



Treasury

December 2019

TPP

19-08

Policy and Guidelines Paper

Agency Direction for the 2019-20 Mandatory Early Close

Preface

Early Close Procedures have been introduced to both facilitate earlier completion and improve the quality of year-end financial statements. This focus on improving the quality and timeliness of financial reporting is paying dividends. Agency and Audit Office feedback indicates Early Close Procedures have assisted in ensuring a smoother year-end process and more effective resolution of issues. Continued improvements by agencies has resulted in an unqualified Consolidated State Financial Statements audit opinion - a significant achievement. The focus going forward will remain on early identification of emerging issues and reducing misstatements and the underlying causes.

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13 December 2019

Note

General inquiries concerning this document should be initially directed to:
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This publication can be accessed from the Treasury's website www.treasury.nsw.gov.au/.

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Early Close Direction

1. Early Close Procedures

- A. The mandatory Early Close will be conducted for all entities listed in Appendix A (that are GSF agencies) of the Treasurer’s Direction on Mandatory Early Close as at 31 March year. The Early Close will be conducted as at 31 March 2020. Agencies are required to submit the following returns by the specified dates, including for financial transactions and activities administered by the agency on behalf of the crown (i.e. S entities):

| Submission | 2020 |
|--|--|
| GG Prime Data Submission | Tuesday 14 April |
| PNFC and PFC Prime Data Submission | Friday 17 April |
| [external] Valuation reports for Agencies submitted | Friday 24 April |
| Agencies to submit Financial Statements as at 31 March 2020 | Friday 1 May |
| Early Close Procedure Checklist Appendix B | Friday 1 May |
| Appendix C Emerging Accounting Issues. Updates on each of the stipulated dates | Thursday 13 February Friday 1 May Monday 22 June |

Refer to TD19-02 Mandatory Early Close as at 31 March each year including the defined terms which also apply to this TPP.

This Direction defines the *minimum* requirement for the Early Close Procedures. Agencies may wish to perform additional procedures as part of a strategy to improve the quality and timeliness of financial reporting. This includes the completion of hard close procedures, which Treasury supports and encourages.

This Direction also describes a number of procedures to confirm that key controls over Agency balances are carried out and that there is early dialogue with the Audit Office on significant issues. These procedures form good practice that should in any case be carried out at appropriate points in the financial year.

To facilitate Agencies with Early Close Procedures and the preparation of Early Close financial statements, Treasury plans to issue the Financial Reporting Code and Mandates of Options by the end of January 2020.

The completed, signed checklist, [Appendix B](#), must be provided to Treasury at the same time as the Early Close financial statements are submitted to the Audit Office and Treasury.

- B. Refer to Treasurer’s Direction on Mandatory Early Close as at 31 March each year.
- C. These “Early Close Procedures” require the preparation of a set of pro forma financial statements. Refer to Financial Reporting Code and new accounting standard impacts in 1.D.x. below.
- D. These “Early Close Procedures” require the preparation of non-financial asset valuations and associated disclosures. Treasury mandates all Early Close Procedures to be conducted as at 31 March. The purpose of these procedures is to ensure the integrity of the year to date position and highlight issues to be resolved before the end of the financial year. In preparing pro forma statements agencies **must:**
- i. **Complete revaluations of property, plant and equipment.** Treasury has issued separate guidance on the process for valuing non-current physical assets in Treasury Circular 18-17

FY18-19 Timetable for Agency Asset Valuations. This contains the following mandatory milestones:

- Provide position papers to the Audit Office in respect of assets previously not recorded due to not meeting the reliable measurement criteria.
- Provide final external valuation reports along with the final valuation recognised by management and recorded in Prime as part of Early Close.

Refer to [Appendix A](#) of this TPP for additional guidance.

- ii. **Document the fair value assessment of property, plant and equipment.**
- iii. **Update employee annual leave provisions** – Refer to Treasurer’s Direction on Mandatory Early Close as at 31 March each year.
- iv. **Agree and confirm inter and intra (cluster) Agency transactions and balances.** Agencies must:
 - put in place processes for the agreement of inter and intra (cluster) Agency transactions and balances.
 - ensure they have supporting work papers to evidence how the Agency has broken down inter and intra (cluster) Agency assets, liabilities, revenues and expenses.
- v. **Document significant management judgements and assumptions made when estimating transactions and balances.** Significant management judgements and assumptions are required to be documented and made available for review by Treasury and the Audit Office as part of the Early Close Procedures. This documentation must summarise the accounting issue, set out management’s evaluation of the issue and its conclusion. Accounting issue resolution papers should be concise, ideally no longer than three pages in length. [Appendix D](#) provides a template for the reporting of the resolution on accounting issues.

Agencies should collect and retain appropriate documents to support significant judgements and significant assumptions made when estimating transactions and balances, and to record the process used to arrive at those assumptions. Examples include:

- discount rates used in determining present values
- estimated useful lives of assets
- inputs into actuarially determined balances
- asset revaluations and impairment
- valuation of and accounting for financial instruments.

Management judgement may be required in determining, for example whether:

- an entity is classified as for-profit or not-for-profit
- major assets are classified within levels 1, 2 or 3 in the AASB 13 hierarchy
- the entity controls a subsidiary (AASB 10 and 11) with less than half the voting power
- a lease is classified as finance or operating
- an asset meets the criteria to be classified as held for sale
- a property qualifies as an investment property
- related party transactions are material and require disclosure per AASB 124
- the going concern basis of accounting is appropriate.

