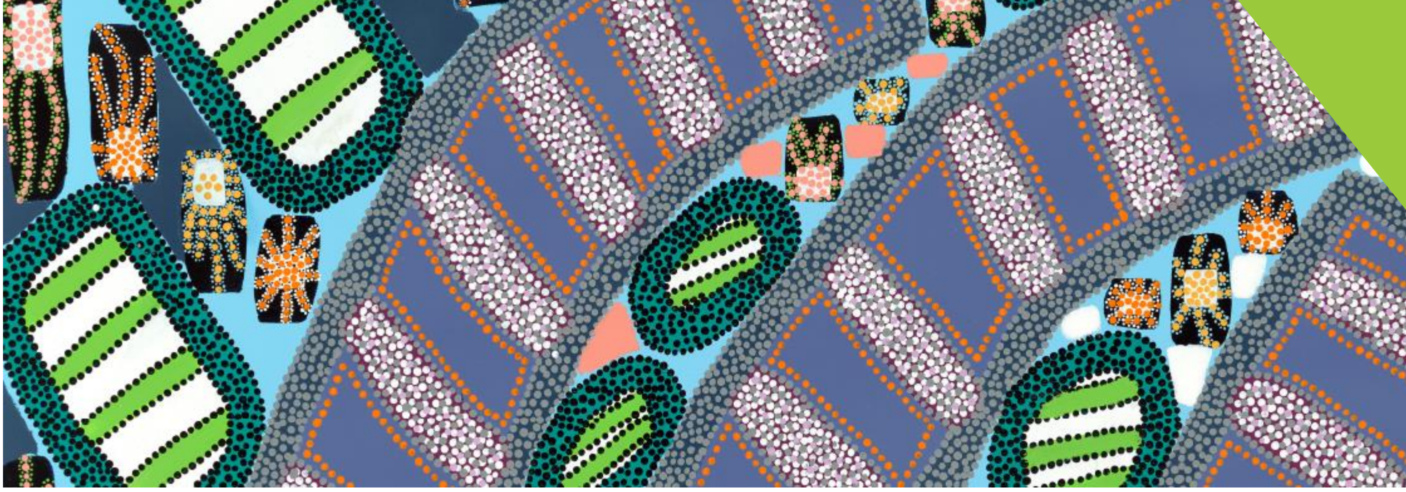
NSW GOVERNMENT | Treasury

April 2022

**TPG22-11**

# NSW Treasury Policy and Guidelines: Agency Direction for the 2021-22 Mandatory Early Close



## Acknowledgement of Country

NSW Treasury acknowledges that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork: ‘Regeneration’ by Josie Rose 2020

## Key information

| | |
|---|---|
| **Treasury Policy and Guidelines (TPG) is relevant to?** | ☒ Government Sector Finance Agencies<br>☐ General Government Sector<br>☐ Public non-financial corporation<br>☐ Public financial corporation<br>☐ State Owned Corporations<br>☐ Other |
| | ☒ Executive agencies related to Departments |
| | ☒ Subsidiaries of the NSW Government established under the ***Corporations Act 2001*** |
| **Date issued** | 7/04/2022 |
| **Review date** | 1/01/2023 |
| ☒ **Replaces**<br>☐ **Replaced by** | The policy and guidelines replaces:<br>• *TPP21-01 Agency Direction for the 2020-21 Mandatory Early Close* |
| **Issuing/Publishing entity** | NSW Treasury |
| **Related instrument(s)** | The related instrument for this policy and guidelines is:<br>• *TD19-02 Mandatory Early Close as at 31 March each year* |
| **Document approver** | Chief Financial and Operations Officer - Finance and Operations Group, NSW Treasury |
| **Contact** | Total State Financial Reporting, NSW Treasury<br>Email: agencyinfo@treasury.nsw.gov.au |

## Document contains

☒ **MANDATORY POLICY** compliance set out by NSW Treasury.

☒ **RECOMMENDED POLICY** reflecting best practice standards.

☒ **GUIDANCE/ADDITIONAL INFORMATION** to provide clarity or explain requirements in detail.

## Revision history

| Document version number | Approval Date | Author | Approver | Description |
|---|---|---|---|---|
| v22.1 | 1 Feb 2022 | H. Wilson | S. Macdonald | Approved final draft of TPG. |

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# 1. Agency Direction for the 2021-22 Mandatory Early Close

## 1.1 Purpose

This NSW Treasury Policy and Guidelines (TPG) adopts and incorporates the Treasurer's Direction TD19-02 Mandatory Early Close as at 31 March each year, including the defined terms which also apply to this TPG.

TD19-02 and this TPG define the minimum requirements 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.

TD19-02 and this TPG also describe several procedures to confirm that key controls over Agency balances are carried out and that there is early dialogue with Treasury and 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.

## 1.2 Background

Early Close Procedures have been introduced to both facilitate earlier completion and improve the quality of year-end financial statements. Agency and Audit Office feedback indicates Early Close Procedures have assisted in ensuring a smoother year-end process and more effective resolution of issues. The focus will continue to be on early identification of emerging issues and reducing misstatements and the underlying causes.

## 1.3 Related Legal Obligations

This TPG should be read in conjunction with the Treasurer's Direction *TD19-02 Mandatory Early Close as at 31 March each year,* as amended from time to time.

This TPG supersedes the previous version, issued as NSW Treasury Policy Paper *TPP21-01 Agency Direction for the 2020-21 Mandatory Early Close*.

The references provided are correct at the time of publishing this document. However, some Treasury policies may be superseded before financial Early Close. References to Treasury Directions in this document should be read as references to the replacement Directions where applicable. Agencies should refer to the Document and Resources library on the NSW Treasury website for the latest Directions and Policy and Guidelines Papers.

*The Government Sector Finance Act 2018*

The *Government Sector Finance Act 2018* (GSF Act) was enacted in November 2018, and parts of the GSF Act commenced on 1 December 2018. Financial reporting provisions commenced on 1 July 2021. Agencies are required to prepare their financial statements in accordance with GSF Act requirements. *Public Finance and Audit Act 1983* (PF&A Act) financial reporting provisions have been repealed on 1 July 2021 and will no longer apply. For more information, please refer to NSW Treasury's GSF Act website.

## 1.4 Summary of Requirements

The mandated requirements for the 2021-22 Early Close are summarised below:

**Early Close Procedures**

All accountable authorities for Agencies must carry out the following procedures:

- Complete and return the Prime Data Submissions, Pro Forma Financial Statements as at 31 March 2022, Early Close Procedure Checklist, and Emerging Accounting Issues Reports.
- Develop a detailed plan with key stakeholders to allow for submission of information referred to above.
- Prepare a set of Pro Forma Financial Statements.
- Perform procedures as outlined in section 2.3 of this TPG.

**Audit Planning**

- The accountable authority for an Agency must communicate with the Auditor-General through the Emerging Accounting Issues Report all significant issues that can potentially impact their Financial Statements.
- The accountable authority for an Agency must confirm with the Auditor-General the format and timing of position papers on significant issues prior to completing Early Close Procedures.
- The accountable authority for an Agency must consult with the Auditor-General on the impact of new accounting standards, including any specific disclosure requirements affecting the Financial Statements.
- The accountable authority for an Agency must request that the Auditor-General's audit engagement letter document the audit procedures to be completed and when the audit procedures are to be carried out.
- The accountable authority for an Agency must provide a copy of the Auditor-General's letter concerning observations on Early Close Procedures to NSW Treasury by the date outlined in section 2.2 of this TPG.

