Treasury

Treasury Circular

TC19-01
10 January 2019

Agency guidelines for the 2018-19 Mandatory Early Close

The mandatory Early Close for Agencies will be conducted as at 31 March 2019.

This Circular applies to all NSW public sector agencies, including State Owned Corporations, and withdraws and supersedes the previous NSW Treasury Circular Mandatory Early Close procedures for 2017-18 (TC17-12).

Summary

The mandatory Early Close for Agencies will be conducted for all agencies as at 31 March 2019.

Agencies are required to submit the following returns by the specified dates:

Submission	2019
GG Prime Data Submission (Actuals and 2018-19 Projections)	10 April
PNFC and PFC Prime Data Submission (Actuals and 2018-19 Projections)	19 April
ALL agencies to submit Financial Statements as at 31 March 2019	23 April
Early Close Procedure Checklist Appendix B	23 April
Appendix C Emerging Accounting Issues. Updates on each of the stipulated dates	13 February 23 April 24 June

Agencies must develop a detailed plan with key stakeholders and allow sufficient time for management review and involvement of Audit and Risk Committees as required.

Agencies are also required to engage with the Audit Office early to confirm the nature and timing of early close procedures to be performed, and the scope and timing of any review of the early close procedures by the auditors. A copy of the Audit Office's 'Observations on Early Close Procedures' letter should be provided to Treasury by 31 May 2019.

To enhance the efficiency of the financial reporting process and promote early identification of accounting issues, it is anticipated the Audit Office will choose to perform audit procedures on certain balances and transactions at Early Close. Therefore, it is important all significant balances are reconciled and supporting documentation available. For example, external valuations of non-current physical assets should be finalised and revaluations recorded in general ledgers.

This Circular 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.

Background

Early Close Procedures have been introduced to both facilitate earlier completion and improve the quality of year-end financial statements. This circular contains additional guidance in order to reduce significant adjustments and resolve matters earlier in the audit process. The focus going forward will remain on early identification of emerging issues and reducing misstatements and the underlying causes.

Early Close Procedures

These 'Early Close Procedures' require the preparation of a set of pro forma financial statements and 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:***

- **Complete revaluations of property, plant and equipment** – These must be completed in time for the 31 March Early Close, and revaluations recorded in general ledgers. Revaluations should be supplemented by consideration of review processes to support this valuation at 30 June. Please refer to the recently issued Treasury Circular TC18-17 FY18-19 Timetable for Agency Asset Valuations. Appendix A provides additional guidance.
- **Update employee annual leave provisions** – Reconciliation and calculation of annual leave provisions must be completed. The balances calculated for the early close statements can be rolled forward with adjustments for monthly accruals and actual payments as part of 30 June statements.
- **Agree and confirm inter and intra (cluster) agency balances** – Agencies should seek the agreement of major trading partners. The agency providing the service (the debtor) should take the lead in agreeing each balance. Agencies should support counterparts seeking to verify their counterparty balances.
- **Document significant management judgements and estimation uncertainty** – Agencies should collect and retain appropriate documents to support significant judgements, any assumptions made when estimating transactions and balances, and to record the process used to arrive at those assumptions. For more complex accounting issues, documentation should summarise the issue, set out management's evaluation and conclusion. Appendix D provides a template for the reporting of the resolution of accounting issues. Materiality should drive the decision about what to document.
- **Key account reconciliations** – Agencies should carry out account reconciliations in support of the balance sheet throughout the year. Key account balances should be reconciled monthly.
- **Reconcile the March 2019 month-end Prime submission to the pro forma financial statements** – Explanations should be provided for variances exceeding $5 million.
- **Notes to the accounts** – Agencies should prepare note disclosures including prior year comparative information and all narrative disclosures. Agencies should prepare and make available to the Audit Office monthly account reconciliations in support of key balances as part of the working papers to support the notes to the accounts.

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 are not required to engage with any external Actuaries to perform actuarial valuations at 31 March 2019. Agencies should use amounts accrued year-to-date in the early close financial statements and update them as part of the year-end procedures at 30 June with the appropriate liability discount rate. Agencies should however perform all relevant reconciliations such employee leave liability balances.
- **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 to the Consolidated Fund** – This must be calculated as at 30 June, but there is no requirement to calculate this as part of the Early Close Procedures.

These guidelines also describe 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 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 2019.

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.

Audit Planning

Audit planning should occur prior to Early Close. Agencies should discuss with the Audit Office significant issues reported at the prior year audit, for example in their management letter, revaluations of property, plant and equipment and any significant new issues, including major one-off transactions.

Agencies must agree with the Audit Office the format and timing of position papers on these issues prior to Early Close.