Agencies should engage effectively with all affected stakeholders and agree financial implications and accounting treatments, including with Treasury to ensure whole-of-government impacts are properly classified for consolidation. On conclusion agencies should update the ledgers, financial statements and note disclosures to reflect the treatment and make available to Treasury where necessary any formal advice from external consultants. It is the Principal Cluster Agency’s responsibility to ensure consistent accounting treatment within its cluster.

In preparing pro forma statements agencies do not have to:

- **Recalculate insurance, superannuation, and other employee liabilities** - Under accounting standards, insurance, superannuation and other employee liabilities, which are

estimated using actuarial techniques; require a 30 June liability discount rate. Agencies should use amounts accrued year-to-date in the early close financial statements but these will be required to be updated as part of the year-end procedures at 30 June.

- **Update financial instruments** - Annual Hour-Glass managed fund distribution statements and other financial instrument information for disclosures is not available until after year-end.
 - **Calculate the Liability for Unspent Appropriations Drawn Down** – This must be calculated as at 30 June, but there is no requirement to calculate this as part of the Early Close Procedures.
- vi. **Prepare key account reconciliations** - Agencies must identify accounts that are significant to the financial statements and:
- reconcile these accounts monthly, including the valuation of employee leave and other key provisions.
 - clear reconciling items, including resolving outstanding items of bank and other key (debtor/creditor) reconciliations.
- vii. **Reconcile the March 2020 month-end Prime submission to the pro forma financial statements** – Agencies must provide explanations for variances exceeding \$5 million. The reconciliation is to be captured via Schedule 5 of the Supplementary Return in Prime. Detailed instructions can be found on the Prime Knowledge Base (see [KB0011379](#)).
- viii. **Review and agree changes in accounting policy with the Principal Cluster Agency.** Accounting adjustments, particularly arising from changes in accounting policies, changes in accounting estimates and errors, are categorised with an assessment of requirements for any prior period(s), opening balance adjustments, or future year impacts – in particular focus on classification and adjustments arising from revaluations.
- ix. **Notes to the Financial Statements.** In updating Agency pro forma financial statements agencies must provide/action:
- comparative information
 - current year-to-date figures
 - updated accounting policies
 - notes to the accounts, which must be updated to reflect new and revised accounting standards (see below) and Treasury policies
 - consideration of the possible effects of accounting standards issued but not yet effective
 - impact of restructures.

Contingent Assets and Contingent Liabilities and Financial Guarantees

Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires disclosure of contingent assets and contingent liabilities in the financial statements. The Crown Entity will report on contingent assets and contingent liabilities that are not the responsibility of any other State Sector Agency (i.e. not disclosed in the financial report of the agencies) but are the responsibility of the Crown Entity.

Contingent assets and liabilities that are the responsibility of specific agencies should be disclosed in the Agency's own financial statements.

All NSW public sector agencies are required to complete and submit the Contingent Assets and Contingent Liabilities, and Financial Guarantees Returns as at the end of the financial year. The Returns will be included in the Supplementary Return required by Treasury as part of the Mandatory Annual Returns to Treasury process.

AASB 9 *Financial Instruments* requires recognition of any liability for financial guarantee contracts in the Statement of Financial Position.

Agencies must separately identify financial guarantees, and any other instruments of assurance (refer to Treasury Policy Paper TPP17-08 *Requirements for Issuing, Managing and Reporting Instruments of Assurance*) that are issued with the Crown's backing as well as those issued without it in completing the Financial Guarantees Return for Treasury.

- x. **Impact and Assessment of New Accounting Standards.** The following is a guide and agencies should discuss and agree on specific requirements with their audit teams:
- AASB 15 'Revenue from Contracts with Customers' is effective for not-for-profit entities for financial years beginning on or after 1 January 2019. To effectively implement AASB 15, agencies will need to have:

- reviewed its current contracts with customers
- ensured contracts registers are complete
- prepared for increased disclosures in the financial statements
- assessed whether existing systems can capture key information requirements of the new standard
- considered the impact on reporting to stakeholders regarding the Agency's financial position and performance
- provided appropriate guidance to audit and risk committees.

Detailed working papers will be required, evidencing compliance with the requirements of AASB 15, such as working papers to support:

- management's key decisions and judgements made. For example whether contracts are in the scope of AASB 15, identification of performance obligations, determination and allocation of the transaction price, timing of revenue recognition
 - financial statement disclosures.
- AASB 1058 'Income of Not for Profit Entities' is effective for not-for-profit entities for financial years beginning on or after 1 January 2019. AASB 1058 will need to be considered in conjunction with AASB 15 to determine how to record transactions.

To determine the applicable standard, the following will agencies will need to have:

- determined the fair value of assets provided on non-commercial terms (at significantly less than their fair value)
- reviewed existing and new grant agreements
- assessed whether existing systems can capture key information requirements of the new standard
- considered the impact on reporting to stakeholders regarding the Agency's financial position and performance
- provided proper guidance to audit and risk committees.

Detailed working papers will be required, evidencing compliance with the requirements of AASB 1058, such as working papers to support:

- management's key decisions and judgements made. For example which standard each revenue stream should be recognised under, whether grant agreements have sufficiently specific performance obligations, the fair value of assets received on non-commercial terms, fair value of volunteer services
 - financial statement disclosures.
- AASB 16 'Leases' is effective for financial years beginning on or after 1 January 2019.

