Item 5 (additional) – Post Audit

Summary

1. The comments below were provided by the Auditor post the audit work conducted at the AISACT office on 22 & 23 February.

2. The nature of the issue identified, and the proposed way forward, should be considered by the Finance Subcommittee.

As mentioned yesterday, we were interested as to whether there was a make-good clause in relation to the premises. As you will see from the attached, there is such a clause. The appropriate accounting treatment would have been to pick up a make-good provision during the year ended 31 December 2013 (or at the commencement of the first lease you had for the premises). The provision would have been based on an estimate of the costs to bring the premises back to their condition prior to your occupation (ie removing fitout, repainting and recarpeting if necessary (although the carpet and paint might now be in better condition than when you entered the premises)). A liability for this cost would have been recognised, with an offsetting fixed asset being recorded. The asset would be depreciated over the term of the lease.

The question is what to do now. Given you prepare special purpose financial statements there is some flexibility. If you were to comply with the relevant accounting standard, it would involve retrospectively adjusting the opening retained earnings, depreciation, liability and asset figures in the previous year as though it had been correctly treated from 31 December 2013. A note would then be included in the accounts to explain the situation. Unless you have other thoughts, this might be the appropriate way to go?? This spreads the ultimate cost of makegood over the term of the lease rather than being recognised in one hit at the end.

As a starting point, it might be worth getting an estimate of what it would cost to makegood the premises in accordance with the lease. You may also want to talk to the landlord and ensure we are all on the same page as to what makegood they would require.

Recommendation

It is recommended that the Finance Subcommittee:

Consider the issues raised by the Auditor and provide advice, through the Executive Committee, on how this should be treated.