**Emerging Accounting Issues Report**

- The accountable authority for an Agency must submit an Emerging Accounting Issues Report specifying any significant issue, which has the potential to impact the Consolidated State Financial Statements, to NSW Treasury by the date specified in section 2.2 of this TPG.
- The accountable authority for an Agency must communicate these emerging issues to their respective Audit and Risk Committee.
- Preliminary and final emerging issues returns must be submitted to the Treasury on dates specified in section 2.2 of this TPG.

# 2. Early Close Procedures

## 2.1 Instructions

- The mandatory Early Close will be conducted for all entities listed in Appendix A (that are GSF Agencies) of TD19-02.
- Treasury mandates all Early Close Procedures are to be conducted as at 31 March 2022.
- All accountable authorities for agencies are required to submit early close returns, (including Prime Data Submissions, Financial Statements as at 31 March, Early Close Procedure Checklist, and Emerging Accounting Issues Report) to the Treasury no later than the dates specified in section 2.2 of this TPG.
- Early Close Procedures require the preparation of a set of Pro Forma Financial Statements, including all notes relevant to the agency that are intended to be included in the year-end financial statements.
- All accountable authorities for agencies are required to develop a detailed plan with key stakeholders, including the Audit Office, to achieve early close deadlines, and for the submission of Treasury returns.

## 2.2 Early Close Submission Dates

Agencies are required to submit the following early close returns by no later than the specified dates, including financial transactions and activities administered by the Agency on behalf of Treasury (formerly Crown) (i.e. State Revenue Agencies):

| Early Close Return[a] | 2021-22 date | Submission |
|---|---|---|
| Period 9 Prime return – General Government Entities | Tuesday, 12 April | Prime |
| Period 9 Prime return – Public Non-Financial Corporations and Public Financial Corporations including State Owned Corporations | Thursday, 14 April | Prime |
| Confirmation of Commonwealth Funding Agreement – Revenue Assessment Submissions (Appendix F) | Wednesday, 27 April | Treasury: Crown_Entity@treasury.nsw.gov.au |
| Pro Forma Financial Statements as at 31 March 2022 and accompanying notes | Wednesday, 27 April | Treasury: Agencyinfo@treasury.nsw.gov.au and Audit Office |
| Early Close Procedure Checklist (Appendix B) | Wednesday, 27 April | Treasury: Agencyinfo@treasury.nsw.gov.au and Audit Office |
| Reconciliation between Period 9 Prime Data Submission and Agency Financial Statements (Schedule 5 of the Prime Supplementary Return) | Wednesday, 27 April | Prime |
| Preliminary Return on Emerging Accounting Issues (Appendix C) | Wednesday, 27 April | Treasury: Agencyinfo@treasury.nsw.gov.au |
| External valuation reports – made available to Audit Office | Friday, 29 April | Audit Office |
| Audit Office feedback on Early Close audit via submission of Audit Office Observations of Early Close Procedures and Interim Management Letter Reports | Monday, 6 June[b] | Treasury: Agencyinfo@treasury.nsw.gov.au |
| Final Return on Emerging Accounting Issues (Appendix C) | Monday, 20 June | Treasury: Agencyinfo@treasury.nsw.gov.au |

(a) Nil returns must still be submitted and will be accepted prior to the deadline.
(b) If Audit Office Early Close reports are not available by 6 June 2022, agencies should forward the Audit Office reports to NSW Treasury one day after receipt of the reports from the Audit Office.

## 2.3 Early Close Procedure Requirements

In preparing pro forma financial statements and Early Close Prime returns, Agencies ***must:***

i. **Complete (as required) revaluations of material property, plant and equipment**. This should include preparation of non-financial asset valuations, recording of valuations in general ledgers, and preparation of associated disclosures. Treasury has issued separate guidance on the process for valuing non-current physical assets in *TC21-11 Timetable for Agency Asset Valuations*. However, valuations should be ready for the early close audit, including management review. Refer to Appendix A of this TPG for additional guidance.

ii. **Document the fair value assessment of property, plant and equipment.** Agencies should follow the guidelines in Appendix A to ensure all final valuations (including methodologies, assumptions including whether any impairment indicators are present and external valuations) are provided to the Audit Office for their review.

iii. **Update employee annual leave provisions**. Reconciliation and calculation of annual leave provisions must be completed and provided to the Audit Office. The balances calculated for the early close 31 March financial statements must be rolled forward with adjustments for monthly accruals and actual payments as part of the 30 June financial statements.

iv. **Agree and confirm inter and intra (cluster) Agency transactions and balances**. The Agency providing the service should take the lead in agreeing each transaction and balance. Generally, the threshold is $5 million however; there are some PLUGS whereby due to the nature and/or volume of transactions a lower materiality may apply for particular ICP mismatches. Agencies must support counterparties seeking to verify their counterparty 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, and
- provide the supporting work papers to Treasury and the Audit Office for review as part of Early Close.

v. **Document all significant management judgements and assumptions made when estimating transactions and balances, including one-off transactions and provide to the Audit Office, together with all relevant supporting documentation**. Where transactions and balances involve significant management judgements and assumptions, Agencies must document in accounting issue resolution papers (Appendix D) those judgements and assumptions. Significant management judgements and assumptions are those that:

- have a significant impact on the amounts and information recognised in the financial statements and notes, and
- are particularly judgemental, involve multiple assumptions and/or involve estimation uncertainty (e.g., the estimates are highly sensitive to changes in the assumptions).

The accounting issue resolution papers must:

- summarise the accounting issue, set out management's evaluation of the issue, its conclusion and if the NSW Treasury Accounting Policy Team supports the accounting position where they have been consulted
- be concise, ideally no longer than three pages in length, and
- made available for review and assessment by Treasury and the Audit Office as part of Early Close.

Materiality should determine the extent of documentation. Management's determination of materiality should be agreed with the Audit Office.

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 record the process used to arrive at those assumptions. Examples of significant judgements and assumptions 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
- assumptions used to calculate material provisions, and
- determining expected credit loss provisions for receivables and financial guarantee contracts.

Management judgement may be required in determining:

- the correct accounting for a new transaction or balance
- whether the Agency is classified as for-profit or not-for-profit
- whether major assets are classified within levels 1, 2 or 3 in the fair value hierarchy
- whether the Agency controls a subsidiary (AASB 10 *Consolidated Financial Statements* (AASB 10)) with less than half the voting power
- whether a contract is, or contains, a lease
- classification of a lease, as a lessor, as finance or operating
- whether lease renewal / termination options will be exercised
- whether an asset meets the definition and recognition criteria to be recognised as a service concession asset
- whether an asset meets the criteria to be classified as held for sale
- whether a property qualifies as an investment property
- whether related party transactions are material and require disclosure as per AASB 124 *Related Party Disclosures* (AASB 124)
- appropriateness of the going concern basis of accounting
- whether modifications to financial instruments result in derecognition of that instrument, and
- existence and measurement of contingent liabilities and assets.

Agencies should engage effectively with all affected stakeholders and agree financial implications and accounting treatments, including engaging with Treasury to ensure whole-of-government impacts are properly classified for consolidation. On conclusion, Agencies should update their 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.

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, and
- submit these to the Audit Office as part of the Early Close process.

vii. **Reconcile the March 2022 month-end Prime submission to the pro forma financial statements**. Agencies must provide explanations for variances exceeding $5 million. The reconciliation should be captured via Schedule 5 of the Supplementary Return in Prime. Detailed instructions can be found on the Prime Knowledge Base (see KB0011403).

viii. **Review and agree changes in accounting policy with the Principal Cluster Agency. Notify and provide all documentation to your Audit Office team.** These include accounting adjustments, particularly those arising from changes in accounting policies, changes in accounting estimates and errors for any prior period(s), opening balance adjustments, or future year impacts – in particular focus on classification and adjustments arising from revaluations.

