

**FINANCIAL AUDIT WEBINAR**

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**2023-24 Reporting Year**



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**Financial Audit Webinar Program**

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1. Welcome
2. Address by Madam Speaker ACT Legislative Assembly
3. Results of the 2022-23 Financial Audit Program
4. WOG reporting timetable
5. Key focus areas for 2023-24 audits
6. Impact of IT controls on financial audits and challenges encountered during audit process.
7. Changes to Model Financial Statements and New/updated Accounting Papers in 2024
8. The role of the Auditor using Management's experts relating to valuations
9. Close



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**WELCOME**



Mr Michael Harris  
Auditor-General  
ACT Audit Office

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**Address by Madam Speaker, ACT Legislative Assembly**



Mrs Joy Burch MLA  
Speaker  
ACT Legislative Assembly

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**Results of the 2022-23 Financial Audit Program**

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Ms Rosa San Miguel  
Audit Principal, Financial Audit



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**Overview**

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Results      Timeliness      Quality

Continuous improvement

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### Financial Statements Audits



- 58 unmodified auditor's reports
- 1 modified auditor's report



- Compliance with WoG reporting timetable
- 1 agency was granted extension

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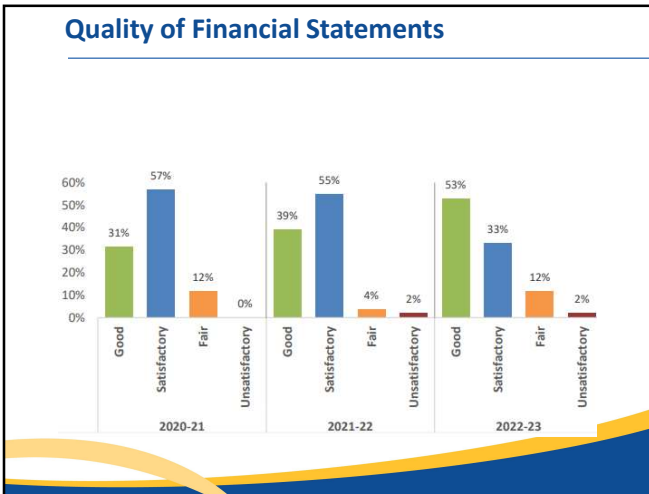
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### Limited Assurance Engagements on Statements of Performance



- 26 unmodified limited assurance reports
- 4 modified limited assurance reports



- 100 % compliance with WoG reporting timetable

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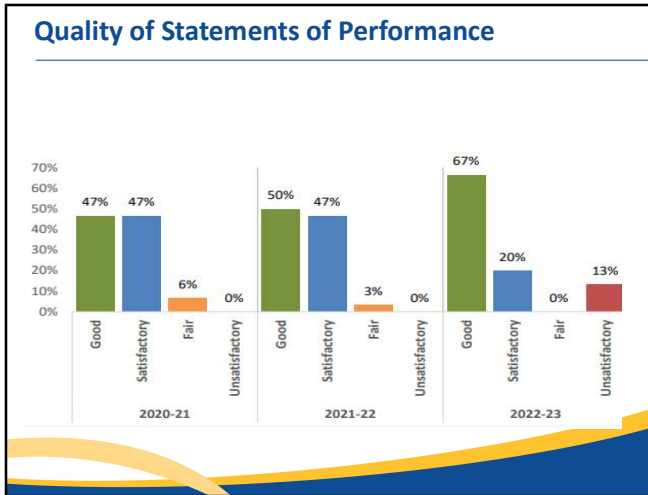
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### Annual Reports



**Accuracy and completeness**

- audited Fs with the auditor's report
- SOP with the limited assurance report



**Annual Reports Directions**

- publishing AR in agencies' website on the same day it was tabled

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### Financial Audit Reports tabled in the ACT Legislative Assembly

- Available on the Office's website
  - [Report No. 9/2023](#): 2022-23 Financial Audits – Overview
  - [Report No. 11/2023](#): 2022-23 Financial Audits – Financial Results and Audit Findings

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### 2023-24 Financial Audit Program

forward ↑  
back

PLAN

AHEAD

Continuous Improvement

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### Better practice tips

- 1 Anticipating and responding to change
- 2 Activities required before year end
- 3 No surprises approach
- 4 Application of materiality
- 5 Prior year learnings

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Thank you and questions?