To effectively implement AASB 16, the agencies will need to have:

- reviewed its current lease agreements
- ensured lease registers/databases are complete
- assessed whether existing systems can capture key information requirements of the new standard
- considered the impact on reporting to stakeholders regarding the Agency's financial position and performance
- provided proper guidance to audit and risk committees.

Detailed working papers will be required, evidencing compliance with the requirements of AASB 16, such as working papers to support:

- management's key decisions and judgements made. For example whether contracts contain a lease, its assessment of whether there is reasonably certainty to exercise lease options, discount rate

- financial statement disclosures.
- AASB 1059 'Service Concession Arrangements: Grantors' is effective for NSW public sector entities for the 2020–21 financial year.
To prepare for the changes, the following agencies will need to have:
 - assess the terms and conditions of existing arrangements with private sector operators to assess whether they fall within the scope of AASB 1059 and meet the criteria for recognition as a Service Concession Arrangement (SCA) or whether they are a leasing or outsourcing arrangement
 - where AASB 1059 does not apply, assess whether arrangements are a lease (under AASB 16), outsourcing or privatisation, and are accounted for appropriately
 - develop an implementation plan to apply AASB 1059 including obtaining appropriate asset valuations
 - consider the impact on reporting to stakeholders regarding the financial position and performance
 - ensure proper guidance is provided to audit and risk committees.

Detailed working papers will be required, evidencing compliance with the requirements of AASB 1059, such as working papers to support:

- management's key decisions and judgements made, for example whether the arrangement falls within the scope of AASB 1059, the fair value of the SCA at the inception of the arrangement, determining the asset and service components of the arrangement, pattern of revenue recognition under the grant of a right to the operator model
- financial statement disclosures.

Treasury will issue a Policy and Guidelines Paper to replace TPP 06 8 'Accounting for Privately Financed Projects' which will include guidance on recognition, measurement, disclosures and determining the appropriate transitional accounting.

- xi. **Correct classification of accounting balances and transactions** in accordance with Australian Bureau of Statistics (ABS), Government Finance Statistics (GFS) classifications in conjunction with Treasury, ensuring correct Prime coding for whole of government reporting.
- xii. **Agencies should also perform variance analysis with meaningful explanations**, for actuals versus budget, and year-to-date actuals for the previous year and:
 - document management's review and endorsement of the monthly reports
 - consider public reporting of quarterly or half-yearly reports.
- xiii. **Restructures and Discontinued/Abolished Agencies.** Approaches with regard to changes to legislation impacting Agency structures and/or financial reporting requirements are identified and documented and available for review by Treasury and the Audit Office.

Restructures, discontinued and/or abolished agencies will impact financial reporting requirements. The effects of such changes need to be assessed for each entity. For part year financial reporting requirements of an Agency that has been abolished or dissolved, Early Close financial statements should reflect all necessary disclosures that are required due to restructures.

Agencies should refer to TPP09-3 Contributions by owners made to wholly-owned Public Sector entities and AASB 1004 Contributions for guidance on the designation of asset/liabilities transfers as transfers of equity.

In accordance with section 7.7 of the Government Sector Finance Act 2018, where an Agency ceases to be a reporting Agency because it is abolished or dissolved, it should comply with section 7.7 of the Government Sector Finance Act 2018. This means a final financial report must be prepared from 1 July to the date of abolition.

- xiv. **Approvals for certain transactions within Delegation.** Evidence of appropriate delegations for all material transactions is provided to Treasury.

Under the *Government Sector Finance Act 2018*, all transactions require a relevant authority. Agencies need to ensure financial statement work papers include evidence of authorities and approvals within delegations for significant items such as:

- restructured arrangements
- material, complex or one-off transactions
- equity transfers.

Relevant authority might be evidenced by such things as:

- Treasurer's Directions
- Secretary/Chief Executive/CFO Delegations (financial).

xv. **Review and resolve prior year Management Letter and Engagement Closing Report issues.**

Agencies should review all prior management letters and audit engagement closing reports to consider appropriate management responses and actions. Agencies should:

- document evidence of management's review of issues raised and endorsement of the solutions/approach including those now resolved.
- assign responsibility for issue resolution to appropriate staff.
- update the ledgers, financial statements and note disclosures to reflect the solutions/approach.
- retrospectively restate comparative information where applicable to reflect new treatment and advise Treasury accordingly.
- engage with auditors, Treasury and other stakeholders as required.

2. Audit Planning

- A. Treasury understands that the Audit Office will plan to conduct formal audit procedures at Early Close where this will enhance the efficiency of the audit process. Therefore, it is important all significant balances are reconciled and supporting documentation is available. For example, external valuations of non-current physical assets should be finalised and revaluations recorded in general ledgers.

The Audit Office may determine that limited or no audit procedures are appropriate at Early Close for some smaller agencies. Agencies should proactively ensure that any material findings or concerns being raised by the Audit Office as part of Early Close are acted on in a timely manner to allow corrective actions to be implemented and resolved before year-end.

- B. Refer to Treasurer's Direction on Mandatory Early Close as at 31 March each year.
- C. Agencies should be working with the Audit Office to complete their new accounting standard assessment before the completion of Early Close Procedures.