The Agency is to submit their accounting policy changes to the Principal Cluster Agency for review and agreement. The purpose of this requirement is so accounting policy changes are approved by the Principal Cluster Agency, and Agencies within a cluster are applying consistent accounting policies. If the accounting treatment of material transactions or balances differ, the Principal Cluster Agency must communicate the inconsistency to the Accounting Policy Team in NSW Treasury for additional approval before Wednesday 27 April 2022.

ix. **Provide the following information in relation to the notes to the Financial Statements**. In preparing Agency pro forma financial statements, Agencies must provide/action:

- prior year comparative information
- prior period errors / corrections and restatements
- current year-to-date figures

- updated accounting policies
- updated wording reflecting new and revised accounting standards and Treasury policies
- consideration of the possible effects of accounting standards issued but not yet effective
- impact of restructures
- Agencies, in their capacity as lessors, must disaggregate each class of property, plant and equipment (PP&E) into assets subject to operating leases and assets not subject to operating leases. Agencies must include in their financial report disclosures required by AASB 116 *Property, Plant and Equipment* (AASB 116) for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor (AASB 16 *Leases* (AASB 16), para 95). Refer to the Financial Reporting Code for an example of disaggregated disclosures.
- Agencies are reminded of the requirement to provide disclosures on performance obligations and contract liability balances recognised under AASB 15 *Revenue from Contract with Customers* (AASB 15). Agencies must disclose the following information in their financial statements:
    - Revenue recognised that was included in the contract liability balance at the beginning of the year (AASB 15, para 116(b))
    - Revenue recognised from performance obligations satisfied in previous periods (AASB 15, para 116(c)), and
    - Transaction price allocated to the remaining performance obligations from contracts with customers (AASB 15, para 120(b)).
- disclosures on the impact of COVID-19 and climate related matters on financial reporting for 2021-22. The following areas may be impacted and require increased disclosure:
    - fair value of property, plant and equipment – Level 3
    - impairment of non-financial assets
    - financial instruments
    - expected credit losses
    - inventories
    - superannuation and long-term provisions (including employee provisions)
    - going concern, and
    - events after the reporting period.

  Please refer to Treasury COVID-19 related accounting guidance and guidance on how to reflect the effects of climate-related matters in financial statements for further details on these financial disclosure considerations.
- disclosure on physical non-current assets that are not recognised in the financial statements because a reliable value cannot be obtained, and those assets are likely to be material to the agency's financial statements (TD21-05, para C).
- the effective date of the revaluation for each class of property, plant and equipment (AASB 116, para 77(a)).
- disclosure of revaluation policies including policies on interim revaluation processes and circumstances, after performing a management assessment, that a comprehensive revaluation should be performed instead of an interim revaluation (TD21-05, para C).
- disclosure on contingent assets and contingent liabilities. Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (AASB 137) requires disclosure of contingent assets and contingent liabilities in the financial statements. Agencies must disclose their contingent assets and liabilities in their financial statements and complete and submit the Contingent Assets and Liabilities Supplementary Return to Treasury at year-end. The Return also requires information on contingent assets and liabilities that exist but are not reported by the Agency, as they are the responsibility of Treasury administering for/on behalf of the Crown.
- information on financial guarantees. AASB 9 *Financial Instruments* (AASB 9) requires recognition of liabilities 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 Treasury's backing as well as those issued without.
- insurance, superannuation, and other employee liabilities calculations using up-to-date assumptions and inputs, with the exception of discount rates. Under accounting standards, insurance, superannuation and other employee liabilities, that 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. These are required to be updated as part of the year-end procedures at 30 June. All other assumptions should be documented and provided to the Audit Office at Early Close.
- any other narrative disclosures.

In preparing pro forma financial statements Agencies **do not** have to:

- **Update financial instruments**. TCorpIM Funds distribution statements and other financial instrument information for disclosures, are only available after year-end so are not expected as part of early close.

x. **Finalise Right-of-Use-Assets and Lease Liability balances.** Agencies need to ensure that all lease arrangements are accurate and complete and all work papers should be made available to the Audit Office for their review. Consideration should include:

- all additions, disposal (terminations) of leases are reflected in the movements of right-of-use assets and lease liabilities
- right-of-use-assets and lease liabilities should include the impact from changes in future lease payments (e.g. upon market rent review) and lease term (e.g. change in estimates on lease extension options)
- Agencies are required to assess at the end of each reporting date whether there are any indications of impairment/reversal of impairment in accordance with AASB 136 *Impairment of Assets* (AASB 136), and
- the initial recognition of new leases, and lease modifications for which the use of a new discount rate is required by AASB 16, are measured using the latest AASB 16 discount rate published on the Treasury website, unless TCorp rates are not applicable to the Agency.

We remind agencies to consider the requirements of AASB 101 *Presentation of Financial Statements* (AASB 101) and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (AASB 108) when making disclosures about the uncertainties inherent in their estimates (for instance, where appropriate, agencies should indicate that estimates are subject to change).

Please refer to *TC 20-02 AASB 16 Lease Subsequent Measurement of Right of Use Asset* for further details.

For intra-government property leases managed by Property NSW, contracts have been renegotiated with agencies where Property NSW will have substantive substitution rights. These revised contracts will not meet the definition of a lease as defined in AASB 16. Impacted agencies who have opted in will be required to derecognise right-of-use assets and associated lease liabilities at 30 June 2022. Subsequently they will recognise service charge payments from the beginning of the 2022-23 financial year. Agencies are requested to include disclosures on the derecognition of these right-of-use assets and associated lease liabilities in Early Close Proforma financial statements for Early Close Audit Office review and substantiation. Agencies should prepare disclosures using derecognition amounts currently available from Property NSW. The form and content of the disclosures should be based on guidance prepared by NSW Treasury Accounting Policy that will be issued in early April 2022. For early close purposes the impairment of these right-of-use assets will not need to be calculated, as at 30 June the asset will not be recognised by the agency.

xi. **Finalise assessment of all revenue contracts.** Agencies should complete their assessment of all revenue contracts (new and modified) and ensure revenue is accurate, complete and has been correctly accounted for under AASB 15 or AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058).

Please refer to the Accounting Policy website for additional guidance.

xii. **Provide details of any correction of material prior period errors.** The Agency may only change comparative information if the change is required by Australian Accounting Standards. For example, due to a change in accounting policy or as a correction of a material error in a prior period. Note, Australian Accounting Standards require that all changes resulting from revisions to estimates must be made prospectively, and not retrospectively adjusted. The prior year annual financial statements must agree to the prior year Prime data. Please email Agencyinfo@treasury.nsw.gov.au immediately with the details of any unadjusted discrepancy, including Prime accounts, amounts and an explanation. You will need to demonstrate that the change is eligible for retrospective restatement and complies with accounting standards.

Changes to the prior year Prime data must be endorsed by Agency management, and a copy provided to the Audit Office to enable review of the pro forma financial statements as part of Early Close. Treasury might not be able to immediately action your request to amend the previous year's Prime return. However we will be able to advise you how to prepare the interim Prime return.

xiii. **Perform monthly variance analysis with meaningful explanations** for actuals versus budget, and year-to-date actuals to the previous year with management's documented review and endorsement of the monthly analysis.

xiv. **Document the accounting treatment for Restructures and Discontinued/Abolished Agencies**. The accounting treatment for changes to Agency structures resulting from legislative or other changes, should be documented and available for review by Treasury and the Audit Office at Early Close.

Restructures, discontinued and/or abolished Agencies will impact financial reporting requirements. The effects of such changes need to be assessed for each agency. 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.