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## Reporting Timetable for 2023-24

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Ms Natasha Bourke  
Executive Branch Manager  
Financial Reporting and Framework, Finance and Budget Group



**ACT**  
Government  
Chief Minister, Treasury and  
Economic Development

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### Areas of focus

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#### 2023-24 is an Election year

What does this mean for reporting?

- *The consolidated annual financial statements require an audit report to be issued one month earlier (30 September)*
- This results in a compressed timetable for the preparation and audit of financial statements
- Strongly encourage preparation work such as shells and accounting position papers to be undertaken now
- Remember we also have a late June budget timetable, elections costing process and a Pre-Election Budget Update

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### Timetable

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#### What's Different?

- Agencies have been classified with clear definitions into groups
- Changes to the grouping allocation will not be accommodated
- Most due dates in the timetable have been compressed
- Early awareness and consultation on the timetable was provided
- Timeframes for the submission of ADJ 1 data and notes to the financial statements to Treasury will also be significantly compressed compared to 2022-23

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### Timetable -Continued

- Management Discussion and Analysis (MD&A) will be due one week after financial statements
- Statement of Performance (SoP) Timeframe has been extended compared to prior year for issuing of limited assurance reports
- Shared services will provide group 1 agencies with financial statements working day 8

	Group 1	Group 2
Financial statements to AO	17 July	31 July
MD&A	24 July	7 August
Statement of Performance	19 August	
Audit reports	24 September	
Limited assurance reports	27 September	

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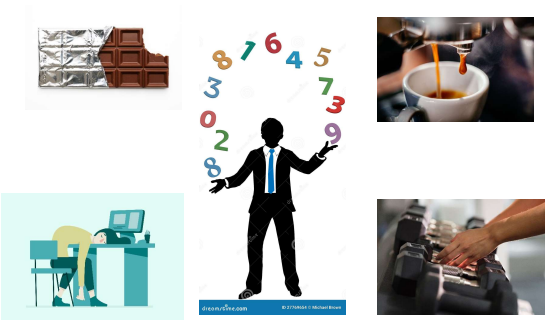
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### Final word



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Thank you and questions?

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## Key Focus Areas for 2023-24 Audits

Ms Elizabeth Royds  
Acting Director, Financial Audit

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### Key areas for particular attention

- 1 Planning process
- 2 Shell financial statements - decluttering and disclosures
- 3 Formal assessments (related party disclosures and subsequent events)
- 4 Fraud risk assessment 
- 5 Preparation of MD&A

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### Planning process



- ❖ Raise at planning meeting;
- ❖ Impact of PP&E Policy
- ❖ Reporting timetable and quality assurance
- ❖ Regular communication

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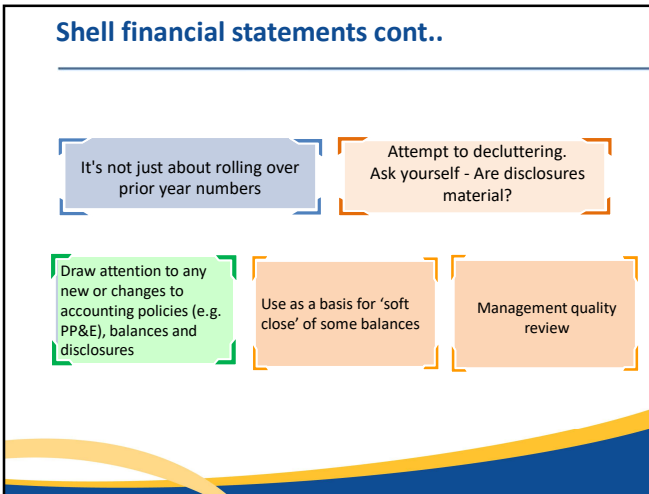
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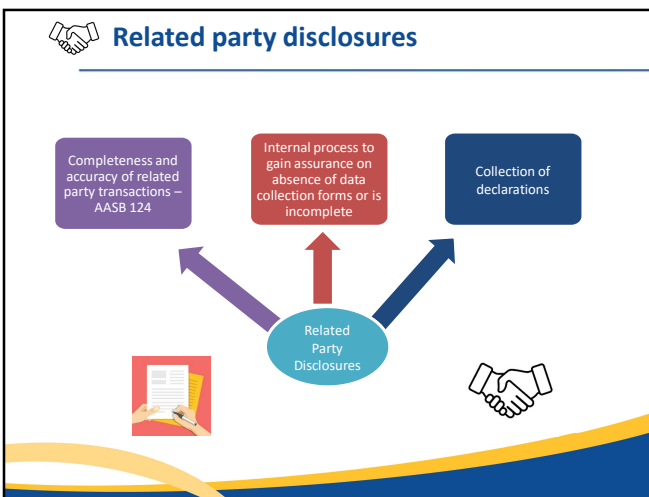
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### Related party disclosures- continued