Audit Procedures at Early Close

The pro forma statements must be completed and ready for review by no later than 23 April 2019.

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. As part of audit planning, agencies should confirm with their audit teams, those balances and transactions that will be subject to early audit procedures. It is important all key balances are reconciled at 31 March and supporting documentation is available, not just those balances where early audit procedures are planned.

Agencies are required to engage with the Audit Office early to confirm the nature and timing of early close procedures to be performed, the scope and timing of any review of the early close procedures by the auditors and any year end audit work that is to be brought forward and completed using Early Close documentation.

The Audit Office procedures may include:

- Review of non-financial asset valuations
- Performance of early audit procedures on selected balances and transactions
- Feedback on the adoption of the good practice principles outlined in this Circular
- Feedback on the work carried out by agencies to support year end procedures
- Agreeing hard close timelines on a case-by-case basis as requested by agencies

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

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.

Treasury requests that findings by the Audit Office as part of the Early Close be communicated by the agency to Treasury, preferably through provision of a copy of the 'Observations on Early Close Procedures' letter issued by the Audit Office, by 31 May 2019.

Valuations of Non-Current Physical Assets

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.

Emerging Issues Reporting

Reporting of emerging issues is a key control for agencies and Treasury to reduce the risk of reported 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.

Treasury maintains a register of potential issues as part of the TSSA year-end process. Emerging issues reported by agencies will be included on the register where significant to the TSSA. 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:

- 13 February 2019 – to gain early sight of issues and potential impact on the year-end projection and forward estimates.
- 23 April 2019 – to accompany the Early Close Procedures, including an update on resolution of issues identified in February.
- 24 June 2019 – 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.

Application of this Circular

The Circular is issued as a Direction in accordance with sections 9 and 45E of the *Public Finance and Audit Act 1983.* A specific reference to this Treasury Circular will also be included in the Statement of Corporate Intent of Statutory State Owned Corporations. Treasury may subsequently limit or vary application of this Direction pursuant to section 9(3) of the Act.

The *Government Sector Finance Act 2018*

The *Government Sector Finance Act 2018* (GSF Act) became law in November 2018, and elements of the Act come into Force from 1 December 2018. The financial reporting, audit and annual reporting elements of the Act have not yet come into force – they are proposed to commence progressively from the 2019/20 financial year (inclusive). For more information please refer to NSW Treasury's GSF Act website.

This Circular withdraws and supersedes the previous NSW Treasury Circulars Mandatory Early Close procedures for 2018 (TC17-12*).*

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Acting Deputy Secretary Economic and Financial Management Group

Further Information:	**Financial Management, Reporting & Analysis Division**
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TC19-01 - Agency guidelines for the 2018-19 Mandatory Early Close

Directory of Appendices

Appendix A: 2019 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 Total State Sector Accounts, 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 2019 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	2019
Treasury issues the Financial Reporting Code 2018-19 – no later than	30 January
Treasury issues the updated 2018-19 Mandates of Options and Major Policy Decisions under Australian Accounting Standards – no later than	30 January
Agencies submit their Preliminary Return on Emerging Accounting Issues (Appendix C) to Treasury[1]	13 February
Period 9 Prime return – General Government Entities (Actuals and 2018-19 Projections)	10 April
Period 9 Prime return – Public Non-Financial Corporations and Public Financial Corporations including State Owned Corporations (Actuals and 2018-19 Projections)	19 April
Agencies submit Financial Statements to Treasury	23 April
Agencies submit their Interim Return on Emerging Accounting Issues (Appendix C) to Treasury[1]	23 April
Agencies provide Early Close procedures checklist to Treasury (Appendix B) – no later than	23 April
Agencies provide results of Early Close procedures to the Audit Office and Treasury – no later than	23 April
Audit Office feedback on Early Close procedures – Agencies forward feedback to Treasury	31 May
Agencies submit their Final Return on Emerging Accounting Issues (Appendix C) to Treasury[1]	24 June

1. Nil returns will be accepted prior to the deadline

2. Scope of work

In preparing pro forma accounts as part of the Early Close procedures, agencies must ensure:

- The revaluation of all material property, plant and equipment is completed and signed off by management in time for inclusion in the 31 March 2019 Prime submission.
- Inter-agency balances are confirmed and agreed with the counterpart agency.
- The reconciliation and valuation of employee leave and other key provisions is carried out.
- Outstanding items of bank and other key (debtor/creditor) reconciliations are resolved on a monthly basis.
- 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.
- Correct Prime coding for account balances and movements so that whole of government reporting requirements are met, including Treasury's Australian Bureau of Statistics (ABS), Government Finance Statistics (GFS) reporting.
- Accounting issues including all material, complex or one-off transactions are identified and documented and available for review by Treasury and the Audit Office.
- Significant management judgements and estimation uncertainties are documented and available for review by Treasury and the Audit Office.
- 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.
- Evidence of appropriate delegations for all material transactions is provided to Treasury.