To maximise the effectiveness of Early Close Procedures, agencies need to consult with the Audit Office to determine:

- what procedures will be performed and the account areas that will be subject to Early Close Procedures in addition to non-financial assets (if any)
- the timetable, including the provision of the pro forma financial statements and supporting documentation
- the timing and the scope of the review by auditors and the consequential impact on the timing and scope of the auditor's work at year-end
- management should meet with their audit teams at the completion of Early Close audit procedures to identify matters that require resolution at final audit. Potential significant matters should be reported to Treasury through their Emerging Issues Reports at the earliest opportunity.

3. Emerging Issues Reporting

Reporting of emerging issues is a key control for agencies and Treasury to reduce the risk of errors. It is important agencies report all potential significant issues as they arise, not at the point the Agency is unable to resolve the issue with their audit team. Agencies should agree on a plan to resolve emerging issues with their audit team as soon as possible after the emerging issue is identified. Emerging issues should also be tabled with agency Audit and Risk Committee (ARC) in a timely manner.

Treasury maintains a register of potential issues as part of the Consolidated State Financial Statements year-end process. Emerging issues reported by agencies will be included on the register where significant

to the Consolidated State Financial Statements. In these instances, Treasury will contact agencies, and agree a plan to resolve the issue, including achievable timelines.

Emerging Issues Reporting is required at three points before year-end as follows:

- A. 13 February 2020 - to gain early sight of issues and potential impact on the year-end projection and forward estimates.
- B. 1 May 2020 - to accompany the Early Close procedures, including an update on resolution of issues identified in February.
- C. 22 June 2020 - to update potential impacts to the year-end, including issues identified by the Audit Office as part of the Early Close procedures and the resolution of previously identified issues.

Emerging issues should include all issues that **have the potential to materially affect** either the year-end financial statements or the Agency year-end process. See [Appendix C](#) for details.

4. Exemption and Extensions

Refer to Treasurer's Direction on Mandatory Early Close as at 31 March each year.

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Further Information: Finance and Operations Group
Email: agencyinfo@treasury.nsw.gov.au (with Agency Prime number, Agency Name and 'Early Close' in the Subject)
NSW Treasury website: www.treasury.nsw.gov.au/

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Appendix A: 2020 Early Close Reporting Timetable and Guidance

1. Timetable

The intention of these procedures is to facilitate the earlier preparation of Agency financial statements and the Consolidated State Financial Statements, as well as improve the quality of financial statements and minimise the risk of audit qualifications or errors in financial statements submitted for audit and to Treasury. A second circular will be issued before 30 June 2020 outlining the year-end reporting requirements. A preliminary year-end timetable is set out in Appendix E.

Agencies need to develop a detailed plan with key stakeholders, including auditors, to achieve these deadlines. Plans should allow sufficient time for management review and involvement of Audit and Risk Committees as applicable.

| Early Close Procedure | 2020 |
|--|-------------|
| Treasury issues the Financial Reporting Code 2019-20 – no later than | 29 January |
| Treasury issues the updated 2019-20 Mandates of Options and Major Policy Decisions under Australian Accounting Standards – no later than | 29 January |
| Agencies submit their Preliminary Return on Emerging Accounting Issues (Appendix C) to Treasury ¹ | 13 February |
| Period 9 Prime return – General Government Entities | 14 April |
| Period 9 Prime return – Public Non-Financial Corporations and Public Financial Corporations including State Owned Corporations | 17 April |
| [external] Valuation reports for Agencies submitted | 24 April |
| Agencies submit Financial Statements to Treasury | 1 May |
| Agencies submit their Interim Return on Emerging Accounting Issues (Appendix C) to Treasury ¹ | 1 May |
| Agencies provide Early Close procedures checklist to Treasury (Appendix B) – no later than | 1 May |
| Agencies provide results of Early Close procedures to the Audit Office and Treasury – no later than | 1 May |
| Audit Office feedback on Early Close procedures – Agencies forward feedback to Treasury ¹ | 8 June |
| Agencies submit their Final Return on Emerging Accounting Issues (Appendix C) to Treasury ² | 22 June |

1. Audit Office are committed to providing feedback on key issues on a progressive basis during the audit to agencies and Treasury with Audit Office reporting on early close due 8th June
2. Nil returns will be accepted prior to the deadline

2. Guidance - Valuation of Physical Non-Current Assets

2.1 Background

TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value* mandates physical non-current assets to be measured at fair value under AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Property*, consistent with ABS, GFS and AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Agencies are required to annually:

- review an asset's useful life and residual value at the end of each annual reporting period (AASB 116, para 51)
- document their annual assessment of fair value, useful lives and residual values including reasons why the Agency concluded carrying value was not materially different to fair value.

2.2 Early Close Process

Valuations must be signed off and recorded by agencies as part of Early Close. Further, in relation to valuations for this Early Close process, agencies are to provide Treasury, for each class of assets:

- date of last comprehensive valuation,
- gross dollar amount of last comprehensive valuation, and
- date of next scheduled comprehensive revaluation.

2.3 Reliable Measurement

In accordance with AASB 116 para 7(b), assets are only recorded where their fair value can be reliably measured. In rare circumstances, certain assets by their nature, do not meet this criteria and should not be recognised. The assessment of reliable measurement is often subject to significant professional judgement. Reliable measurement can also change over time as new information or valuation methodologies become available.