A diagram with a teal arrow labeled 'Audit perspective' pointing to two purple rounded rectangles. The top rectangle is labeled 'fraud risk factors' and the bottom one is labeled 'Fair presentation and disclosure'.

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### Subsequent events

Two images: a calendar showing dates from 1 to 29 and a round analog clock showing approximately 9:00.

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### ASA 560 Subsequent events

A flowchart showing the relationship between the end of the reporting period, events occurring between, and the date when financial statements are authorized for issue. It also defines adjusting and non-adjusting events.

```
graph TD; A[End of the reporting period (30 June 2024)] --> B[Events that occur between]; B --> C[Date when financial statements are authorised for issue]; D[Two types of subsequent events] --> E[Adjusting events]; D --> F[Non-adjusting events]; E --- G[An event after the reporting period that provides evidence of conditions that existed at the end of reporting period.]; F --- H[An event after the reporting period that is indicative of a condition that arose after the end of reporting period.]
```

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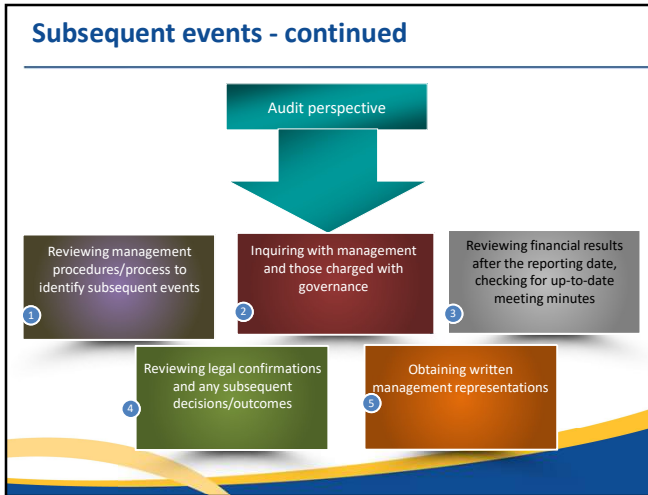
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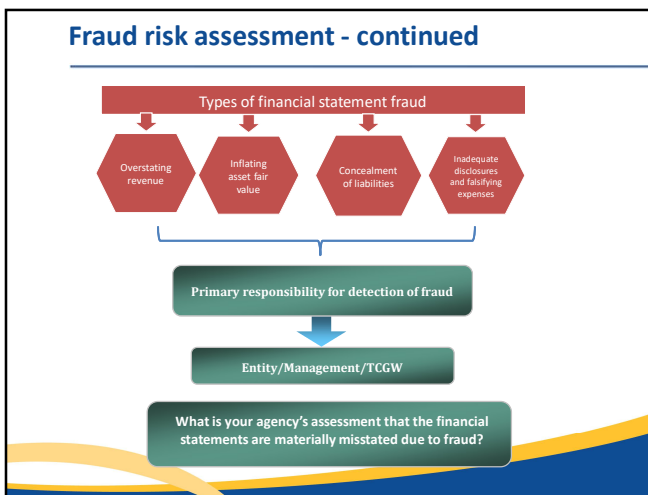
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### An audit perspective

ASA 240 - outlines the **auditor responsibilities** relating to fraud in an audit of financial statements



The auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement



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### Management discussion and analysis



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### MD&A - Variance Explanations

- 1 Explain the main trends and future performance
- 2 Understandable and useful to a wide audience
- 3 Clear and concise explanations
- 4 Variance explanations between budget, actuals and prior period
- 5 Plain English explanations and be independently verifiable
- 6 Duplication of face statements not required

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Thank you and questions?



