



Office of
Local Government

Office of Local Government

**Preparing for the Introduction of New
Accounting Standards
Financial Reporting Year Ending 30
June 2020**



2020

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Disclaimer

This document is provided to assist councils in transitioning to the new accounting standards – it is not intended to be a complete guide of all steps required nor does it address issues to be considered.

It is important that councils engage early with their auditor, set a time for your auditor to review and agree to the approach taken and to undertake testing of calculations. As noted earlier in this document, ideally the audit team should consider and provide clearance on calculations and transitional accounting prior to the final audit visit (and ideally as soon as possible). This will help improve the efficiency of the financial reporting and balance date audit processes.

Council's financial reporting for the year ending 30 June 2020 will be influenced by the introduction of:

- *AASB 15 Revenue from Contracts with Customers*
- *AASB 1058 Income of Not-for-Profit Entities*
- *AASB 16 Leases*

It is important that your council is well prepared for the introduction of these Accounting Standards. Well planned and documented preparation will improve the efficiency of the financial reporting process.

This document provides some steps which can be followed to assist in the transition:

- Develop a working group – The group should include representatives from finance as well as those employees responsible for managing revenue / leases contracts. If appropriate separate groups for revenue and leases should be established.
- Communicate the changes to the General Manager of Council, Councillors and Audit Committee. This is particularly important where the potential impacts of the new standards have not been factored into the budgets / management accounts for 30 June 2020.
- Review the current council delegations for revenue and lease contracts to ensure that the appropriate people are signing the relevant agreements and understand the communication of key clauses back to Finance.
- Accounting position papers should be presented to the Audit, Risk & Improvement Committee, preferably prior to supplying to your auditor. The position paper for each Accounting Standard should include financial report disclosures as required by each Standard.
- Set a time for your auditor to review and agree to the approach taken and testing of calculations. Ideally the audit team should consider and provide clearance on calculations and transitional accounting prior to the final audit visit (and ideally as soon as possible). This will help improve the efficiency of the financial reporting and balance date audit processes.
- Auditors may need to perform an audit of the opening balance sheet, i.e. 1 July 2019 depending on the level of changes identified by council.

Revenue

- Perform and document the following work:
 - Identification of material revenue streams;
 - Review the analysis prepared by the Office of Local Government (OLG) on Objective Connect to understand the accounting for key revenue streams, to avoid council repeating work which has been performed.
 - Identification and recording of all contracts with customers (see the definition of a contract in AASB 15) for each material revenue stream.
 - Identify capital grants and determine whether they meet the assets controlled by the entity exemption in AASB 1058 paragraph 15.
 - Identify completed contracts which need to be restated at 1 July 2019, i.e.
 - Contracts where performance obligations completed at 30 June 2019 but revenue still to be recognised.
 - Contracts where revenue was previously recognised, but performance obligations are not complete at 30 June 2019.
 - Identify contract values so you can ascertain which contracts you will analyse in detail and discuss your approach with your auditor to ensure it is comprehensive and efficient.
 - Document the outcomes of your revenue analysis and quantify the impacts on implementation at 1 July 2019.
- Understand the [OLG mandates at transition date](#).
- Ascertain and document materiality thresholds for revenue streams, ensuring that council considers the aggregate amount, i.e. where a number of immaterial contracts comprise a material amount.
- Identify revenue contracts where the money is received and spent and all performance obligations completed in the same financial year – no further analysis is needed on these agreements, unless they were not actually complete at 30 June.
- Prepare a comprehensive position paper for AASB 15 and 1058 which documents the financial reporting and disclosure impacts. This can be used to assist council finance staff on an ongoing basis and provide audit evidence. Refer to the OLG guidance on position papers.

Leases

- Develop and document processes to identify all leases in place at 1 July 2019, including:
 - leases previously classified as operating or finance leases.
 - service agreements which contain embedded leases.
 - sub-lease arrangements where Council is the sub-lessor but has not previously accounted for the lease arrangement.
 - peppercorn / concessionary leases.
- A starting point is the prior year operating lease commitment note in the financial statements. Other procedures should also be undertaken and documented to illustrate the way council have ensured that all lease contracts and embedded leases have been identified including, but not limited to:
 - Reviewing council contract registers.
 - Reviewing accounts payable accounts for regular payments to suppliers which may represent lease payments.

- Reviewing expense accounts for regular payments which may represent lease payments.
 - Reviewing bank statements for regular payments which may represent lease payments.
 - Discussions with contract managers to identify any potential leases which they are managing.
- Understand the [OLG mandates at transition date](#).
- Sort lease contracts into the following:
 - Short term – lease term is 12 months or less.
 - Low value – value of the asset as a new asset is less than \$10,000.
 - Concessionary (peppercorn) leases.
 - All other leases.
- In determined lease term ensure that the International Interpretation Agenda decision is considered and consider the broader economics of the contract – for example, if council is on a month-to-month lease arrangement for a specialised asset or is paying below market rent, then the lease term under AASB 16 is likely to be longer than 1 month and may be the remaining useful life of the asset. (refer to the following guidance [IFRIC Update – November 2019](#))
- Consider whether council will use specialised lease calculation software – if Excel is to be used, then a ‘cheat sheet’ should be developed to enable council to understand the process for changes to leases and the basis for other assumptions judgements on an ongoing basis.
- Identify the process for determining the lease incremental borrowing rate. Ensure any assumptions used when determining the incremental borrowing rate are documented for each lease calculation.
- Choose whether to separate lease and non-lease payments for each class of asset for the lease liability calculation.
- Identify variable lease payments (e.g. CPI increases, market rent resets and payments based on usage) and document the associated accounting for each of them within the leases. Ensure a process is in place for identifying and accounting for changes in these payments, as and when they occur.
- Calculate the lease liability and right of use assets in accordance with the Accounting Standard transition option provided by the OLG ([OLG mandates at transition and on an ongoing basis can be accessed here](#)) – noting that the process for calculating right of use and lease liability is different at 1 July 2019 (i.e. transition date) compared to new leases taken out after that date.
- Prepare a comprehensive position paper for AASB 16 which documents the financial reporting and disclosure impacts – this can be used to assist council finance staff on an ongoing basis as well as providing audit evidence. Refer to the OLG guidance on position papers.