

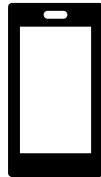
Tropical workshop for local government finance officers

Virtual

27 April 2021



Welcome and Housekeeping



Agenda

Session time	Topic	Presenter
10.00	<ul style="list-style-type: none">• Introduction• Housekeeping	Samantha Cieslar, Principal Project Officer DSDILGP
10.00 – 10.45	<ul style="list-style-type: none">• Background to Australian Accounting Standard requirements and changes• Tropical Illustrative Financial Statements 2020-21	Carmen Ridley, Australian Financial Reporting Solutions
10.45-11.30	<ul style="list-style-type: none">• Learning from practical implementation – Grants and AASB15/1058	Charles Strickland, Senior Director, Queensland Audit Office
11.30	<ul style="list-style-type: none">• Close	Samantha Cieslar, Principal Project Officer DSDILGP

Tropical Financial Statements and Accounting Standards Reminders

Carmen Ridley, AFRS Pty Ltd



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Purpose of this session

- Highlight the significant changes made to Tropical for 30 June 2021
- Discuss new standards in place for 30 June 2021

Changes to Tropical – high level

Change in numbers

- Actual Council numbers used for 2020 comparatives with rollover for 2021 numbers
- Better reflective of Council transactions and balances
- Reflects comparative year of leases and revenue standards

Two columns rather than four:

- Tropical illustrates Council numbers only – cleaner presentation and easier to follow
- Where a Council is required to prepare consolidated financial statements then consolidated and council numbers should be presented for both the current and prior years.
- Green highlighted areas are those additional items required if consolidated accounts are prepared.

COVID-19 note

- Councils should provide factual information about the impact of COVID-19 on their operations.
- DO NOT try to guess what might have happened had the pandemic not occurred.

Council's operations for the year ended 30 June 2021 have been impacted by the COVID-19 pandemic. The following steps were taken by Council in response to the pandemic during the year:

Councils should consider the relevant disclosure in this note which would be useful to users, for example:

- details of rate waivers / concessions / extensions
- rental concessions
- financial support provided to sporting and community organisations
- fee relief to local businesses
- waiving overdue interest charges
- reduction in capital expenditure
- reduced hours / capacity in facilities
- amending supplier payment terms.

Cash restrictions

- Unrestricted cash line introduced which reflects the total cash of Council less external restrictions

Cash and cash equivalents		194,209	110,350
Less: Externally imposed restrictions on cash	(i)	(41,258)	(60,805)
Unrestricted cash		<u>152,951</u>	<u>49,545</u>

- Internal ‘restrictions’ changed to internal ‘allocations.’
- Clarification that internal allocations may be lifted by Council with a resolution.

Property, plant and equipment

- Accounting policy information reworded for clarity and conciseness
- Fair value information shown in a table

Asset class and fair value hierarchy	Valuation approach	Last comprehensive valuation date	Valuer engaged	Key assumptions and estimates (related data sources)	Index applied (change in index recognised this year)	Other interim revaluation adjustment
Land and improvements (level 2)	Market value	30-Jun-19J	Long Valuers	Current zoning Sale prices per square metre (database of recent sales) of comparable properties, adjusted for differences in key attributes such as property size)	<name of the index used>	Nil

Other changes

Timing of revenue recognition

- Included in narrative except for grants, subsidies, contributions and donations

Lessor disclosures

- Disclosures separated into investment property assets and Council PPE

Payables

- Accrued wages and salaries line added

Other changes continued

Correction of errors note

- Removed example error
- Included template for Council to use for specific errors

Financial instrument note

- Illustrative disclosures for the following financial assets / liabilities only:
 - Cash
 - Receivables
 - Payables
 - Borrowings
- If Council has others then refer to AASB 7 / AASB 9.

Further guidance provided

- Statement of cash flows - Councils can breakdown the receipts from customers and payments to suppliers and employees into more detailed line items, if preferred.
- Updated definition of materiality included:
 - "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."
- Clarification that audit fee expense should be the amount quoted by QAO in the external audit plan – regardless of invoices received.