The Machinery of Government (MoG) changes to support the new Ministry announced by the Premier on Monday, 20 December 2021 will take effect from 1 April 2022. The accountable authorities for agencies inheriting and transferring out functions should facilitate coordination between agencies to measure and agree on transfer amounts and share all relevant information for financial reporting disclosure purposes. Affected agencies should agree on tasks, processes, milestones and points of contact to support MoG changes and financial reporting. Agencies are encouraged to include placeholder disclosures for these transfers in their Early Close Pro Forma Financial Statements to enable timely Audit Office review, assessment and communication of feedback.

Agencies should refer to *TPP21-08 Accounting Policy: Contributions by owners made to wholly-owned Public Sector Entities* and AASB 1004 *Contributions* (AASB 1004) and AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* (Int 1038) for guidance on financial statement disclosures and the designation of asset/liabilities transfers as transfers of equity.

In accordance with section 7.7 of the *Government Sector Finance Act 2018*, a former reporting GSF Agency is required to prepare a financial report for the period until the date that it ceased to be a reporting GSF agency. However, the Treasurer may give directions:

- exempting a former reporting GSF Agency from that requirement, or
- modify that requirement for such an Agency.

xv. **Obtain evidence of authorities / approvals for transactions within Delegation authorities.** Agencies should ensure that all material transactions are supported by appropriate delegations.

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

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

Relevant authority might be evidenced by:

- Treasurer's Directions
- Written delegations from Ministers, and
- Secretary/Chief Executive/CFO Delegations (financial).

xvi. **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 resolved issues
- assign responsibility for issue resolution to appropriate staff
- update ledgers, financial statements and note disclosures to reflect the solutions/approach
- retrospectively restate comparative information where applicable, to reflect new treatments, and
- engage with auditors, Treasury and other stakeholders as required.

xvii. **Complete and return the Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements.** Agencies that receive funding through Commonwealth-State Funding Agreements indirectly via the appropriation process, must complete and return the Commonwealth Funding Agreement – Revenue Assessment Form (Appendix F) for all new and amended Commonwealth Funding Agreements entered or amended during this financial year. The submission process for the completion of this form has changed from 1 February 2022. Agencies are now required to complete the Revenue Assessment Form within 14 business days after the receipt of any Commonwealth funding via the appropriation process. Agencies are required to confirm to Treasury that ALL required revenue Commonwealth Funding – Revenue Assessment Forms have been submitted to the Crown by no later than Wednesday, 27 April 2022.

## 2.4 Guidance

The intention of Early Close Procedures is to facilitate the earlier preparation of Agency financial statements and the State's Consolidated Financial Statements, as well as improve quality and minimise the risk of audit qualifications or errors in financial statements submitted to Treasury and the Audit Office. Early Close procedures assist in ensuring the integrity of the year-to-date position and can highlight issues to be resolved before the end of the financial year.

A second Direction will be issued before 30 June 2022 outlining the year-end reporting requirements. A preliminary year-end timetable is set out in Appendix E.

Stakeholder plans should allow sufficient time for management review and involvement of Audit and Risk Committees as applicable.

Agencies should ensure that early close pro forma financial statements include disclosures required by Australian Accounting Standards and NSW Treasury policy for all material transactions and balances of the agency. This includes addressing all disclosure requirements and recommendations, to the extent applicable to the agency, referred to in section 2.3ix above.

To facilitate Agencies with Early Close Procedures and the preparation of Early Close financial statements**,** Treasury has issued the 2021-22 Financial Reporting Code and Mandates of Options in February 2022.

# 3. Audit Planning

## 3.1 Instructions

- Agencies should develop and agree on timetables and processes to resolve emerging issues with the Audit Office.
- Agencies should hold a formal planning meeting with the Audit Office by the end of Early Close.
- The accountable authorities of agencies should agree with the Audit Office at the planning stage the matters that require accounting position papers for Audit Office review.
- Agencies should consult with the Audit Office, at the audit planning stage, to agree on what audit procedures their audit team is planning to perform at Early Close and the relevant account areas.
- Timetables for the preparation of early close pro forma financial statements and supporting information should be developed and agreed with the Audit Office.
- Agencies must report on their Early Close audits to NSW Treasury.

## 3.2 Guidance

Agencies should immediately notify the Audit Office when matters arise that will be recorded in their Emerging Issues Report and should agree with their audit teams the timetable and process to resolve each issue. This includes providing the Audit Office with accounting position papers.

As part of the audit planning process, management should ensure they discuss with the Audit Office and understand:

- The planned scope and timing of audit procedures, at Early Close and at Year-End; and
- Significant risks identified by the Audit Office, as part of its audit planning process, and how the Audit Office plans to address these risks.

This will assist management in fulfilling their responsibilities for the financial reporting process. It will also assist the Audit Office understand better the agency and its environment and identify any significant risks at the planning stage.

The planned scope and timing of the audit and significant risks should be documented in the minutes of the planning meeting. Management should also review the written communication from the Audit Office on the planned scope and timing of the audit and significant risks. For example in the annual engagement plan and/or engagement letter.

Agencies should discuss with their audit teams what audit procedures are planned at Early Close, as well as ensuring the relevant financial statement areas are finalised and reconciled. Supporting documentation for these areas should be available for audit at Early Close. It is expected Early Close audit procedures will be set out in the Audit Office Engagement Plans.

Where the Audit Office plans to perform audit procedures at Early Close, Agencies should at a minimum, provide their audit teams with:

- reconciliations of all related general ledger accounts
- supporting documentation for audit (agreed with the Audit Office at the audit planning stage)
- key assumptions used to calculate material provisions and documentary support for those assumptions and
- key management judgements and documentary support for those judgements.

The Audit Office may determine that limited or no audit procedures are appropriate at Early Close for some smaller Agencies.

At the audit planning stage, Agencies should agree with the Audit Office those matters that require accounting position papers as well as the format and timing of provision to the Audit Office. Agencies should discuss with Treasury Accounting Policy where the relevant matter is likely to be contentious, highly judgemental, material to the State or systemic. Agencies must confirm with the Audit Office the format and timing of position papers on the issues prior to completing Early Close Procedures.

Accountable authorities of agencies should agree with the Audit Office 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 Emerging Issues Reports at the earliest opportunity.

For example, final valuations for non-financial assets should be finalised, including assessments of methodologies, assumptions, judgements and other key inputs, with external valuations reviewed by management.

Agencies should forward Early Close audit results to the NSW Treasury by Monday, 6 June 2022 or one day after receipt of the reports from the Audit Office if reports are received on a later date. Where available, this should be a copy of the Observations of Early Close Procedures and the Interim Management Letter.

# 4. Emerging Issues Reporting

## 4.1 Instructions

- All accountable authorities for agencies must report emerging issues to the Treasury at dates specified in section 4.2 of this TPG.
- Accountable authorities for agencies must communicate these emerging issues to their respective Audit and Risk Committee (ARC) in a timely manner.

## 4.2 Emerging Issues Reporting Dates

Emerging issues reporting is required at two points before year-end as follows:

- Wednesday, 27 April 2022: Preliminary Return – to identify issues and address the potential impact on the year-end projection and forward estimates.
- Monday, 20 June 2022: Final Return – to update potential impacts to the year-end, including issues identified by the Auditor-General as part of the Early Close Procedures and the resolution of previously reported issues.

## 4.3 Guidance

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 to the NSW Treasury Accounting Policy Team as they arise, not at the point where the Agency is unable to resolve the issue with their audit team. This will allow the NSW Treasury Accounting Policy Team to work with Agencies to support the accounting position, where necessary, prior to submission to the Audit Office.

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.

