

Policy

Policy Directive: compliance is mandatory

Provisions, Contingent Liabilities and Assets Policy Directive

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Summary	The objective of this policy directive is to ensure that the appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets, and to ensure appropriate Annual Financial Statement disclosure.
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EPAS compatible	<i>N/A</i>
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Provisions, Contingent Liabilities and Contingent Assets Policy Directive

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Document control information

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22/01/2015	Senior Accountant, Policies and Procedures, Corporate Finance Services	V1.0	

Endorsements

Date	Endorsed by
10/03/2015	Director, Corporate Finance Services, Finance and Corporate Services

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Provisions, Contingent Liabilities and Contingent Assets Policy Directive

1. Objective

The objective of this policy directive is to ensure that the appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets, and to ensure appropriate Annual Financial Statement (AFS) disclosure.

2. Scope

This policy directive is applicable to all SA Health Portfolio employees.

3. Principles

The principles adhered to by this policy directive are as follows:

- > Compliance with Australian Accounting Standard Board (AASB) 137 *Provisions, Contingent Liabilities and Contingent Assets*.
- > Compliance with Accounting Policy Framework APF III *Asset Accounting Framework* and Accounting Policy Framework APF IV *Financial Asset and Liability Framework*.
- > Provisions, contingent assets and contingent liabilities will be disclosed in the *Notes to and forming part of the Financial Statements*.

4. Detail

The following requirements must be adhered to in regards to provisions, contingent liabilities and contingent assets.

4.1. Assessment

Determining a provision, contingent liability or contingent asset will, in some cases, be a matter of fact and in others will involve management's judgement. Financial Accounting is to be advised of all provisions, contingent liabilities and assets in accordance with year-end pack requests; with any supporting documentation attached to assist in assessing the listed items. Financial Accounting will assess and determine the disclosure requirements in accordance with the Department of Treasury and Finance (DTF) Model Financial Statements, and relevant accounting standards.

4.2. Provisions

Provisions can be distinguished from other liabilities, such as trade payables and accruals, because of the uncertainty regarding the timing or amount of any future expenditure required to settle the liability.

A provision shall be recognised when:

- > there is a present obligation (legal or constructive) as a result of a past event;
- > it is probable that an outflow of resources will be required to settle the obligation; and
- > a reliable estimate can be made of the amount and obligation.

If these conditions are not met, a provision shall not be recognised.

Where a provision is identified, disclosure is reported in the *Notes to and forming part of the Financial Statements* (the Explanatory Notes) in accordance with the Model Financial Statements, provided by DTF. This will also include a brief description of the nature of the obligation, the expected timing of any outflows, and any indication of the uncertainty of those timings.

4.3. Contingent Liabilities

A contingent liability may arise where there is uncertainty as to whether an event will occur, the possibility of any outflow in settlement is greater than remote.

Where a contingent liability is identified, disclosure is reported in the Explanatory Notes. Disclosure must include, for each class of contingent liability, a brief description of the nature of the contingent liability and, where practicable:

- > an estimate of its financial effect;
- > an indication of the uncertainties relating to the amount or timing of any outflow; and
- > the possibility of any reimbursement.

LIABILITY			
	Present	Either Present, or Possible and greater than remote	Remote
Is there an Obligation?			
	Probable	Greater than remote	Remote
Is there an Outflow?			
	Yes	Yes/No ¹	Not applicable
Can it be reliably measured?			
OUTCOME			
Recognition & Disclosure	Provision	Contingent Liability	No Disclosure

¹ – If a present obligation cannot be reliably measured, then in this rare case, it must be disclosed as a contingent liability. In all other cases, this is not a deciding factor.

Refer to *Attachment A* for a flowchart to assist with the assessment of contingent liabilities.

4.4. Contingent Assets

Contingent assets usually arise from unplanned and/or unexpected events that give rise to the possibility of future economic benefits; for example, a legal claim that an entity is pursuing through the legal processes, where the outcome is uncertain. If the realisation of income (e.g. from a legal settlement) is virtually certain, then an asset is to be recognised. The ‘virtually certain’ and ‘probability’ tests must be applied to all contingent assets. (See definitions below).