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**Impact of IT controls on financial audits and challenges encountered during audit process**

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Mr Steven Kouparitsas  
Partner  
Axiom Associates



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**Aim – Scope of IT audit support and Challenges**

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- ❖ Emphasise the scope of IT Audit
- ❖ Scope includes IT General Controls and Application Controls for Financial Significant Items
- ❖ Wide range of stakeholders in relation to IT General Controls and Financial Applications testing across DDTS and Directorates
- ❖ Key guidance is Auditing Standard ASA 315 Identifying and Assessing the Risks of Material Misstatement



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**Key Points – Application Control Scope (financial material systems i.e Oracle, Chris21, APIAS, etc)**

- ❖ IT Security Controls, including access roles, user access management, logging and monitoring and privileged accounts management
- ❖ Change Management, including recording, management and approval of changes
- ❖ IT Operations, including data backups and Disaster Recovery exercises
- ❖ Key application controls related to key revenue line items (key focus for audit)
- ❖ Follow up on prior year issues

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**Key Points – ASA 315**

- ❖ Required to identify IT applications and other aspects of the entity’s IT environment that are subject to risks arising from the use of IT.
- ❖ IT audit may focus on:
  - a) Automated controls that management is relying on.
  - b) Controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.
  - c) Controls which maintain the integrity of information relating to significant classes of transactions, account balances and disclosures.
  - d) System generated reports on which the auditor intends to rely upon.

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**Key Points – ASA 315 -Continued**

- ❖ Undertake a range of procedures that includes sample testing of manual controls and testing of automated controls – for example:

Control Types	IT General Control	Transaction Level Application Control	Transaction Level Manual Controls
Automated Control	Automated Release Management Password Parameters	Roles based Restriction on Finance System Access & Segregation of Duties	N/A
IT Dependent Manual Control	Change Control Board Approval	New user access approval	
Manual Control	N/A	N/A	Manual Approval of AP Invoice for Processing

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### Key Points – Overall Environment and themes

- ❖ Mature IT General Control environment for ACT Government
- ❖ Recurring issues around IT Security - in particular, monitoring and logging of user access for a number of application systems

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### Key Points – Challenges

- ❖ Wide range of stakeholders and logistically difficult due to volume of systems
- ❖ Working closely with key audit contacts to achieve better outcomes – i.e. request registers, regular catchups, use of SharePoint for information transfer
- ❖ A number of systems with issues (such as logging and monitoring) that cannot be addressed until system upgrades/fixes occur

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### Key Points – Audit Efficiency

- ❖ Development of IT audit planning and conclusion memorandums that consider IT General Controls that outline IT application controls at the financial assertion level
- ❖ Audit planning at the assertion level drives efficiency to save on substantive testing and provide more effective and efficient audits overall

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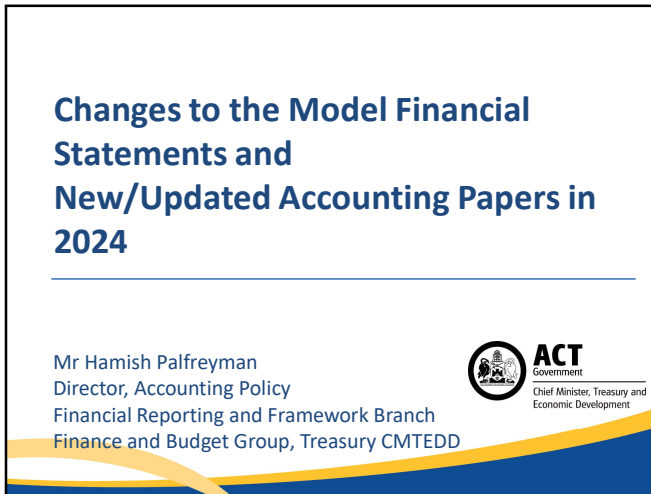
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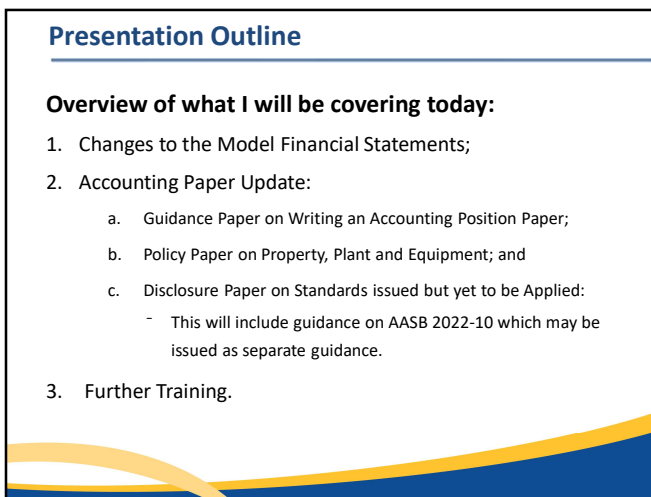
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**Cartoon**

“To ensure as non-confrontational a process as possible, Binky the Bear will be your liaison for the duration of the audit.”