As noted in Treasury Circular 18-17, agencies should identify non-current physical assets that are not currently recognised, because they previously determined those assets could not be reliably measured. Before Early Close (by 31 January) a reassessment of the reliable measurement criteria should be conducted and documented in a position paper. Agencies should share their position paper with the Audit Office and, where relevant, organise external valuations as part of Early Close.

2.4 Management Responsibilities for Valuations

Valuations are ultimately the responsibility of the Agency's management. Section 8.5 of TPP14-01 provides guidance on how to manage the valuation process. However, in summary management must ensure:

- responsibility for the Agency's revaluation process is assigned to an officer with appropriate authority
- the valuer is provided formal instructions and the approach they propose is appropriate and complies with accounting standards
- key assumptions used in the valuation approach are appropriate and there is sufficient evidence to support the assumptions
- valuation techniques adopted are appropriate to maximise observable inputs as required under AASB 13 *Fair Value Measurement* and TPP14-01 *Valuation of Physical Non-Current Assets at Fair Value*
- the valuation approach is sufficiently documented/supported and reviewed by senior management
- that valuers are instructed to carry out the valuation in accordance with TPP 14-01 and AASB 13.

2.5 Guidance on Management's Role in the Valuation Process

In carrying out a valuation an Agency should:

a) Identify the requirements of the revaluation

As part of the planning for the valuation, management should:

- assess whether an external valuation is required (see Types and Frequency of Valuation below) and if so the external valuers best placed to perform the valuation,
- determine the scope of the assets subject to review,
- determine timeframes, and
- consider the impact of previous audit issues and recommendations.

If an item of property, plant and equipment (“PPE”) is revalued then the entire class of PPE to which the asset belongs must be revalued (AASB 116, para 36). A class may be revalued on a rolling basis provided revaluation of the class is completed within a short period and revaluations are kept up to date (AASB 116, para 38).

Note: Ownership and Control – Agencies need to consider which assets they control/do not control under Accounting Standards. Where necessary, conclusions should be adequately documented.

Note: Agencies should have controls in place to ensure fixed assets registers are complete and accurate.

b) Agree with the external valuer the appropriate valuation methodology

As part of the appointment process the valuer should demonstrate their understanding of the Agency’s asset base and circumstances by setting out their proposed approach to the asset valuation. This should include:

- valuation technique(s) – e.g. income approach, current cost approach, market approach
- valuation inputs,
- the use of indexation,
- sampling, and
- key assumptions.

Management should review and agree on the reasonableness of the external valuer’s approach **before** the valuation takes place.

Note: The current replacement cost method requires the external valuer to consider and document the asset base including key cost drivers, appropriate componentisation, condition assessment and agreed unit cost rates. Management will need to liaise with the external valuer on these matters before the valuation occurs.

Note: care needs to be taken in determining and reviewing **useful lives** – for instance constant revision of useful lives or a high number of fully depreciated assets may indicate that appropriate useful lives were not selected in the first instance. Useful lives should not automatically be rolled forward at each valuation. e.g. the justification for rolling forward a 50 years useful life after each valuation should be sufficiently documented.

Note: Indexation – reference should be made to TPP 14-01 when considering indices. Indices should be appropriate for the underlying asset base. In some instances indexation may not be required. Indexation should not be used as a substitute for a full revaluation.

c) Review the valuation report

Management cannot outsource their primary responsibility for valuations, and are best placed to understand the circumstances of their Agency and the Agency’s physical non-current assets. Therefore management must conduct robust reviews of external valuers’ reports, challenging the report findings where necessary. These reviews should be documented.

Management reviews should ensure the external valuer’s findings are consistent with the Agency’s assets and circumstances, make sense and are suitable for the assets reviewed. The review should also ensure that the external valuer’s assumptions, methodologies, sources etc are adequately supported and documented.

The following matters in external valuers’ reports commonly need improvement:

- how highest and best use was determined,
- rationale for the chosen valuation approach (i.e. market, income or cost), and
- significant judgements, e.g. discount rates, adjustments for assets’ location, condition and restrictions.

Note: Fair value hierarchy – management should demonstrate and document why assets have been placed in each level of the valuation hierarchy under AASB 13. For instance, valuations with Level 2 classifications should not contain significant unobservable inputs.

d) Engage with the Audit Office

Management should engage with the Audit Office as early as possible. This should include the scoping stage and meeting with valuers. The engagement letter should acknowledge the Audit Office are likely to request meetings with the valuer and management to discuss the valuation results.

2.6 Determining Fair Value

Three widely used valuation techniques are the market approach, the cost approach and the income approach. Agencies must use valuation techniques consistent with one or more of these approaches to measure fair value (AASB 13, para 62). Further detail on valuation techniques can be found in TPP 14-01 section 5. It is important to distinguish between those assets using the cost approach from the income and market approaches as this impacts how accumulated depreciation is treated (TPP14-01 section 9.2).