In accordance with APF III, section 6.5, where the inflow of possible future economic benefits is:

1. Virtually certain and can be reliably measured, then an asset is recognised in the Statement of Financial Position; i.e. it is not a contingent asset.
2. Virtually certain and cannot be reliably measured, then the asset is a contingent asset, and is not recognised in the Statement of Financial Position, but rather is disclosed in the Explanatory Notes.
3. Not virtually certain, but is probable, OR 'not probable' (see definition below), then the asset is a contingent asset, and is not recognised in the Statement of Financial Position, but rather is disclosed in the Explanatory Notes. Whether you have a reliable measure or not, is not a deciding factor here.

Where a contingent asset is identified, disclosure is reported in the Explanatory Notes. The disclosure must include:

- > a brief description of the nature of the contingent assets; and
- > where practicable, an estimate of their financial effect.

Refer to *Attachment B* for a flowchart to assist with the assessment of contingent assets.

5. Roles and Responsibilities

5.1 Financial Business Advisory Service / Divisional Accounting

It is the responsibility of Financial Business Advisory Service (FBAS) and Divisional Accounting to ensure details of all provisions, contingent liabilities and contingent assets are provided to Financial Accounting for appropriate assessment.

5.2 Financial Accounting

Financial Accounting is responsible for:

- > updating the Briefs and Year End packs ready for distribution to the department, LHNs and SAAS;
- > collating the Year End pack returns;
- > consulting with FBAS; and
- > assessing the information provided by FBAS in relation to provisions, contingent liabilities and contingent assets, to determine the appropriate journal entry for AFS disclosure.

6. Reporting

Financial Accounting will ensure correct and appropriate disclosure of all provisions, contingent liabilities and contingent assets in the AFS, in accordance with relevant accounting standards and other regulatory requirements.

7. EPAS

N/A

8. Exemptions

N/A

9. National Safety and Quality Health Service Standards

N/A

10. Risk Management

The risk of non-compliance with this policy directive may result in misstatement and incorrect disclosure of provisions, contingent assets and contingent liabilities in the AFS, thus resulting in adverse commentary from Audit.

11. Definitions

In the context of this policy:

- > the **Annual Financial Statements** (AFS) refers to the general purpose financial statements, and includes a Statement of Financial Position, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows, and in the Notes to and forming part of the financial statements. These notes comprise a summary of significant accounting policies and other explanatory information, financial schedules, and explanatory notes for administered items.
- > **contingent asset** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the SA Health.
- > **contingent liability** is either:
 - (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of SA Health; or
 - (b) a present obligation that arises from past events, but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.
- > **not probable** means the chance of the benefit arising is more likely than remote.
- > **probable** means the chance of the benefit arising is more likely than less likely.
- > **Probability Test** is applied where the existence of future economic benefits relates to a past event.
- > **provision** is an amount that is set aside where a liability is certain, however the realisation of that liability is uncertain, and the amount cannot be accurately measured; e.g. provision for workers compensation. The reference to provisions in this policy directive is not in reference to Provision for Doubtful Debts.
- > **SA Health** is the corporate identity and not the legal entity for all Local Health Networks, SA Ambulance Service, and the Department for Health and Ageing.

- > **Virtually Certain Test** is applied where the existence of possible future economic benefits will be confirmed by the occurrence of one or more uncertain future events.
- > **Year End Pack** is a group of documents which Financial Accounting uses to collect and collate financial information necessary for the completion of the Annual Financial Statements.