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**Changes to the Model Financial Statements**

**Background**

- Relatively small changes made to the Model this Financial Year (other than for PPE).
- However, we are still working through some issues with the Audit-Office and that may result in further changes to the Model.
- Therefore, once released please review the Model to ensure that you familiarise yourself with the changes in the final version.
  - The major changes will be included in Section 1.3 *What’s New* in the introduction to the Model; and
  - All individual changes will be colour coded throughout the Model.

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**Changes to the Model Financial Statements**

Currently, the main changes to the Model in 2023-24 relate to:

1. the Balance Sheet, resulting from amendments to the 2023-24 Budget Papers;
2. the PPE, CWIP and Intangible Notes, resulting from the introduction of the new ACT Accounting Policy Paper on PPE;
3. who can prepare Territorial Financial Statements;
4. the removal of COVID-19 disclosures;
5. moving the Output Class Operating Statement and Disaggregated Disclosure of Assets and Liabilities to the Notes; and
6. other changes (eg changes in note names, removal of the ‘Other Liability – Territorial’ Note, Rent Received in Advance moving from the ‘Other Liabilities’ Note to the ‘Payables and Contract Liabilities’ Note, and additional accounting policies in Note 8, etc).

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### Changes to the Model Financial Statements

1. Changes resulting from the 2023-24 Budget Papers

**Balance Sheet**

- a. The 'Cash and Investments' line item was split into two separate line items as follows:
  - a 'Cash and Cash Equivalents' line item; and
  - an 'Investments' line item.
- b. A 'Contract Assets' line item has been included.
  - All Contract Assets should now be moved from the 'Receivables' line item to the 'Contract Assets' line item, where material.
  - Related changes made to the note.



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### Changes to the Model Financial Statements

1. Changes resulting from the 2023-24 Budget Papers - continued

**Balance Sheet - continued**

- c. A 'Contract Liabilities' line item has been included.
  - All Contract Liabilities should now be moved from the 'Payables' line item to the 'Contract Liability' line item, where material.
  - Related changes made to the note.



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### Changes to the Model Financial Statements

2. Changes from the introduction of the new ACT Accounting Policy Paper on PPE

- a. Asset Classes
  - There are a total of 11 Asset Classes which ACT Government Agencies can use, with 9 being included as examples in the PPE Note in the Model.
  - The definition of most PPE Asset Classes in the Model have been amended and some assets have moved between asset classes.
- b. Capitalisation Threshold
  - The PPE note has been updated to reflect that there is now a capitalisation threshold for each class of PPE, with a different threshold range for these classes.
    - Previously there was one capitalisation threshold between \$2k & \$5k.



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### Changes to the Model Financial Statements

#### 2. Changes from the introduction of the new ACT Accounting Policy Paper on PPE- continued

##### c. Impairment of Assets

- Additional wording added to clarify that:
  - PPE held at cost; and
  - non-specialised PPE held at fair value for their ability to generate net cash inflows

should be tested for impairment annually.

- Specialised assets held at fair value subsequent to initial recognition are not tested for impairment but rather assessed to ensure that the carrying amount is not greater than fair value.



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### Changes to the Model Financial Statements

#### 2. Changes from the introduction of the new ACT Accounting Policy Paper on PPE - continued

##### d. Capital Works in Progress

- The CWIP note has been removed.
  - CWIP disclosures relating to PPE are included in the PPE Note (as it is now a class of PPE).
  - Intangible Work in Progress is included in the Intangibles Note (as it is now a class of Intangibles).



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### Changes to the Model Financial Statements

#### 3. Territorial Financial Statements

- a. We have removed the wording in relation to only Directorates being able to prepare Territorial Financial Statements.
- b. Territorial Statements can be prepared by a Territory Authority, where applicable.