Reminders about Tropical

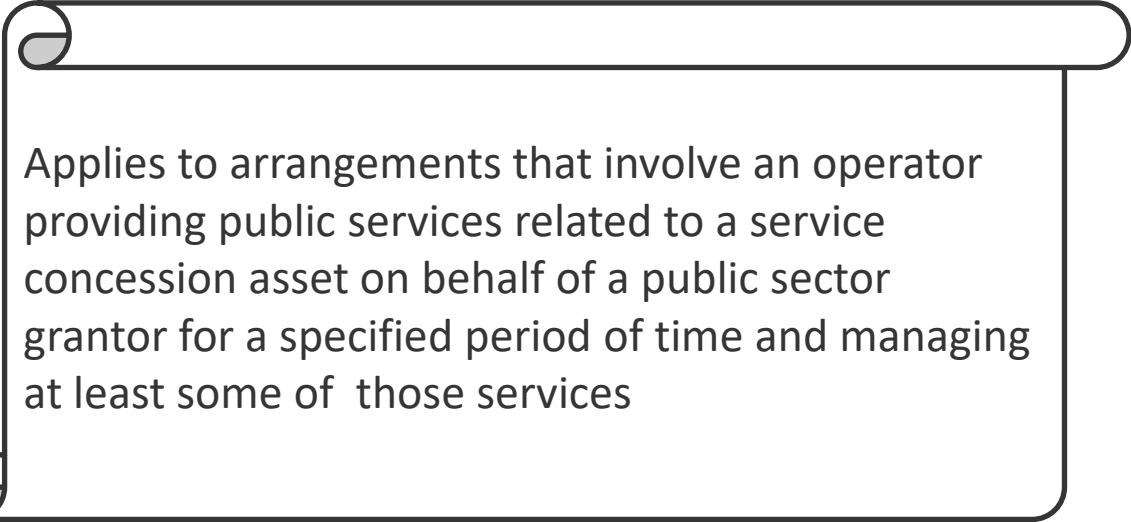
- Do not include line items if they are not material or not applicable.
- All content in your council's financial statements should be relevant to your council.
- Review accounting policies to ensure that all policies are applicable to balances/transactions
- If disclosures illustrated are not material to your council then do not include
- If you have a material balance or transaction which is not illustrated then refer to the relevant Accounting Standard for disclosures.
- Refer to AASB Practice Statement 2 *Making Materiality Judgements*

New standards for 30 June 2021

- *AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a business*
- *AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material*
- *AASB 1059 Service Concession Arrangements: Grantors*
- *AASB 2019 – 7 Amendments to Australian Accounting Standards – Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP / GFS Reconciliations*
- *Conceptual Framework for Financial Reporting*
- *AASB 2019 -3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*
- *AASB 2019 – 5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*
- *AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions*

AASB 1059 *Service Concession Arrangements: Grantors*

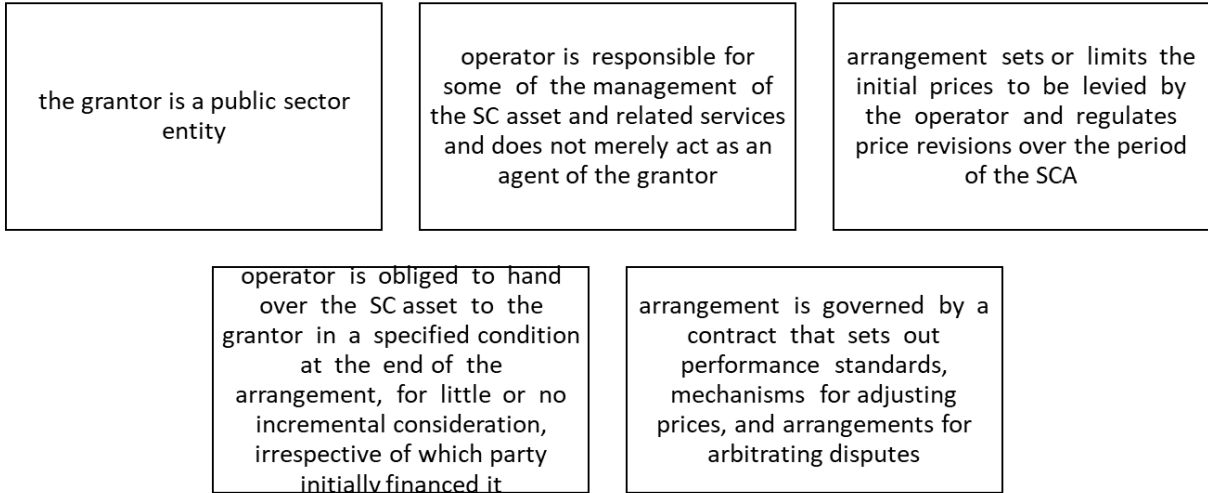
- What is a service concession arrangement?