2.7 Valuing Specific Types of Non-current Assets

The following table summarises guidance on revaluing specific types of assets. For further detail refer to TPP14-01 section 7:

| | |
|---|---|
| Land | <ul style="list-style-type: none"> ▪ Comprehensive revaluation required at least every 3 years ▪ Restricted land - generally measured in combination with the plant or infrastructure on the land ▪ Non-restricted land - can be valued based on any higher feasible alternative use. In such cases, highest and best use may be either stand alone or in combination with any building or structure on the land ▪ Valuation technique is generally market approach (e.g. comparable sale price) or income approach (e.g. comparable rental income stream) ▪ Likely to be valued as Level 2 or 3 of the fair value hierarchy |
| Buildings | <ul style="list-style-type: none"> ▪ Comprehensive revaluation required at least every 3 years ▪ Specialised buildings - generally measured using the cost approach. However if part of a cash generating unit, income approach may be opted ▪ Non-specialised buildings - generally measured using the market approach or income approach ▪ Specialised buildings are likely to be assessed at Level 3 and non-specialised are generally Level 2 or 3 |
| Specialised Plant and Infrastructure | <ul style="list-style-type: none"> ▪ Comprehensive revaluation required at least every five (5) years ▪ As specialised assets don't generally have any feasible alternative use, generally measured using the cost approach. However if considered part of a cash generating unit, income approach may be opted ▪ Specialised plant and infrastructure are most likely to be assessed as Level 3 |
| Heritage Assets | <ul style="list-style-type: none"> ▪ Comprehensive revaluation required at least every five (5) years ▪ Generally measured using the market approach (observable market prices) or cost approach (reproduction cost). Income approach is mostly unlikely ▪ Heritage assets most likely to be assessed as Level 3, but can be Level 2 when there is an active market/observable market prices e.g. some artworks ▪ Certain heritage assets may not be recognised if they cannot be reliably measured. This needs to be supported by an external expert and disclosed in the notes to financial statements where material |
| Other Non-specialised Assets e.g. vehicles | <ul style="list-style-type: none"> ▪ Comprehensive revaluation required at least every five (5) years ▪ When asset has a short useful life, TPP14-01 allows depreciated historical cost to be used as an acceptable surrogate for fair value. |

2.8 Impairment Testing - refer to TPP14-01 section 7.6

Under AASB 136 *Impairment* agencies need to assess at the end of each reporting date whether there are any indicators of impairment (AASB 136, para 9). When there are indicators, an estimate of the recoverable amount, being the higher of value in use or fair value less costs of disposal (AASB 136, para 6), must be made for the asset. An impairment loss is recognised when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount (AASB 136, para 59).

2.9 Types and frequency of revaluations - refer to TPP14-01 section 8

Comprehensive revaluation:

- use external professionally qualified valuers either to conduct the revaluation or to review the revaluation. Conducted every 3 or 5 years depending on the asset type (as discussed in the section above).

Interim revaluations:

- conducted by agencies between comprehensive revaluations, where cumulative changes to indicators/indices suggest fair value may differ materially from current carrying value. Further guidance on indices is given in TPP14-01 section 8.2
- when cumulative changes in indicators/ indices are less than or equal to 20% - generally management can undertake an interim revaluation
- when cumulative changes in indicators/ indices are greater than 20% a formal revaluation using external professionally qualified valuers is required. Valuers along with management must also consider whether comprehensive revaluations are required more frequently.

2.10 Other matters on valuations

- revalued assets must be depreciated based on the revalued amounts from the day after the date of the revaluation. At year-end agencies must assess whether there is any indication an asset's carrying amount differs materially from fair value recorded for Early Close
- agencies need to consider prior year decrements recorded in the net result when recognising asset revaluation reserve increments in the current year. Revaluation increments are to be offset first in the net result to the extent of any previous revaluation losses recognised in the net result
- the Asset Revaluation Reserve balance should be reconciled to the assets held at balance date, with any surplus / deficiency being transferred to / from Accumulated Funds
- revalued asset amounts in valuation worksheets/reports should reconcile to the values in the asset register/general ledger provided to Treasury.

Appendix B: Early Close Procedures Checklist

Forward to Treasury at the same time, as Early Close procedures are completed and submitted to the Audit Office (no later than 1 May 2020)

Email: Agencyinfo@treasury.nsw.gov.au

Agency Name _____ Agency No. _ (Prime) _____

| | yes "✓" no "x" n/a "-" |
|--|------------------------------|
| ➤ Confirm that the pro forma financial statements have been completed and that there has been management review of the statements and work papers and endorsement of the pro forma financial statements. | |
| ➤ Confirm format of pro forma financial statements as agreed with Audit Office. | |
| ➤ Confirm the Agency complies with Treasury's mandatory accounting policies with a detailed explanation if it does not comply. | |
| ➤ Confirm the management review and sign off of the revaluation of Property, Plant and Equipment (PPE). | |
| ➤ Confirm the revalued Property, Plant and Equipment (PPE) has been included in the early close Prime submissions and financial statements. | |
| ➤ Confirm PPE / intangible movements in the balance sheet to break downs in the note disclosures have been reconciled. | |
| ➤ Confirm there are no changes to the 2018-19 closing balances. If a change is proposed: attach journal, explanation and proposed disclosure. | |
| ➤ Confirm there are supporting work papers to evidence how the Agency has considered requirements of new and updated accounting standards. | |
| ➤ Confirm an agreed action plan is in place to address prior year Management Letter and Engagement Closing report issues from the Audit Office. Provide explanations of unresolved issue(s). | |
| ➤ Confirm that all interAgency balances and transactions have been broken down by Agency and interAgency balances have been confirmed with contra agencies. | |
| ➤ Confirm all key account balances have been reconciled. | |
| ➤ <i>For Principal Cluster Agency only:</i> Confirm review and assessment of consistency in accounting treatment among cluster agencies. | |
| ➤ Confirm the new accounting standards assessment is complete and there is supporting work papers to evidence how the Agency has considered requirements of new and updated accounting standards. | |
| ➤ <i>[Agency to detail any other procedures carried out]</i> | |

I confirm that the above Early Close procedures have been complied with, as indicated. Where Early Close procedures have not been complied with, an appropriate explanation is attached.

