

Preparing for the upcoming year end audit cycle

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1. Key accounting issues for FY 2014
2. Preparing for EOFY audit
3. Areas of focus for *Local Government: Results of 2013-14 Audits*
4. Performance audit reports

1. Key accounting issues for FY 2014

- AASB 13 *Fair value measurement*
- AASB 119 *Employee entitlements*
- AASB 1051 *Land under roads*
- Municipal Association Victoria (MAV) bond issue

1. Key accounting issues – AASB 13 Fair value measurement

Key concepts

- Fair value = exit price
- Highest and best use concept
- Valuation techniques – Market / Cost (depreciated replacement cost) / Income (discounted cash flows)
- Maximising use of observable inputs
 - But not at the expense of a faithful representation of fair value
- Fair value hierarchy
 - Level 1, 2 or 3 (already used for financial instruments)
 - More disclosures the lower down the hierarchy
 - Infrastructure assets most likely to be classified as Level 3

1. Key accounting issues – AASB 13 Fair value measurement

5

VAGO's expectations

- AASB 13 requires information not previously reported or audited to be disclosed
 - Audit clients need to analyse and collect this new information
 - Audit clients may need to access their valuer
- No change in accounting requirements
 - Depreciation / useful life / residual value / impairment
- Depreciated replacement cost continues to be an acceptable method to determine fair value
- Legal restrictions on assets needs to be considered

1. Key accounting issues – AASB 13 Fair value measurement

6

Disclosures:

- LGV model financial statements will be updated to reflect AASB 13 disclosure requirements
- In the interim, review the sample disclosures for AASB 13 in the Victorian Department of Treasury and Finance Model Accounts for 2013-14

<http://www.dtf.vic.gov.au/Publications/Government-Financial-Management-publications/Financial-reporting-policy/2013-14-Model-Report>

1. Key accounting issues – *AASB 119 Employee benefits*

7

- Clarifies the timing classification of short-term employee benefits such as annual leave.
- May result in annual leave and/or similar entitlements being classified from short term to long term.

Councils will need to review current entitlements to determine whether they still meet the definition of a short-term liability and if it doesn't, apply the requirements prescribed for long-term liabilities and discount the balance accordingly.

1. Key accounting issues – AASB 1051 Land under roads

Accounting standards:

- Elect whether to recognise land under roads acquired before 1 July 2008 as an asset
- Recognise all land under roads acquired after 30 June 2008 at cost or fair value

LGV guidance

- Pre 1 July 2008 at fair value
- Post 1 July 2008 at fair value

If changing to fair value, a change in accounting policy is required to disclose change – see model accounts

All council financial statements are to be compliant with Departmental guidance in 2014-15 financial statements.

1. Key accounting issues – MAV Bond Issue

- In July 2013 a number of councils elected to borrow from commercial banks to pay the defined benefit funding shortfall and/or capital works. The borrowings were undertaken in the short term and anticipated to be rolled over into a proposed group procured debt facility to be facilitated by MAV.
- Permanent funding structure was to be determined prior to 30 June 2014.
- Participating councils have been advised that the facility will not be available until after 30 June 2014. A short term interim facility was established to roll forward obligations into the new bond.

1. Key accounting issues – MAV Bond Issue

10

Should councils record short term borrowings despite intention to refinance the loan into the new bond as a current liability?

Short answer: YES

- *AASB 101.69* outlines the criteria for entities to classify obligations as current liabilities.
- *AASB 101.72* provides additional guidance on the current liability classification for financial liabilities.

Loans entered into by councils in lieu of the bond issue most likely meet the prescribed requirements outlined in paragraphs 69 and 72 as the obligations are short-term in nature (less than and due to be settled within 12 months) despite the express intention to roll over the obligation into a long-term bond that will occur within 12 months of balance date.

1. Key accounting issues – MAV Bond Issue

- Understand proposal is being considered where short term facility would not be repayable at 30 June 2014 within the next 12 months.
- Would need to see the specific details, but if the loan is not due and payable within the next 12 months the facility would be non current.

2. Preparing for EOFY audit

12

Financial statements are an important means of demonstrating how Councils meet their financial management responsibilities.

- Rigorous quality assurance processes have been established and undertaken prior to presentation of draft financial report for audit
- Materiality – as communicated in the Audit Strategy
- Timing of your audit
- *ANAO Preparation of Financial Statements by Public Sector Entities – June 2013*. The better practice guide provides examples and checklists typically generated as part of the preparation of the financial statements

3. Areas of focus 2013-14 *LG: Results of Audits report*

Grant management and Creditor management

- Review of the policies, management practices and governance and oversight arrangements by local councils on these two focus areas.
- An analysis of creditor data across a period of three years
- A review of a selection of grant applications and councillor discretionary funds.
- Information and data relating to these focus areas will be obtained via the use of questionnaires.

4. Performance audits

14

Asset management and maintenance in local councils (2013-14:22) – Tabled 19 February 2014

The report identified significant deficiencies in asset renewal planning and practice, the quality of asset management plans, the linking of service levels to these plans, the development of asset management information systems, and in councils' monitoring, evaluation and reporting on asset management.

4. Performance audits (cont.)

15

Shared Services in Local Government

(2013-14) – Tabled 28 May 2014

Generally shared services initiatives at councils:

- Are soundly based
- Have appropriate governance arrangements
- Have effective project management practices.

Common challenges that need to be overcome include:

- Perceived lack of autonomy and local control
- Lack of clarity of benefits
- Concern about costs or establishing and maintaining an initiative.

Questions?

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