For 2021-22, Treasury will track the number of emerging issues by cluster and **regularly report to the Finance Leadership Committee** of principal department CFOs. The purpose of monitoring will be to:

- track progress on resolution of identified emerging issues from planning to Early Close to audit completion, and
- identify when in the year-end process emerging issues are identified to provide a measure of how early or late emerging issues are raised.

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.

# 5. Exemptions and Extensions

Refer to Treasurer's Direction *TD19-02 on Mandatory Early Close as at 31 March each year* for information on Early Close exemptions and extensions.

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# Appendices

# Appendix A: Guidance – Valuation of Physical Non-Current Assets

## 1. Background

*TD21-05 Valuation of Physical Non-Current Assets at Fair Value* requires all material physical non-current assets ("Assets") of Agencies, including property, plant, and equipment (including service concession assets) and investment properties to be measured at fair value for the purposes of preparing the Agency's financial statements. Assets are measured at fair value to ensure compliance with Australian Bureau of Statistics GFS Manual and AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049) measurement requirements applied in the preparation of the Total State Sector Accounts.

The Accountable Authority for an Agency must carry out the revaluation steps of TD21-05 for all assets unless:

- the Asset or Assets are non-specialised assets with short useful lives that can be measured at depreciated historical cost as an acceptable surrogate for fair value, or
- the Asset or Assets are unlikely to be material to the financial statements of the Agency for the relevant year.

Policy and Guidelines Paper *TPP21-09 Valuation of Physical Non-Current Assets at Fair Value* provides requirements and guidance for valuing physical non-current assets at fair value for general purpose financial reporting, taking into account the unique circumstances of the public sector. Treasury Circular *TC21-11 Timetable for Agency Asset Valuations* outlines the recommended timetable for asset valuations to be undertaken by Agencies.

## 2. Early Close Process

Valuations must be finalised, including reviews by management, as part of Early Close. This includes providing management valuations, external valuations and management reviews to the Audit Office, so audit procedures can be completed at Early Close.

As noted in TC21-11, 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, 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.

**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. 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 (section 9.2 of TPP21-09).

## 3. Management Responsibilities for Valuations

Valuations are ultimately the responsibility of the Agency's management. TD21-05 requires:

- individual or individuals to be appointed within the Agency to be responsible for the revaluation process
- a valuation plan must be prepared which sets out and governs the process for each revaluation of the Agency's assets
- the valuation plan must be reviewed by senior management before any revaluation is performed

- when the valuation process involves an independent valuer, written instructions must be provided to the independent valuer
- the independent valuer must be consulted to agree on the approach to be taken by the valuer for the revaluation, and
- revaluations, whether they are performed by an independent valuer or by the agency internally, must be reviewed by an appropriately qualified person within the Agency to ensure that the revaluations are appropriate before they are relied on or used by the Agency.

Section 8.5 of TPP21-09 provides further guidance for Agencies on how to manage the valuation process.

**Note:** Agencies should 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. If requested, Agencies must be able to provide results of the last completed comprehensive valuation to Treasury.

## 4. 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, and if so, the external valuers best placed to perform the valuation
- determine the scope of the assets subject to valuation
- determine timeframes, and
- consider the impact of previous audit issues and recommendations.

Comprehensive Revaluations of an Agency's Assets

Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

To ensure comprehensive external valuations are conducted with sufficient regularity, TD21-05 requires Agencies conduct a comprehensive revaluation:

- at least every 3 years for Land and Buildings, (except infrastructure and land under infrastructure) where the market or income approach is the most appropriate valuation technique for that asset under AASB 13 *Fair Value Measurement* (AASB 13), and
- at least every 5 years for all other classes of assets.

Comprehensive revaluations must be performed or reviewed by an external professionally qualified valuer and should include an assessment of the physical condition of the assets.

If an item of property, plant and equipment is revalued then the entire class of property, plant and equipment to which the asset belongs must be revalued (AASB 116 *Property, Plant and Equipment* (AASB 116), para 36). Items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation; but a class may be revalued on a rolling basis provided revaluation of the class is completed within a short period and provided revaluations are kept up to date (AASB 116, para 38). Rolling revaluation policies should ensure assets are revalued on an even and systematics basis.

Interim Revaluations of an Agency's Assets

In years when no comprehensive revaluation is performed, Agencies must conduct management assessments (in time for Treasury's mandatory early close procedures) of whether there is any indication that an Agency's assets carrying amount differs materially from their fair value.

Where management assessments indicate a material difference, an interim revaluation must be performed:

- an interim management revaluation should be undertaken when cumulative increases / decreases in indicators / indices based on the management assessment are generally less than or equal to 20%. Interim management revaluations involve using management (or internal) expertise by applying the relevant indexation factors to the carrying amount, or
- an interim formal revaluation should be undertaken where there has been a cumulative increase / decrease in indicators / indices generally greater than 20%. Interim formal revaluations involve using external professionally qualified valuers (either to conduct the revaluation, which could be a full comprehensive inspection, a limited inspection or a desktop assessment, or to review the revaluation performed by management). Depending on management's assessment an interim formal revaluation may be replaced with a comprehensive revaluation.

Where interim management or formal revaluation results demonstrate that fair value differs materially from carrying amount, the related asset must be revalued with the results of the revaluation recognised in the financial statements. Where there has been a movement in indicators generally greater than 20%, consideration must be given as to whether comprehensive revaluations are required more frequently. Agencies need to comprehensively revalue a class of assets more frequently where the assets are subject to significant and frequent movements in fair value. This decision must be made in conjunction with, or subject to the review of, an external professionally qualified valuer.

Section 8.1 of TPP21-09 provides further guidance for Agencies on the frequency and types of revaluations.

***b) Agree with the external valuer the appropriate valuation methodology***

Written instructions must be provided to the engaged independent valuer. These instructions must:

- include a request that the valuer provide a written scope of work that sets out the valuer's terms of engagement, and
- specify that the independent valuer must perform their revaluation or review in accordance with the requirements of TD21-05.

As part of the appointment process, the external 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.

The valuer must provide a written scope of work, i.e., terms of engagement on which they will be acting (refer IVS 101 *Scope of Work*). The content of a professionally qualified valuer's report is prescribed in IVS 103 *Reporting* and should include the following explicit statements:

- the valuation is made or reviewed in accordance with AASB 13 *Fair Value Measurement*, AASB 116, AASB 140 *Investment Property* (AASB 140) and AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059) (where relevant) and TPP21-09
- the methods(s) used in determining fair values for each class of assets, and
- the reason for the method(s) used (for example, that assets have been valued at existing use because of the restricted use or absence of feasible alternative uses).

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 fifty years useful life after each valuation should be sufficiently documented.

**Note:** Indexation - Reference should be made to TPP21-09 when considering indices. Indices should be appropriate for the underlying asset base. In some instances, indexation may not be required. Indexation should generally 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.

Documentation of 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)
- evidence of comparable assets used to determine valuations, 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.