Signed: _____ Chief Finance Officer _____ (Name of CFO)

Agency Contact: (Name) _____ (Tel) _____ / ____ / 2020

Appendix C: 2019-20 Information on Emerging Issues

Due Dates

- Preliminary submission 13 February 2020
- Interim submission..... 1 May 2020
- Final submission..... 22 June 2020

Email: Agencyinfo@treasury.nsw.gov.au

Agency Name _____ Agency No. (Prime) _____

Where appropriate attach further information e.g. extract from pro-forma notes to financial statements

- Do you have any emerging issues with an impact of more than \$5 million? Yes / No
If yes, what is the nature of the issue(s)?

.....

Examples of emerging issues include:

- unresolved accounting policy issues or other matters, which the Audit Office has indicated, may lead to a misstatement or disclosure deficiency in the Financial Statements or the qualification of the Independent Auditor's Report
- key risk areas that could impact the quality or timeliness of your financial statements
- significant asset revaluations particularly those involving estimation uncertainty
- significant revenue /expense items – i.e. significant in size compared to the previous year (It is not necessary to report to The Treasury about superannuation, as it is generically volatile)
- significant adjustments direct to equity – for example from Agency restructures
- new disclosures resulting from the adoption of accounting standards, changes in accounting policies
- discontinuing operations, sale of a significant asset, new business acquisitions etc
- the accounting treatment of new privately financed projects
- new or significant changes to contingent liabilities/assets.

- Does management plan to amend the 2019-20 financial statements for the emerging issue? Yes/No

If no, the reasons for not amending are:

.....

- Have management's positions on the above emerging issues been provided to the Audit Office? Yes / No / N/A

Audit Office

- What date has the audit team indicated that it plans to report to your organisation its observations from the procedures that it conducts on the Early Close? ____/____/2020 or N/A

Signed: _____ Chief Finance Officer _____ (Name of CFO)

Agency Contact: (Name) _____ (Tel) _____ / ____/____/2020

Appendix D: Accounting Issue Resolution Paper

Agencyinfo@treasury.nsw.gov.au

Agency Consideration:

| | | | |
|----------------------|--|-----------------|-----------------|
| Date Prepared | <i>[insert date prepared]</i> | | |
| Date Updated | <i>[insert date revised if applicable]</i> | | |
| Agency | <i>[insert name of Agency that the issue relates]</i> | Agency # | <i>[insert]</i> |
| Preparer | <i>[insert name of the preparer of this Position Paper]</i> | | |
| Issue | <i>[insert brief description of the nature of the issue being addressed]</i> | | |

Background:

[Describe the background to the current issue and any related information which better frames how the issue arose and the current difficulties being faced by the Agency]

Stakeholders:

[Describe the key stakeholders impacted by this issue and how they have been consulted]

Description of Issue:

[Provide a detailed description defining the current issue faced by the Agency]

Consideration of Accounting Treatment:

Agency Policy:

[Identify any accounting policies or standards which directly relate to addressing the issue. Consideration should include:

- *Accounting Standards*
- *Treasury Policies & Circulars*
- *Agency Specific Policies]*

| |
|--|
| |
|--|

Are adopted accounting policies/treatment aligned with Accounting Standards? Yes / No

Technical Analysis & Options:

[Describe the Agency's position and interpretation of policies and accounting standards- including any advice provided by an accounting firm or other specialist. Further, outline any options available in how the issue may be interpreted and addressed – e.g. through interpretations of the policy and standards or through differences of opinion]

Proposed Accounting & Finance Impact including Disclosures:

Does the transaction require retrospective or prospective adjustments (refer AASB 108)?

Yes / No

If retrospective adjustments are required, demonstrate that the adjustment required is 'material', indicate the historical periods and amounts that require adjustment in the template below.

Please provide journals taking into consideration any impact to prior year financial statements and all impacts to the financial statements, including the reasons for the transaction.

| Financial Impact (\$000) | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|--|----------------|----------------|----------------|----------------|----------------|
| Budget Result (-ve worsens) | | | | | |
| Operating Result | | | | | |
| Net Lending | | | | | |
| Financial Statement (-ve worsens) | | | | | |
| Balance Sheet | | | | | |
| Operating Statement | | | | | |
| Financial Impact (\$000) | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| Prior Year Financial Statements (-ve worsens) | | | | | |
| Balance Sheet | | | | | |
| Operating Statement | | | | | |

Concluding Position:

[Describe the final position/option that the Agency has identified to be the most appropriate recommendation]

Agency Sign Off & Review:

| Sign-off | Role | Signature | Date |
|-----------------|--|------------------|-------------|
| [insert name] | Financial Accountant (Preparer) | | |
| [insert name] | Financial Manager (Reviewer) | | |
| [insert name] | Agency CFO (Reviewer) | | |