Applies to arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services

What is a service concession arrangement?

- Common features of a service concession arrangement



- If you suspect you might have any service concession arrangement then please speak to QAO and the Department as soon as possible.

Questions



Contact details

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Engage



Respect



Inspire



Deliver

Tropical workshop 2021

**Learnings from practical
implementation of AASB 15/1058**



Your
learnings

What were your learnings/experience
from implementing AASB 15/1058 for
30 June 2020?



**Common
issues and
how to
improve**

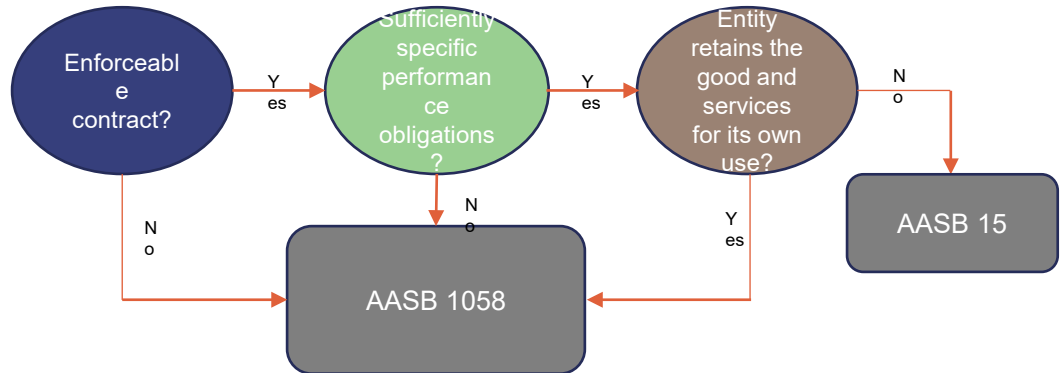
Common issues

- Timing of assessment
- Position papers vs concept paper
- Quality of data
- Disclosure in note 3—segregating revenue earned from AASB 15 vs AASB 1058
- Milestones vs trigger points to recognise revenue in a capital grant

How to improve

- Commence the assessment process early
- Read the grant agreement and identify performance obligations/trigger points to recognise revenue
- Use the QAO questionnaire—provided last year at tropical workshop

How to distinguish between whether the grant agreement falls within the requirements of AASB 15 or AASB 1058?



**AASB 15 vs
AASB 1058
– grants
only**





Timing of recognition of grants

Grants that have performance obligations

- Recognised under AASB 15
- Sufficiently specific performance obligations attached to the grant
- Recognised over time—deferral based on performance obligations that are sufficiently specific

Grants that do not have any performance obligations

- Recognised under AASB 1058
- Generally no performance obligations attached to the grant
- Recognised upfront

Capital grants

- Recognised under AASB 1058
- Grants are received to construct an asset that is for the benefit of the community—i.e. councils keep these assets in their books
- Recognised over time—deferral based on construction of an asset



Grants revenue recognition



Specific examples

- Financial assistance grants (FAGs)
- Disaster recovery funding arrangements
- Roads to recovery
- Transport Infrastructure Development Scheme (TIDS)
- Working for Queensland
- Building our regions
- Capital grants





FAGs

- Provided by the Commonwealth Government
- There are two components—a general purpose grant and an identified road grant
- There are no refund obligation and no sufficiently specific performance obligations

No deferral, recognise upfront



Funding can fall within one of the following categories:

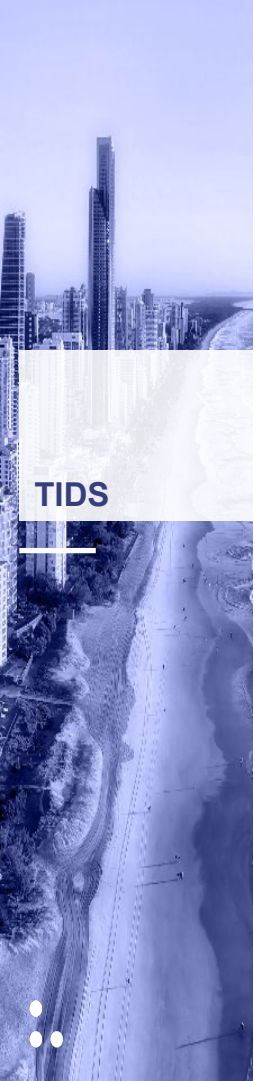
Category	Assistance provided	Deferral?
Category A	Counter Disaster Operations	×
	Personal Hardship Assistance Scheme	×
Category B	Counter Disaster Operations	×
	Essential Services Safety and Reconnection Scheme	×
	Reconstruction of Essential Public Assets	✓
Category C	Community Recovery Fund	×
Category D	Provided where there is a need above and beyond Cat A and Cat B	Depends



Roads to recovery

- Allocation of money determined at start of 5 year term
- No obligation to deliver goods or services at start
- No obligation to construct an asset at start
- Work schedules of projects identified by councils—updated quarterly, including cost to Roads to Recovery
- Quarterly expenditure reporting—funding linked to activities identified

No deferral, recognise upfront



There are 4 types of TIDS that are provided to local governments:

- Roads and Transport Alliance
- Statewide Capability Development Fund
- Aboriginal and Torres Strait Islander
- Specials

Funding can range from simple signage on roads to constructing new roads.

Revenue recognition:

- a. Type of project—i.e. is it a new asset being constructed (capital grant—**mostly deferred**) vs tweaks/enhancement to existing asset (not a capital grant—**recognise on receipt**)

W4Q funding is generally available for the following purposes:

- a) Improve the condition (maintenance), quality or lifespan of a Local Government-owned capital asset
- b) Construction of new minor infrastructure works
- c) New maintenance or minor works for disaster resilience and preparedness

Most WFQ grants we have seen are for construction of an asset—as per a) and b) above.

Treat as capital grants and defer recognition as you construct the asset.

Funding is available for:

- a) construction projects
- b) infrastructure planning projects

Most BoR grants we have seen are for construction of an asset.

Treat as capital grants and defer recognition as you construct the asset.

Example:

Council A is looking to construct an asset. Total cost of the project is \$10m. This is funded 50% by grant and 50% by own source revenue.

At 30 June 2021, council has spent \$4m on constructing the asset and has received \$3m in grant monies.



**Capital
grants
accounting**

Total project \$10 million

- Total grant \$5 million
- Total own source revenue \$5 million

60% upfront (\$3 million)

40% on issue of certificate of completion (\$2 million)

At 30 Jun 2021, council has spent \$4m in constructing the asset.



30 June 2021

Commencement of grant

**Capital
grants
accounting**

Dr Receivables / Cash (60% upfront payment)	\$3 million	
Cr WIP - Unearned revenue (contract liability)		\$3 million
Dr Property, plant and equipment (Capital WIP)	\$4 million	
Cr Cash / trade creditors (construction costs)		\$4 million
Dr WIP - Unearned revenue (contract liability)	\$2 million	
Cr Capital grant revenue		\$2 million
(Revenue as construction progresses – for first 40%)		



30 June 2022

Completion of remaining 60% - prior to certificate being signed

Dr Property, plant and equipment (Capital WIP)	\$6 million	
Cr Cash / trade creditors (construction costs)		\$6 million

Dr WIP - Unearned revenue (contract liability)	\$1 million	
Dr WIP – Unbilled revenue (contract asset)	\$2 million	
Cr Capital grant revenue		\$3 million
(Revenue as construction progresses – for next 60%)		

After certificate signed and invoice issued

Dr Receivables / Cash	\$2 million	
Cr WIP – Unbilled revenue (contract asset) (for 40% payment)		\$2 million

**Capital
grants
accounting**

Questions



Thank you