## 5. Valuing Specific Types of Non-Current Assets

The following table summarises guidance on revaluing specific types of assets. Refer to section 7 of TPP21-09 for further details:

| Asset Class | Valuation Considerations |
|---|---|
| **Land** | • Comprehensive revaluations are required at least every 3 years for land (except land under infrastructure) where the market or income approach is the most appropriate valuation technique for that asset under AASB 13 Fair Value Measurement (AASB 13), and at least every 5 years for all other classes of assets.<br>• Restricted land is generally measured in combination with the plant or infrastructure on the land<br>• 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<br>• The valuation technique applied is generally the market approach (i.e., comparable sale price) or income approach (e.g. comparable rental income stream), and<br>• Land valuations are likely to be assessed at level 2 or 3 of the fair value hierarchy. |

| Asset Class | Valuation Considerations |
|---|---|
| **Buildings** | • Comprehensive revaluations are required at least every 3 years for buildings (except infrastructure) where the market or income approach is the most appropriate valuation technique for that asset under AASB 13, and at least every 5 years for all other classes of assets.<br>• Specialised buildings are generally measured using the cost approach. However, if part of a cash generating unit, the income approach may be employed for the Assets<br>• Non-specialised buildings are generally measured using the market or income approach<br>• Specialised buildings are likely to be assessed at level 3 of the fair value hierarchy, and<br>• Non-specialised buildings are generally assessed at level 2 or 3 of the fair value hierarchy, depending on market conditions. |
| **Specialised Plant and Infrastructure** | • Comprehensive revaluations are required at least every five years<br>• As specialised assets do not generally have any feasible alternative use, they will be measured in combination with the land on which it is built and any other related infrastructure or plant and equipment<br>• Specialised assets are generally measured using the cost approach. However, if considered part of a cash generating unit, the income approach may be employed, and<br>• Specialised plant and infrastructure are most likely to be assessed at level 3 of the fair value hierarchy. |
| **Service Concession Assets** | • Fair value for service concession assets must be determined using the cost approach (i.e., current replacement cost) (AASB 1059, paras 7 & 9). |
| **Heritage Assets** | • Generally measured using the market approach when observable market prices are evident or the cost approach (i.e., reproduction / replication cost)<br>• Heritage assets are most likely to be assessed at level 3 of the fair value hierarchy, but can be level 2 when there is an active market/observable market prices (for example – artworks), and<br>• 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 (i.e., Vehicles)** | • Comprehensive revaluations are required at least every five years, and<br>• When the asset has a short useful life, TD21-05 allows depreciated historical cost to be used as an acceptable surrogate for fair value. |
| **Assets Under Construction** | • Assets under construction and assets recently constructed generally do not require revaluation. In most cases, the cumulative construction cost of the asset before completion of construction and sometime after is not materially different from its fair value (especially when an asset's fair value is determined based on current replacement cost), however<br>• Revaluation of assets under construction may need to be considered in the following circumstances:<br>  ○ there is evidence the asset is impaired<br>  ○ construction occurs over a substantial number of years and historical costs no longer accurately reflect fair value (i.e., because of declines or increases in key cost inputs such as materials or labour), or<br>  ○ construction costs capitalised in accordance with AASB 116 do not satisfy criteria for incorporation into fair value under AASB 13, (e.g. site preparation costs such as costs of demolishing or relocation of existing buildings in some circumstances). |

## 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 section 5 of TPP21-09.

When determining the fair value of an item of property, plant and equipment:

- When using the cost approach - any accumulated depreciation must be restated proportionately with the change in the gross carrying amount of the Asset so that the carrying amount of the Asset after revaluation equals its revalued amount. This method is often used when an Asset is revalued by means of applying an index to its depreciated replacement cost, and
- When using the income approach or the market approach - any accumulated depreciation must be eliminated against the gross carrying amount of the Asset and the net amount restated to the revalued amount of the Asset. This method is often used for buildings.

## 7. Impairment Testing

AASB 136 *Impairment of Assets* (AASB 136) prescribes the procedures that an agency applies to ensure that its assets are carried at no more than their recoverable amount.

AASB 136 does not apply to assets of not-for-profit agencies that are:

- not held primarily for their ability to generate net cash inflows, and
- regularly revalued to fair value under the revaluation model in AASB 116. (AASB 136 para Aus5.1).

These are typically specialised assets held for continuing use of their service capacity and rarely sold, so their cost of disposal is typically negligible. Therefore, the recoverable amount of such assets is expected to be materially the same as their fair value.

Thus, AASB 136 applies to:

- assets held by for profit entities, or
- assets held by not-for-profit entities if they are held primarily for their ability to generate net cash inflows.

Although many assets held in the public sector will not be subject to impairment provisions of AASB 136 by virtue of AASB 136 para Aus5.1, the rationale of this provision is not to exempt agencies from considering impairment indicators. Instead, it reflects the expectation that agencies will consider impairment as part of their regular revaluation policy required under AASB 13. This means there is not expected to be a material difference between the assets' carrying amount and recoverable amount. Therefore, AASB 136 provisions apply to not-for-profit entities, for example if an asset that continues to be used has been damaged, becomes obsolete or if there are other impairment indicators related to the asset and the asset's loss of value has not been captured by revaluation.

Under AASB 136, 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 or cash-generating unit. An impairment loss is recognised when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount (AASB 136, para 59).

## 8. Disclosures

For Early Close, Agencies should disclose in the pro forma financial statements, the Agency's policy on revaluation, including:

- when an interim revaluation should be performed or reviewed by an external professionally qualified valuer, and
- the circumstances in which an Accountable Authority may determine, after performing a Management Assessment, that a comprehensive revaluation should be performed instead of an interim revaluation.

For each class of property, plant and equipment, Agencies should include disclosures on the effective date of the revaluation and whether an independent valuer was involved.

TD21-05 also specifies disclosures required for material Assets that are not recognised in the financial statements because a reliable value cannot be obtained (for example, certain heritage assets).

Section 9 of TPP21-09 provides further guidance for Agencies on the disclosure framework for fair value measurements.

## 9. Other Considerations

Agencies should also consider the following:

- Agencies are required to review Asset's useful lives and residual values at the end of each annual reporting period for appropriateness (AASB 116, para 51)
- 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, and
- 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 27 April 2022)***

**Email:** Agencyinfo@treasury.nsw.gov.au

**Agency Name** ________________________________ **Agency No. (Prime)** _________

| | yes "✓" no "x" n/a "-" |
|---|---|
| ➢ Confirm format of pro forma financial statements as agreed with Audit Office. | |
| ➢ Confirm that the pro forma financial statements have been completed, reviewed by management, and include detailed work papers. | |
| ➢ Confirm notes to the financial statements have been updated as outlined in section 2.3.ix. | |
| ➢ Accounting position papers for key emerging issues have been submitted to the Audit Office for feedback. | |
| ➢ 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 fair value assessment of PPE has been documented and submitted to the Audit Office for review. | |
| ➢ Confirm the revalued PPE has been included in the early close Prime submissions and financial statements. | |
| ➢ Confirm PPE / intangible movements in the balance sheet and break downs in the note disclosures have been reconciled. | |
| ➢ Confirm all lease arrangements have been correctly accounted for under AASB 16 as per section 2.3.x. | |
| ➢ Confirm all revenue contracts have been assessed and accounted for under AASB 15 and AASB 1058. | |
| ➢ Confirm there are no changes to the 2020-21 closing balances as outlined in section 2.3.xii. If a change is proposed: attach journal, explanation and proposed disclosure. | |
| ➢ 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 inter-Agency balances and transactions have been broken down by Agency and inter-Agency balances have been confirmed with contra Agencies. | |
| ➢ Confirm all key account balances have been reconciled. | |
| ➢ *For Principal Cluster Agency only:* Confirm review and assessment of consistency in accounting treatment of **all new material transactions and balances** among cluster Agencies. If the accounting treatment of material transactions or balances differ, the Principal Cluster Agency must communicate the inconsistency to the Accounting Policy Team in NSW Treasury **before 27 April 2022** as outlined in section 2.3.viii. | |
| ➢ Confirm Appendix F, the Commonwealth Funding - Revenue Assessment Form outlined in section 2.3.xvii has been submitted to Treasury. | |
| ➢ Confirm employee annual leave provisions have been updated as per section 2.3.iii and submitted to the Audit Office for review. | |
| ➢ Confirm March month-end Prime data submission has been reconciled to the pro forma 31 March financial statements and schedule 5 of the Prime Supplementary Return has been completed with detailed variance analysis. | |
| ➢ Confirm variance analysis has been completed, with meaningful explanations of key variances made available for review by Treasury and the Audit Office as per section 2.3.xiii. | |
| ➢ If your Agency has been impacted by changes to legislation and / or financial reporting requirements, confirm that these have been identified and documented and have been made available for review by Treasury and the Audit Office. | |
| ➢ Confirm all material transactions are supported by appropriate delegations. | |
| ➢ Provide supporting documentation for all areas the Audit Office plans to audit at Early Close, in accordance with the audit service plan. | |
| ➢ *[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)** _____________ ___/___/2022