Appendix E: 2019-20 Mandatory Annual Return - Preliminary Reporting Timetable

Agencies need to develop a detailed plan with key stakeholders, including auditors, to achieve these deadlines. Plans should allow sufficient time for management review and involvement of Audit and Risk Committees as applicable

| Annual Return Procedure | 2020 |
|---|---|
| Agencies to submit 30 June 2020 Prime return consistent with the draft Financial Statements to Treasury. | 17 July |
| Agencies to submit 30 June 2020 Annual Financial Statements to the Audit Office (including supporting work-papers for the Audit Office) and Treasury. | 22 July |
| Agencies to submit Preliminary Annual Return and the completed Supplementary Return to Treasury. | 22 July |
| The Crown Entity to provide Preliminary Annual Return to Treasury | 30 July |
| The Crown Entity to provide Preliminary annual financial statements to Treasury and the Audit Office. | 03 August |
| The Crown Entity to provide the completed Supplementary Return to Treasury. | 03 August |
| Revisions to data submitted as part of the preliminary or final Annual Return for changes in financial statements and note disclosures for all subsequent adjustments and errors (corrected or uncorrected) above \$5 million. All agencies are required to provide an Appendix B , including nil returns. | 17 August |
| Agencies to provide Final Annual Return to Treasury. | Within one day of receiving the signed Independent Auditor's Report |
| Notification of events after the 30 June 2020 reporting period (post balance sheet events). | Within one day of the Agency becoming aware of the issue |
| Treasury to submit draft Consolidated State Financial Statements to the Audit Office. | 31 August |

Appendix F: Where to go for help

People at Treasury who can help

Prime Questions

Agency Treasury Analysts – General Queries

| | |
|------------------|-----------|
| Andrew Azar | 9228 5164 |
| Jane Gu | 9228 4450 |
| Mathew Do | 9228 3322 |
| Natalie Seal | 9228 5744 |
| Anne Bible | 9228 4282 |
| Tatiana Carlisle | 9228 4591 |

Emerging Issues, Correction of Material Prior Period Errors

| | |
|--------------|-----------|
| Angela Kelly | 9228 3352 |
| Mathew Do | 9228 3322 |

| | |
|------------------------------------|-----------|
| Sean Osborn (Accounting Policy) | 9228 5932 |
|------------------------------------|-----------|

System Queries, e.g. Prime system access, Prime upload facility Prime Service Desk

Prime Functionality (including Training)

| | |
|--------------|-----------|
| David Tonkin | 9228 4638 |
|--------------|-----------|

Treasury's Return Address

Remember to “Promote” the Prime data back to Treasury upon completion.

The rest of the Annual Return should be forwarded electronically to Treasury by the due date to:

Agencyinfo@treasury.nsw.gov.au

Please include your Agency Prime number, Agency name and ‘Early Close 2019-20’ in the subject title when emailing to Treasury.

Appendix F: Where to go for help (Crown Entity)

Banking, cash management and interest payments

| | |
|-----------------|-----------|
| Henriette Prego | 9228 3873 |
| Jin Kang | 9228 4150 |

Debt management

| | |
|----------------|-----------|
| Mitra Karmakar | 9228 5839 |
| Charles Cheung | 9228 4604 |

Advances

| | |
|----------------|-----------|
| Mitra Karmakar | 9228 5839 |
| Charles Cheung | 9228 4604 |

Fringe Benefit Tax

| | |
|-----------------|-----------|
| Henriette Prego | 9228 3873 |
|-----------------|-----------|

Crown guarantees

| | |
|------------------|-----------|
| Stephen Atkinson | 9228 4435 |
| Lyndal Punch | 9228 5881 |

Liability to the Consolidated Fund

| | |
|-------------------------|-----------|
| Agency Treasury Analyst | Various |
| Natalie Seal | 9228 5744 |

Long service leave arrangements

| | |
|----------------|-----------|
| Charles Cheung | 9228 4604 |
| Mitra Karmakar | 9228 5839 |

Appropriations payments

| | |
|-------------|-----------|
| Angel Yu | 9228 5071 |
| Ramesh Nand | 9228 3138 |

Reimbursement of Crown expenses

| | |
|---------------|-----------|
| Angel Yu | 9228 5071 |
| Hitesh Shakya | 9228 5842 |

Commonwealth grants

| | |
|----------|-----------|
| Jin Kang | 9228 4150 |
|----------|-----------|

Crown accounting policy

| | |
|------------------|-----------|
| Stephen Atkinson | 9228 4435 |
| Lyndal Punch | 9228 5881 |

Other correspondence:

Email: Crown_Entity@treasury.nsw.gov.au

Appendix G: Resources/Links

Treasury Resources

NSW Treasury Policy Papers, Treasury Circulars, Treasury Analysis of Australian Accounting Standards, and other Treasury publications

<https://www.treasury.nsw.gov.au/documents-resources/documents-library>

External Resources

Public Finance and Audit Act 1983

<https://www.legislation.nsw.gov.au/#/view/act/1983/152>

Government Sector Employment Act 2013

http://www7.austlii.edu.au/cgi-bin/viewdb/au/legis/nsw/consol_act/gsea2013346/

The Government Sector Finance Act 2018

<https://www.treasury.nsw.gov.au/budget-financial-management/reform/government-sector-finance-act-2018-0>

CPA Australia

<https://www.cpaaustralia.com.au/professional-resources/reporting>

Further information and contacts

For further Information or clarification on issues raised in the discussion paper, please contact:

Finance and Operations Group, NSW Treasury

Email: Agencyinfo@treasury.nsw.gov.au