cost and cost recovery
- Review of services

2. Monitoring and reporting

- Costs and performance
- Effectiveness of service delivery

The objective of the audit is to assess whether councils plan and deliver their **services to support **long-term sustainability**.**



Process & Reporting

- Audited 5 councils
- Department of Local Government
- Local Government Association of Queensland

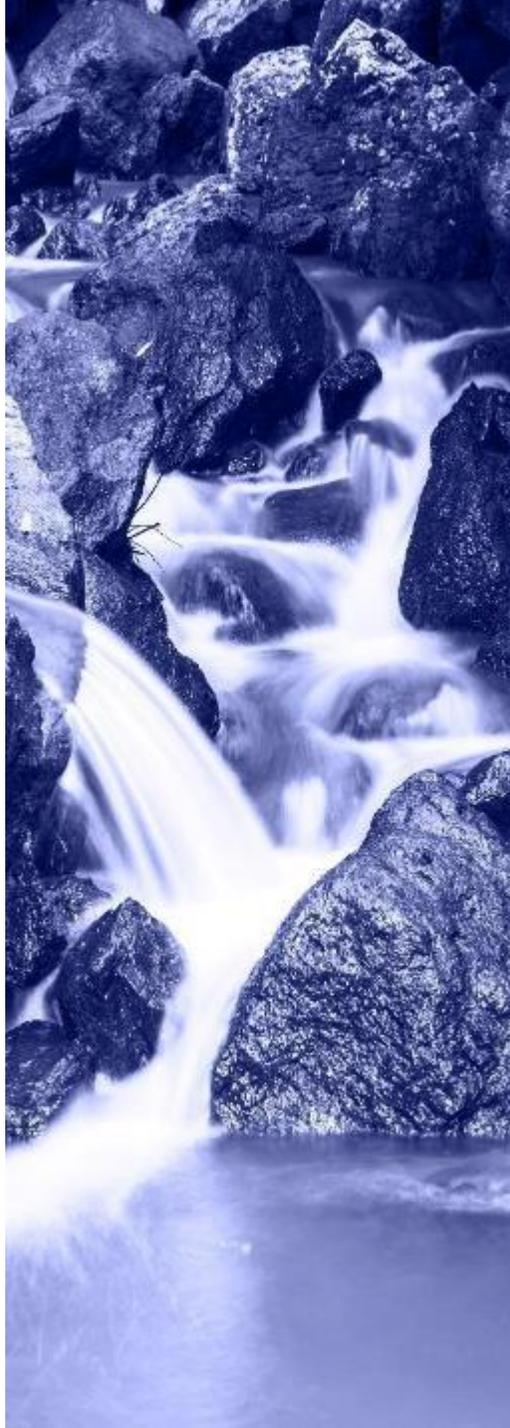
Reporting process:



Report structure:



What did we find



Planning and engagement

- Service planning
- Alignment between service planning and operational plans
- Community engagement

Costing

- Allocation of indirect costs
- Whole of life costing
- Fees and charges

Monitoring and reporting

- Service reviews
- Budget to actual reporting
- Efficiency measures
- Effectiveness of services
- Operational and corporate plan measures



Q&A



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