

FAQ – What is sufficient and appropriate audit evidence for AASB 1059?

New accounting standard AASB 1059 *Service Concession Arrangements: Grantors* is effective for reporting periods beginning on or after 1 January 2020. This FAQ provides guidance on maintaining sufficient and appropriate documentation to support your implementation of the new standard.

Disclosure and application requirements of AASB 1059

Sufficient and appropriate audit evidence will be required to support the financial audits of:

- FY 2019-20 financial statements

Agencies will be required to provide qualitative and quantitative disclosures of the expected impacts of AASB 1059 in 'Note 1 - Statement of Significant Accounting Policies' of their financial statements under 'New accounting standards issued but not yet effective', in accordance with para 30 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. While the financial effects of the new standard do not impact the 2019-20 statement of financial position or statement of comprehensive income, the expectation is the Audit Office will perform audit procedures for the purposes of the disclosures made in Note 1. TPP 19-04 Financial Reporting Code provides high level guidance on disclosures required for standards issued but not yet effective, however, disclosures must be tailored according to each individual agency's needs, including consideration of the relative materiality of the change under the standard.

- FY 2020-21 financial statements

Agencies are required to prepare their FY 2020-21 financial statements in accordance with AASB 1059. Agencies must apply the modified retrospective transition approach under AASB 1059.C3(b) which requires entities to apply the standard retrospectively by recognising and measuring service concession assets and related liabilities at 1 July 2019. This means that in FY 2020-21 financial statements:

- The FY 2019-20 comparative period will need to be restated in accordance with AASB 1059
- Agencies will need to determine whether they are required to present a third statement of financial position as at 1 July 2019 in accordance with AASB 101 Presentation of Financial Statements (AASB 101) paragraphs 40A-40D
- Both quantitative and qualitative disclosures must be provided in accordance with AASB 1059.28-29 and AASB 1059.B79-B80

Documentation requirements

It is critical that management maintain documentation to support their scoping assessments and estimates of the impacts of the new accounting standard. The documentation needs to include all significant assumptions, practical steps and decisions. Treasury, in collaboration with the Audit Office, has recommended some of the key documentary evidence agencies should maintain and provide to their audit teams.

Documentation required for FY 2019-20

- Documentation of approach and process for identifying potential arrangements within the scope of AASB 1059 i.e. what did agencies do to ensure completeness of their assessment?

- Arrangements register – containing details of all arrangements that were identified as potential service concession arrangements in scope of AASB 1059
- Accounting position papers documenting management’s assessment of each potential arrangement under AASB 1059. Position papers should include:
 - Detailed explanations of the arrangement - including roles and responsibilities of each party to the arrangement (Note that Auditors will also require access to the actual contracts – Agencies should have these available for their Auditors to review)
 - Detailed analysis of the scoping criteria under AASB 1059
 - Conclusion of scope under AASB 1059 from management’s assessment i.e. whether the arrangement is in/out of scope of AASB 1059 and why. Where applicable, include assessment of unregulated, and/or non-public services.
 - Where the arrangement is assessed to be out of scope of AASB 1059, details of the arrangement’s existing accounting treatment under other accounting standards and whether that treatment is still appropriate (Note – Treasury policy TPP 06-8 Accounting for privately financed projects will no longer be effective from 1 July 2020). If a new accounting treatment is applicable, include an analysis of the proposed accounting treatment.
- Workpaper(s) with the quantification of estimated future impacts to be disclosed in the financial statements for FY 2019-20 under Note 1, including significant judgements and assumptions.

Documentation required for FY 2020-21:

- All of the above documentation required for FY 2019-20, including where applicable, any reassessments of arrangements that were determined to be out of scope in FY2019-20 and new service concessions that have been entered into after 1 July 2019.
- Workpapers for each arrangement within the scope of AASB 1059, including:
 - Completed valuations for Service Concession Assets for initial application date of 1 July 2019, including details of key accounting assumptions, judgements and estimates.
 - Completed valuations for Service Concession Financial Liabilities for initial application date of 1 July 2019, including details of key accounting assumptions, judgements and estimates.
 - Determined GORTO liability value and amortisation profile for initial application date of 1 July 2019, including details of key accounting assumptions, judgements and estimates.
 - If applicable, documentation to support additional consideration from the operator for access to an existing asset of a grantor that has been classified as a service concession asset.
 - Support for disclosures required by AASB 1059.28-29, such as the nature and extent of: rights to receive specified services from the operator, carrying amount of service concession assets at the end of the reporting period, rights to receive specified assets at the end of the arrangement, renewal and termination options, other rights and obligations, obligations to provide the operator with access to service concession assets or other revenue-generating assets, and changes in arrangements occurring during the reporting period.

Additional audit considerations - Access to information and confidentiality

- Your audit teams will need access to the actual contracts and agreements - noting the contract summaries on their own will not be sufficient.
- Your audit teams have the power to access the papers for the purposes of their audit work, despite commercial in confidence considerations. However, their secrecy obligations under the Public Finance and Audit Act 1983 and professional obligations ensure they will maintain confidentiality.
- Where there are commercial and or security concerns regarding the audit team accessing those contracts, please engage with your audit teams early to negotiate appropriate access that meets their needs for audit evidence, as well as your needs to maintain the commercial or security confidentiality.