The revaluation of Property, Plant and Equipment (PPE) should be completed with sufficient time for management review prior to submission to Treasury. PPE movements between opening and closing balances should be reconciled for all levels and classes prior to submission to Treasury.

Agencies are also required to engage with the Audit Office early to confirm the nature and timing of early close procedures to be performed, including where agreed revaluations of PPE, and the scope and timing of any review of the early close procedures by the auditors. A copy of the Audit Office's 'Observations on Early Close Procedures' letter should be provided to Treasury by 31 May 2019.

3. Guidance - Valuation of Physical Non-Current Assets

3.1 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.

3.2 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.

3.3 Reliable Measurement

In accordance with AASB 116, 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.

3.4 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.

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

3.6 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).

3.7 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	▪ 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	▪ 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	▪ 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	▪ 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	▪ 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

3.8 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).

3.9 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.

3.10 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.

4. Pro forma 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

4.1 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.

4.2 Restructures and Discontinued/Abolished Agencies

Restructures, discontinued and/or abolished agencies may 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 or its name removed from Schedule 2 of the *Public Finance and Audit Act 1983*, please see below. Early Close financial statements should reflect all necessary disclosures which may be 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 the *Public Finance and Audit Act 1983*, where a statutory body ceases to be a statutory body because it is abolished or dissolved or its name removed from Schedule 2 of the Act, it should comply with section 43A of the Act. This means a final financial report must be prepared from 1 July to the date of abolition.

Section 43A General audit of former statutory bodies states,

(1) This section applies where a statutory body ceases to be a statutory body because it is abolished or dissolved or its name is removed from Schedule 2. The statutory body is referred to in this section as **the body**.

(2) Unless other provision is made by or under any Act:

   (a) a financial report for the portion of the financial year ending when the body ceased to be such a statutory body (and for any previous financial year) is to be prepared and submitted, and

   (b) the financial report is to be audited, and

   (c) a statement referred to in section 41C (1B) in relation to the financial report is to be prepared and submitted, in the same way that it would have been required to be prepared, submitted and audited if the financial year had ended on that day and the body had not ceased to be such a statutory body.

(3) The financial report and statements may be prepared and submitted by any person or persons who could have done so had the body not ceased to be a statutory body or by any successor to or continuation of the body, or by any entity that controlled the body.

(4) The Auditor-General may make such arrangements, and enter such agreements, as may be appropriate or necessary for the purposes of this section. An arrangement or agreement may provide for the affairs of the body and of any successor to be treated in a composite way.

(5) The Treasurer may direct that this section is not to apply to the body if, in the opinion of the Treasurer, it is unnecessary or inappropriate for it to apply.

4.3 New/Revised Accounting Standards

For the 2018-19 Early Close agencies should consider the following changes to accounting standards.

Accounting Standards applicable for the first time in 2018-19.

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*. This Standard requires financial assets to be classified based on the entity's business model and contractual cash flows tests. It also includes an 'expected credit losses' model that replaces the current 'incurred loss' impairment model. The requirements for hedge accounting have been amended to be more closely aligned to how the entity undertakes its risk management activities when hedging financial and non-financial risk exposures.

AASB 15 *Revenue from Contracts with Customers* (Applicable for For-Profit entities in 2018-19. Applicable for Not-for-Profit entities in 2019-20)

AASB 15 replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and Interpretations on recognising different revenue streams. This Standard provides a single framework for revenue recognition using a five-step model. Revenue recognition is now based on when control of the goods or services are transferred to the customer.

Revenue recognition may be accelerated or deferred, compared to existing pronouncements. In particular for revenue contracts with multiple components, variable consideration, and licences. There are significant additional disclosure requirements to provide more useful information to financial statement users.

AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15* (Applicable for For-Profit entities in 2018-19. Applicable for Not-for-Profit entities in 2019-20)

AASB 2016-3 was published to clarify some concepts to AASB 15 (e.g. identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts.

AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

AASB 2016-5 amends AASB 2 *Share-based Payment* to address:

- the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
- the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 with AASB 4 Insurance Contracts*

AASB 2016-6 amends AASB 4 *Insurance Contracts* to provide two options for entities that issue insurance contracts within the scope of AASB 4:

- Overlay approach – an option where entities apply AASB 9 and also apply AASB 139 *Financial Instruments: Recognition and Measurement* to eligible financial assets to calculate a single line item adjustment to profit or loss so that the overall impact on profit or loss is the same as if AASB 139 had been applied;

- Deferral approach - an optional temporary exemption from applying AASB 9 for entities whose predominant activity is issuing contracts in scope of AASB 4, provided additional disclosures are made to enable users to make comparisons with issuers applying AASB 9. The entities deferring the application of AASB 9 will continue to apply AASB 139.

AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments*
(Applicable for For-Profit entities in 2018-19. Applicable for Not-for-Profit entities in 2019-20)

AASB 2017-1 makes amendments to the following Standards:

- AASB 1 *First-time Adoption of Australian Accounting Standards* – deletes some short-term exemptions for first-time adopters because they have now served their intended purpose.
- AASB 128 *Investments in Associates and Joint Ventures* – clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

  An entity that is not an investment entity, when applying the equity method, may elect to retain the fair value measurement applied by its associates and joint ventures that are investment entities. This is available separately for each investment entity associate or joint venture.
- AASB 140 *Investment Property* – clarifies that an entity transfers a property to, or from, investment property when, and only when, there is a change in use of the property. If a property has changed use there should be an assessment of whether the property meets the definition and such change must be supported by evidence.

Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (Applicable for For-Profit entities in 2018-19. Applicable for Not-for-Profit entities in 2019-20)

Interpretation 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The date of the transaction, for the purposes of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

5. Monthly Procedures

Agencies must identify accounts that are significant to the financial statements and:

- reconcile these accounts
- clear reconciling items.

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.

6. Significant one-off, complex or significant accounting issues or transactions

It is good practice that all significant accounting issues and judgements are documented as part of the Early Close procedures. This documentation should summarise the 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.

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

Agencies should review all prior management letters and engagement closing reports to assess the issues raised. Agencies must:

- Document evidence of management's review 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.
- Effectively engage with auditors, Treasury and other stakeholders as required.

8. Confirming all interagency balances and transactions

Agencies must:

- Put in place processes for the agreement of interagency balances and transactions.
- Ensure they have supporting work papers to evidence how the agency has broken down inter-agency assets, liabilities, revenues and expenses.

9. Approvals for certain transactions within Delegation

Under the *Public Finance and Audit Act 1983*, 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)

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 23 April 2019)

Email: agencyinfo@treasury.nsw.gov.au

Agency Name ______________________________ **Agency No. (Prime)** ________

	yes "✓" no "x" n/a "-"
➢ Confirm that the pro forma accounts 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 accounts 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 2017-18 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.	
➢ Confirm all key account balances have been reconciled.	
➢ *[agency to detail any other procedures carried out]*	
➢	
➢	

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)** ____________ ___/___/2019

Appendix C: 2018-19 Information on Emerging Issues

Due Dates

- Preliminary submission ………………………………… 13 February 2019
- Interim submission……………………………………… 23 April 2019
- Final submission………………………………………… 24 June 2019

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 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 2018-19 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? ____/____/2019 or N/A

Signed: ___________________**Chief Finance Officer**_____________________**(Name of CFO)**

Agency Contact: (Name) ________________________ **(Tel)** ____________ ___/___/2019

Appendix D: Accounting Issue Resolution Paper

Email: agencyinfo@treasury.nsw.gov.au

Agency Consideration:

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

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.
Note: 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)	2018-19	2019-20	2020-21	2021-22	2022-23
Budget Result (-ve worsens) Operating Result Net Lending					
Financial Statement (-ve worsens) Balance Sheet Operating Statement					
Financial Impact ($000)	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
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: 2018-19 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	2019
Agencies to submit **30 June 2019 Prime return** consistent with the draft **Financial Statements** to Treasury.	17 July
Agencies to submit **30 June 2019 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 and **annual financial statements** to the Audit Office.	30 July
The Crown Entity to provide the completed **Supplementary Return** to Treasury.	2 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**.**	16 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 2019 reporting period (**post balance sheet events**).	Within one day of the agency becoming aware of the issue
Treasury to submit **draft TSSA** to the Audit Office.	30 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
Angela Kelly	9228 3352
Hugh Wilson	9228 3167
Mathew Do	9228 3322
Natalie Seal	9228 5744

Emerging Issues, Correction of Material Prior Period Errors

Angela Kelly	9228 3352
Mathew Do	9228 3322
Nara Radhakrishnan (Accounting Policy)	9228 3634

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 2018-19' 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	
Leigh Nguyen	9228 4148
Matt Conrow	9228 5382
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	
Leigh Nguyen	9228 4148
Matt Conrow	9228 5382

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

Public Finance and Audit Act 1983

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

External Resources

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

Australian National Audit Office
Preparation of Financial Statements by Public Sector Entities
https://www.anao.gov.au/work/better-practice-guide/public-sector-financial-statements-high-quality-reporting-through-good