12. Associated Policy Directives / Policy Guidelines

N/A

13. References, Resources and Related Documents

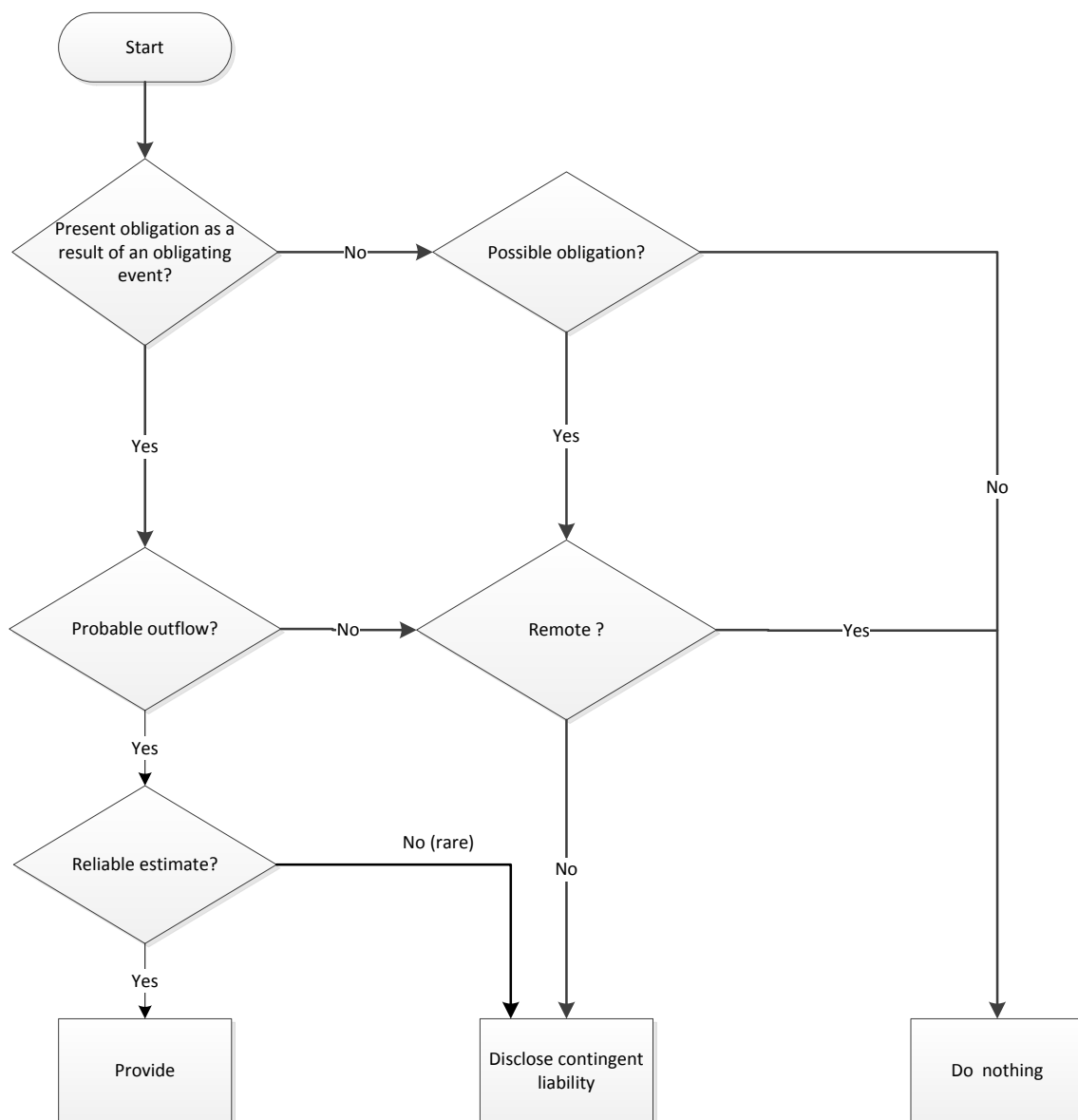
- > [Accounting Policy Framework \(APF\) IV Financial Asset and Liability Framework](#)
- > [AASB 137 Provisions, Contingent Liabilities and Contingent Assets](#)
- > [Department of Treasury and Finance \(DTF\) Model Financial Statements](#)

Attachments

A Recognising Contingent Liabilities

The diagram below is to assist in recognising contingent liabilities and provisions. Recognising these will be from past events that will give rise to present obligations.