# Appendix C: 2021-22 Information on Emerging Issues

***Due Dates***

- *Preliminary submission ………………………………..* *27 April 2022*
- *Final submission…………………………………………* *20 June 2022*

**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 $20 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 2021-22 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? ____/____/2022 or N/A

**Signed:** ____________________**Chief Finance Officer**______________________**(Name of CFO)**

**Agency Contact: (Name)** ________________________ **(Tel)** ____________ ___**/**___**/2022**

# 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:*<br>• *Accounting Standards*<br>• *Treasury Directions, Policies & Circulars*<br>• *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) | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|---|---|---|---|---|
| **Budget Result (-ve worsens)**<br>Operating Result<br>Net Lending | | | | | |
| **Financial Statement (-ve worsens)**<br>Balance Sheet<br>Operating Statement | | | | | |
| **Financial Impact ($000)** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **2020-21** |
| **Prior Year Financial Statements (-ve worsens)**<br>Balance Sheet<br>Operating Statement | | | | | |

**Concluding Position:**

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

**Consultation:**

| |
|---|
| *[Provide whether the NSW Treasury Accounting Policy Team supports the accounting position and details of person consulted. If not consulted, enter 'not applicable'.]* |

**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: 2021-22 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** | **2022** |
|---|---|
| Agencies to submit **30 June 2022 Prime return** consistent with the draft **Financial Statements** to Treasury. | Monday, 18th July |
| Agencies to submit **30 June 2022 Annual Financial Statements** to the Audit Office (including supporting work-papers for the Audit Office) and Treasury. | Monday, 1st August |
| Agencies to submit **Preliminary Annual Return** and the completed **Supplementary Return** to Treasury. | Monday, 1st 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**.** | Wednesday, 17th 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 2022 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. | Monday, 12th September |

# Appendix F: Commonwealth Funding Agreement – Revenue Assessment Form

**Background**

AASB 1058 *Income of Not-for-Profit Entities* (AASB 1058) and AASB 15 *Revenue from Contracts with Customers* (AASB 15) came into effect for not-for-profit entities from 1 January 2019. Under these Accounting Standards, revenue from federal funding with sufficiently specific performance obligations attached is no longer recognised on a cash basis. Adjustments are required to recognise revenue from such funding in line with the recipient agency's progress of satisfying the relevant performance obligations.

**Funding Recipient Agency's Role**

When federal funding is distributed to departments/agencies through the appropriations process from the Consolidated Fund, the adjustments are posted in the financial statements of the Crown instead of the funding recipient agency. However, it is the responsibility of the funding recipient agency to:

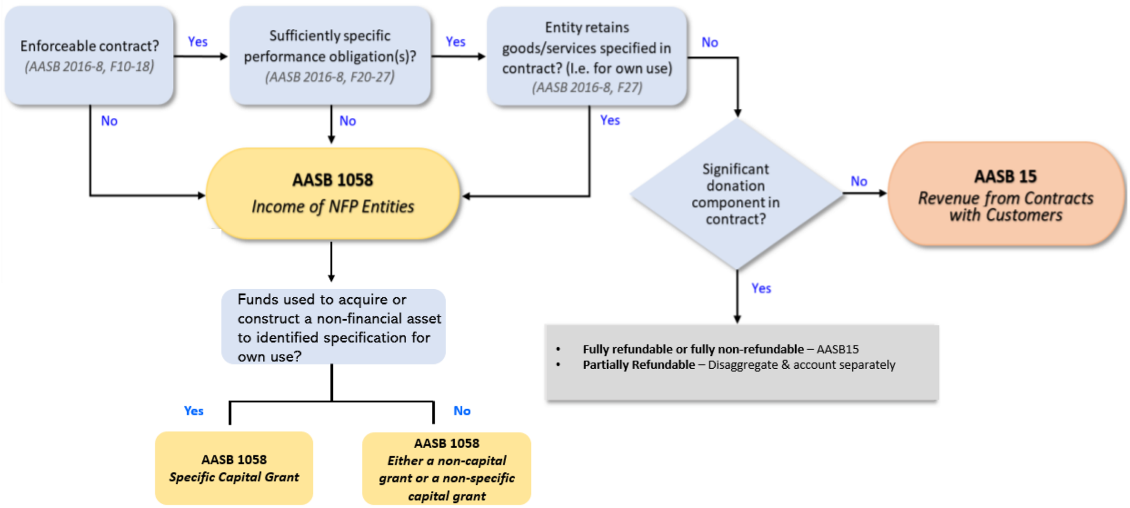
- identify the Commonwealth funding with specific performance obligations with reference to the funding agreements;
- assess the Commonwealth funding and determine if it should be accounted for and reported under AASB 15 or AASB 1058 from the State or General Government Sector perspective, which is required to be **submitted to the Crown within 14 business days of receipt of the funding**;
- calculate related revenue adjustments arising from this funding based on the process of the sufficiently specific performance obligation, if applicable, being satisfied and update the year-to-date actuals for the projects delivered under these agreements in Prime at **Early Close (P9)** and **Year-End (P12).** Further disclosures for year-end must be reported in the Crown Data Return.

**Purpose**

This form's purpose is to capture the assessment of all new Commonwealth funding agreements and any amendments or extensions to existing agreements onto the Commonwealth Funding Agreement Register maintained by NSW Treasury. This form should be completed by the Agency who is responsible and accountable for the delivery and/or management of the projects under the agreement. Assessment of the applicable revenue accounting standards should be done in consultation with the Agency's Accounting Policy team.

**Simplified Work-flow for information**

NSW Treasury has published Guidance on the application of AASB 15 and AASB 1058 to assist agencies when assessing the application of these standards. Further guidance for any complex or material funding agreements should be sought from NSW Treasury's Accounting Policy & Complex Transactions Advisory team, if not covered by the published guidance. As part-of the guidance a workflow is provided which sets out the key tests for each accounting policy, detailed below:




Please complete the form below and submit via email to: Crown_Entity@treasury.nsw.gov.au.

IMPORTANT: Please ensure all sections are completed prior to submission.