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### Changes to the Model Financial Statements

#### 4. COVID-19 Disclosures

- a. COVID-19 disclosures have been deleted from the Model given their reduced relevance in the current environment.
- b. Note however that the COVID-19 disclosure in Note 2 has been retained.
- c. COVID-19 related commentary in the Model has been retained.
- d. Where an agency has COVID-19 related transactions that are material to the financial statements, they should still be disclosed.

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### Changes to the Model Financial Statements

#### 5. Moving the Output Class Operating Statement and the Statement of Disaggregated Disclosure of Assets and Liabilities

- a. The Output Class Operating Statement and the Disaggregated Disclosure of Assets and Liabilities have moved from the statements section of the Model to the Notes section.
  - This disclosure is now included in Note 40 *Disaggregated Financial Information by Output*.
- b. The format of this disclosure may also change.

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### Accounting Policy Paper Update



#### Guidance Paper on Writing an Accounting Position Paper

- This new Guidance paper has been developed to assist agencies in writing accounting position papers.
- Accounting position papers are written by agencies to support how they have accounted for things like:
  - a difficult/material issue;
  - new/changes to Accounting Standards; and
  - where prior period errors have occurred.
- A template and an example will be provided to agencies to assist them in writing their accounting position papers.

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**Accounting Policy Paper Update**

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**Policy Paper on Property, Plant and Equipment**

- This is a new paper that we are issuing, with the previous PPE paper being withdrawn approx. 10 years ago.
- Main changes to current practice:
  - We have already been through some changes earlier when we looked at changes to the Model:
    - PPE Asset Classes;
    - Capitalisation Threshold;
    - Impairment Assessment vs Fair Value Assessment; and
    - Capital Works in Progress.
- However, we are still working through some issues with the Audit-Office and that may result in further changes to the Paper.

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**Accounting Policy Paper Update**

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**Policy Paper on Property, Plant and Equipment - continued**

Consequential Amendments

- There are consequential amendments that will have to be made to other ACT Accounting Papers with the introduction of the new PPE Policy Paper.
- These papers include:
  - the Intangible Assets Paper;
  - the Land Transfer Paper; and
  - the Portable and Attractive Items Paper.

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**Accounting Policy Paper Update**

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**Intangible Assets Paper - Consequential Amendments**

- The Intangible Assets Paper will be updated for:
  - Intangible Works in Progress becoming a class of intangible asset.
- This paper will be updated this financial year.

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### Accounting Policy Paper Update

#### Portable and Attractive Items - Consequential Amendments

- The Portable and Attractive Items Paper will need to be updated for the change to the PPE capitalisation threshold.
- A comprehensive review is also needed given the paper was last released in 2006.
- This paper will not be updated this financial year (but instead updated in 2024-25).

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### Accounting Policy Paper Update

#### Land Transfer Paper - Consequential Amendments

- There are numerous changes that are required to align the Land Transfer Paper with the PPE Policy Paper. An example is:
  - clarification that unleased land transferred from SLA to other agencies should be at fair value taking into account the zoning of the land but should not factor in any socio-political restrictions on the land.
- The paper will not be updated this financial year (but instead updated in 2024-25).

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### Accounting Policy Paper Update



#### Standards Issued but yet to be Applied Paper

- The annual update of the Standards Issued but yet to be Applied disclosure paper will be issued in around June this year.
  - Wording for Note 3 should be obtained from this paper, as it is no longer contained in the Model.
- Additional Guidance on AASB 2022-10 will be provided this year.
  - AASB 2022-10 deals with amendments to AASB 13 in relation to the Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities.
  - The additional guidance is to assist agencies in assessing the impact of changes in fair value measurement of their PPE:
    - For disclosure in this year's Financial Statements in Note 3 *Impact of Accounting Standards Issued But Yet to Be Applied*; and
    - To assist agencies in accounting for these changes in the 2024-25 financial year.

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### Further Training

- Given the relatively small number of changes to the Model this financial year (other than for PPE), no further training will be provided.
- The Financial Reporting and Framework Branch will be providing more detailed training to agencies in around April this year on:
  - The PPE Paper.
- The PPE training will be at least half a day of training.
- We will email the details of these sessions to CFOs and Financial Controllers.

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Thank you and questions?

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### Contacts

If you have any further Questions or need any accounting advice please do not hesitate to contact us.