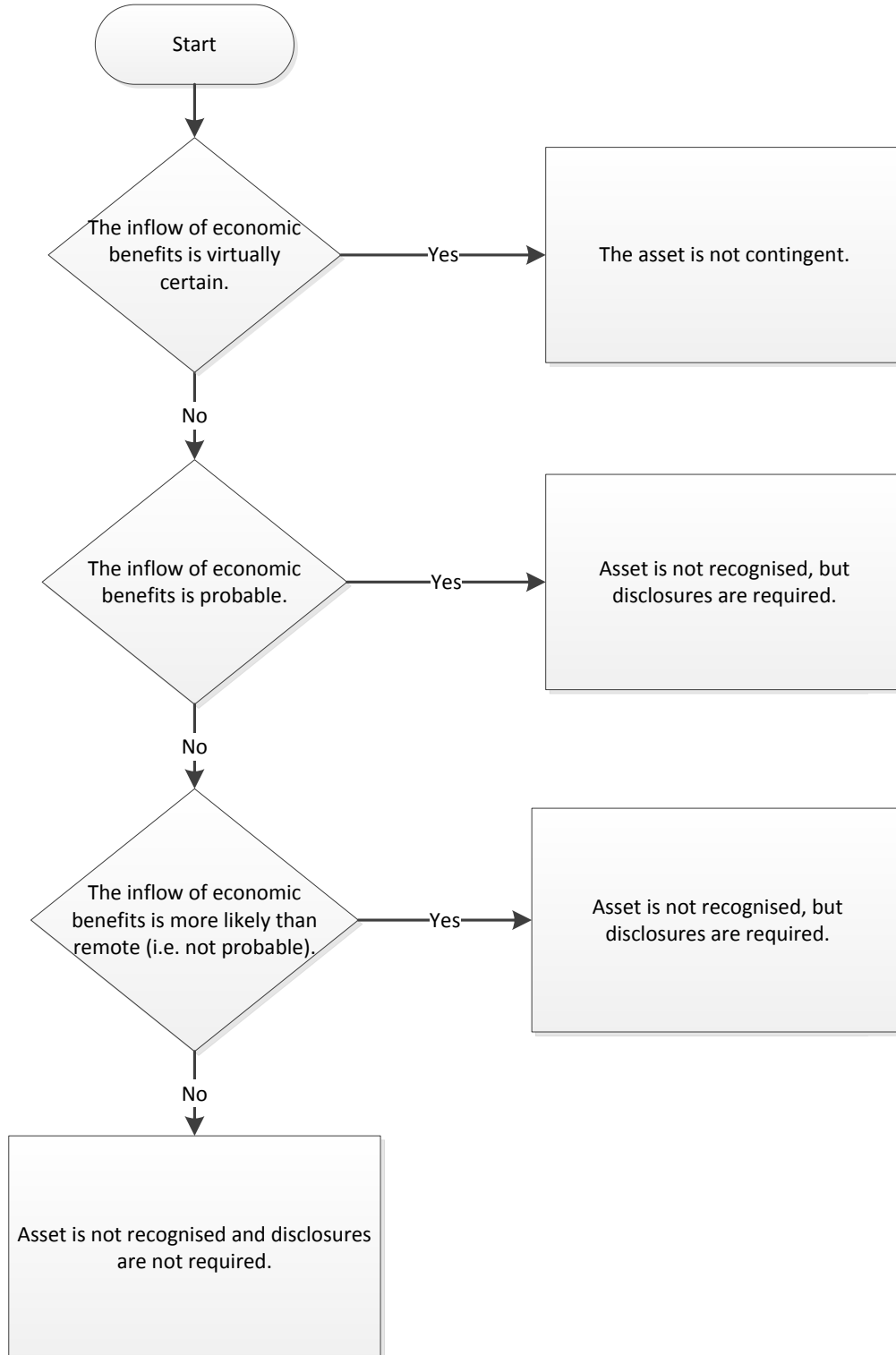
Note: It is more likely than not that a present obligation exists at the end of the reporting period.



[Return to Section 4.3](#)

B Recognising Contingent Assets

This flowchart outlines whether, as a result of a past event, an asset's existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. These uncertain future events are not within the control of the entity.



[Return to Section 4.4](#)