## A. Agency Details

| | |
|---|---|
| **Agency Name:** | Select from the dropdown |
| **Other (Agency Name):** | If other, please specify. |
| **Prepared by**: | Enter the name of the person who completed the form. |
| **Preparer's position title:** | Enter preparer's position title. |
| **Preparer's contact details:** | Email address.<br>Contact number. |
| **Project Manager:** | Enter project manager's name. |
| **Project Manager's Contact Details:** | Email address.<br>Contact number. |

## B. Commonwealth Funding Agreement Details

| | |
|---|---|
| **Name of Agreement:** | Enter agreement name. |
| **Description:** | Provide a brief description/output of the agreement. |
| **Commencement date:** | Enter the agreement commencement date. |
| **Expiry date:** | Enter the agreement expiry date. |
| **Is this a new agreement?** | Select from the dropdown |

| | |
|---|---|
| **Is this an amendment to the original agreement?** | Select from the dropdown |
| **Details of the amendment (if applicable):** | If this is an amendment to the original agreement, then enter details of the amendment (e.g. extension of project due date or milestone reporting dates, superseded by new agreement, etc.). |
| **Type of funding:** | Select from the dropdown |
| **Other (Type of funding):** | If other, specify. |
| **Total funding amount ($ million):** | Enter Commonwealth's total estimated financial contribution amount. |
| **Funding receipted to (in Prime):** | Enter the agency to which the funding is being receipted to in Prime. |
| **Funding payment terms?** | Provide details of the funding payment terms in the agreement, such as payment amounts by year, payment timing or conditions, etc. |
| **State's obligations under the agreement (other than the reporting obligations):** | Provide State's obligations under the agreement. |
| **Project(s) delivered by:** | Enter the name of the agency/agencies delivering the projects under the agreement. |
| **Link to the agreement:** | Insert link to the agreement or attach a copy of the agreement when submitting the completed form. |

### C. Assessment of the Application of Relevant Revenue Accounting Standard (i.e. AASB 15 or AASB 1058)

| | | |
|---|---|---|
| **Q1** | **Is the agreement an enforceable contract?**<br><br>(National partnership agreements and national agreements for NPP and SPP are enforceable contracts from the perspective of AASB 15). | Select from the dropdown |
| | **Details of the enforceability criteria:** | Provide details of the applicability of the enforceability criteria, for example: 'The funding agreement is a duly signed agreement that identifies the rights and obligations of both the Commonwealth and the State in relation to the delivery of the project outputs', etc. |
| **Q2** | **Does the agreement contain performance obligations that are sufficiently specific?** | Select from the dropdown |
| | **Details of the sufficiently specific performance obligations (SSPO):** | Provide details of the applicability of the SSPO criteria, for example: 'The implementation plan to the agreement |

| | | |
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| | | specifies the agreed project activities, key project deliverables, milestones, planned completion dates for each milestone and the payment criteria', etc. If SSPO criteria is not applicable, then state 'not applicable'. |
| **Q3** | **Does the State retain the specified goods or services delivered under the agreement or are these transferred to the Commonwealth or another third party on behalf of Commonwealth?** | Select from the dropdown |
| | **Detail the good or services that are being delivered under the agreement** | Provide details of the goods or services being delivered under the agreement, for example immunisation services provided to the public community, or for capital projects the building constructed is owned and retained by the State, etc. If there is no goods or services involved, then state 'not applicable'. |
| **Q4** | **Does AASB 15 apply?** | Select from the dropdown |
| **Q5** | **If AASB 15 applies, is there a significant donation component in the contract?** | Select from the dropdown |
| **Q6** | **Does AASB 1058 apply?** | Select from the dropdown |
| **Q7** | **Where AASB 1058 applies or partially applies, are the funds used to acquire or construct a non-financial asset to identified specification for own use?** | Select from the dropdown |
| **Q8** | **Where both revenue standards are applicable or a combination of AASB 1058 specific capital and non-capital/non-specific capital, please choose the appropriate combination.** | Select from the dropdown |
| **Q9** | **Details of split under each revenue standards:** | AASB 15 \| $<br>AASB 1058 Specific Capital Grant \| $<br>AASB 1058 Non-Capital Grant or non-specific capital grant \| $ |
| | **Assessment reviewed by:** | Enter the name of the person who reviewed the assessment. |
| | **Assessment reviewer's position tile:** | Please enter preparer's position title. |
| | **Assessment reviewer's contact details:** | Please enter email details.<br><br>Please enter phone details. |

### D. Revenue Adjustments

| | |
|---|---|
| **Are revenue adjustments required for this agreement?** | Select from the dropdown |
| **Timing of revenue recognition:** | Specify when the revenue from the Commonwealth funding agreement is recognized, i.e. at a point in time or over time. |
| **The basis of recognition if revenue is recognized over time** | E.g. based on cost incurred. |

### E. Consultation

| | |
|---|---|
| **Was the NSW Treasury's Accounting Policy & Complex Transactions Advisory team consulted on the assessment of the application of the relevant revenue accounting standard for this funding agreement?** | Select from the dropdown |
| **Person consulted:** | Enter the details of the person consulted, including their position title and contact details. If not consulted, enter not applicable. |

**IMPORTANT**:

1. Agencies **must** update the year-to-date actuals for the projects delivered under the Commonwealth funding agreements in Prime each month. Further disclosures for year-end **must** be provided via the Crown Data Return, including detailed workings in support of any adjustments provided.

2. Agencies **must** also update the forecast for the projects delivered under the Commonwealth funding agreement at half-year review and budget submission.

## F. Resources

### i. Link to Accounting Revenue Standards and NSW Treasury Guidance

| Document / Reference | Link |
|---|---|
| AASB 15 *Revenue from Contracts with Customers* | Link |
| AASB 1058 *Income of Not-for-Profit Entities* | Link |
| AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* | Link |
| NSW Treasury's Accounting Policies and Guidance papers | Link |

### ii. Contacts

| Relevant NSW Treasury Finance team contacts | Link |
|---|---|
| Crown Entity | Crown_Entity@treasury.nsw.gov.au |
| NSW Treasury's Accounting Policy & Complex Transactions Advisory | accpol@treasury.nsw.gov.au |

# Appendix G: Further Information and Contacts

## People at Treasury who can help

**Prime Questions**

| | |
|---|---|
| **Agency Treasury Analysts – General Queries** | |
| Andrew Azar | 9228 5164 |
| Tatiana Carlisle | 9228 4591 |
| Mathew Do | 9228 3322 |
| Jane Gu | 9228 4450 |
| Hugh Wilson | 9228 3167 |
| | |
| *Emerging Issues, Correction of Material Prior Period Errors* | |
| Su-Lin Macdonald (Director Total State Financial Reporting) | 9228 4410 |
| Hugh Wilson | 9228 3167 |
| | |
| Sean Osborn (Director Accounting Policy) | 9228 5932 |
| Jeanne Vandenbroek (Director Complex Transactions) | 9228 5233 |
| | |
| *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.
Unless stated otherwise, returns 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 2021-22’ in the subject title when emailing to Treasury.

## Crown related matters

| | |
|---|---|
| **Advances** | |
| Charles Cheung | 9228 4604 |
| Mitra Karmakar | 9228 5839 |
| **Appropriations payments** | |
| Ramesh Nand | 9228 3138 |
| Angel Yu | 9228 5071 |
| **Banking (accounts, products & services)** | |
| Henriette Prego | 9228 3873 |
| **Cash management and interest payments** | |
| Jin Kang | 9228 4150 |
| **Commonwealth grants** | |
| Jin Kang | 9228 4150 |
| Jessica Tan | 4226 8684 |
| **Crown accounting policy** | |
| Prathna Narayan | 6626 5689 |
| **Crown guarantees** | |
| Prathna Narayan | 6626 5689 |
| **Debt management** | |
| Charles Cheung | 9228 4604 |
| Mitra Karmakar | 9228 5839 |
| **Long service leave arrangements** | |
| Charles Cheung | 9228 4604 |
| Mitra Karmakar | 9228 5839 |
| **Reimbursement of Crown expenses** | |
| Angel Yu | 9228 5071 |
| Ramesh Nand | 9228 3138 |

**Other correspondence:**
**Email:** Crown_Entity@treasury.nsw.gov.au

## 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***

***Government Sector Finance Act 2018***
*https://www.treasury.nsw.gov.au/budget-financial-management/reform/government-sector-finance-act-2018-0*

***Government Sector Employment Act 2013***
*https://www.legislation.nsw.gov.au/view/whole/html/inforce/current/act-2013-040*

**CPA Australia**
*https://www.cpaaustralia.com.au/professional-resources/reporting*