Requests for accounting advice are required to be prepared on the Contact and Accounting Request for Advice Form available at <https://www.treasury.act.gov.au/accounting>

Name	Email	Phone Number
Natasha Bourke	Natasha.Bourke@act.gov.au	6207 0133
Margaret Barnes	Margaret.Barnes@act.gov.au	6207 5653
Hamish Palfreyman	Hamish.Palfreyman@act.gov.au	6205 7810
Melissa Mitchell	Melissa.Mitchell@act.gov.au	6205 3920

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## The Role of the Auditor using Management's experts relating to valuations

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Mr Matthew Zappulla  
AUASB Technical Director



Australian Government  
Auditing and Assurance Standards Board

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### Role of TCWG and Management


**Responsible for the preparation and presentation of the financial report and other historical financial information**

- Includes the determination of amounts included in the financial report
- Such information may require expertise in a field other than accounting – management's expert

**When engaging with an expert**

- Engagement letter or other written form of agreement between the entity and the expert
- The nature, scope and objectives of that expert's work
- The respective roles and responsibilities of management and that expert; and
- The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert

**Controls over the expert's work**



Australian Government  
Auditing and Assurance Standards Board

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### Role of Auditor – ASA 500 Audit Evidence

Obtain sufficient appropriate audit evidence to draw reasonable conclusions (paragraph 4 of ASA 500)


Measure of the quality of audit evidence (paragraph 5(b) of ASA 500)

Measure of the quantity of audit evidence (paragraph 5(f) of ASA 500)

Relevance and reliability of the audit evidence (paragraph 7 of ASA 500)

- Evaluate competence, capabilities and objectivity of the expert (paragraph 8 of ASA 500)
  - Information from the same expert cannot be both an external information for auditors and for management (paragraph A3 of ASA 500)
- Evidence from external sources is generally more reliable than that generated internally. The existence of a relationship between the management's expert and the entity being audited may impair that expert's ability to be objective. The risk that the objectivity of a management's expert will be impaired increases when the management's expert is employed by the entity or is related in some way to the entity. (paragraph 31 of GS 005)
- Understanding controls within the entity over the experts work (paragraphs A47-A48 of ASA 500)
- Auditor uses professional judgement to consider what additional procedures required for complex work (paragraph 54 of GS 005)

References:  
Auditing Standard ASA 500 Audit Evidence  
AUASB Guidance Statement 0002 Evaluating the Appropriateness of a



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### Role of Auditor – ASA 540 Auditing Accounting Estimates

- Auditor is required to understand how management makes the accounting estimates, and to gain an understanding of the data on which they are based (paragraph 13 of ASA 540)
- Assumptions made or identified by a management’s expert become management’s assumptions when used by management in making an accounting estimate. Accordingly, the auditor will need to apply audit procedures when evaluating the work of the management’s expert (paragraph A130 of ASA 540)
- If the work of a management’s expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial report, the auditor is required to perform further audit procedures to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to:
  - The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
  - How management selected the point estimate and developed related disclosures about estimation uncertainty. (paragraphs 22, A94 and A131 of ASA 540)

Reference:  
Auditing Standard ASA 540 *Auditing Accounting Estimates*  
and Related Disclosures



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Thank you and questions?



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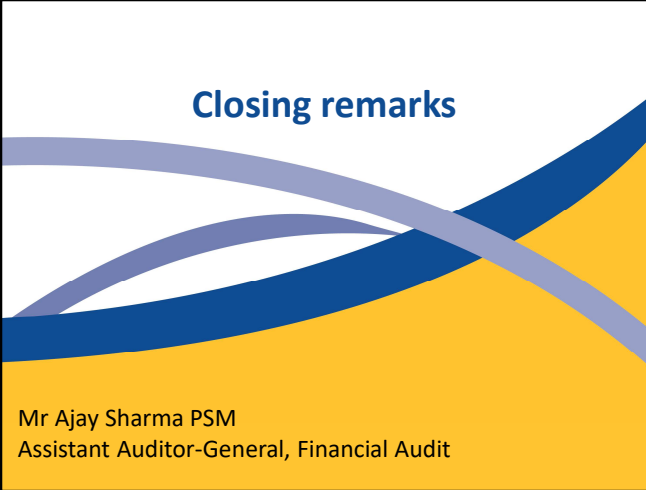
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**Closing remarks**



Mr Ajay Sharma PSM  
Assistant Auditor-General, Financial Audit

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**Thank you**



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