

# AWARENESS

Accounting and Auditing Developments - ISSUE 08 - OCTOBER 2011

## HOT TOPICS!

### *ED 212 Not-for-profit entities within the General Government Sector*

The Australian Accounting Standards Board (AASB) released an exposure draft [ED 212](#) 'Not-for-Profit Entities within the General Government Sector'. It proposes extending ABS GFS<sup>1</sup> financial reporting requirements, which currently apply only to Whole of government under AASB 1049, to all not-for-profit entities within the General Government Sector of State, Territory and Federal Governments. The proposals do not apply to local governments and universities.

Key proposals include:

- limiting available accounting policy options within AASBs to those that align with the ABS GFS manual. Additional disclosures are required where the most recent version of the GFS manual is not used
- disclosure using GAAP/GFS harmonised classification and presentation principles (on the face of, or in the notes to the financial statements)
- inclusion of budget information in the primary financial statements
- disclosure of explanations of major variances from the original budgeted amounts
- disclosure of administered items (and the corresponding budgeted figures for these items) either on the face of, or in the notes to the financial statements.

Many ABS GFS accounting principles align with GAAP, however, some recognition, measurement, classification and presentation principles differ. These differences may increase over time with the release of new AASB standards and revision of the ABS GFS manual.

The release of ED 212 was not a unanimous decision of the AASB. The ED contains an Alternative View by Robert Williams (The Treasury NSW) who is an AASB member. Mr Williams raises concerns about whether the proposed standard:

- addresses the needs of a broad range of users
- retains issues that prevented the AASB from not proceeding with ED174
- will impose costs at the entity level that will exceed its benefits. Challenges for New South Wales agencies will include training staff unfamiliar with the GFS requirements and implementing changes to accounting systems

<sup>1</sup> The principles and rules upon which GFS is based are contained in Australian Bureau of Statistics (ABS) publications *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* published on [www.abs.gov.au](http://www.abs.gov.au)

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- is necessary, since AASB101 *Presentation of Financial Statements* permits an entity to use additional relevant sub-headings and line items to display GFS/GAAP information, if considered relevant
- over-emphasises the importance of comparability between agencies in the GGS, given AASB 127 *Consolidated Financial Statements* does not require subsidiaries to use the same accounting policies in their separate financial statements.

The AASB, The Treasury and the Audit Office of New South Wales encourage entities in the General Government Sector to make a submission on this Exposure Draft because it will significantly impact New South Wales agencies should it become an accounting standard.

The ED is open for comment until 31 October 2011. As there is limited time remaining, agencies may need to negotiate an extension with the AASB.

### ***New Consolidation and Disclosure Standards***

The AASB has revised the accounting requirements for consolidation. Three new standards will replace the requirements of the current standard, AASB 127 'Consolidated and Separate Financial Statements' (AASB 127 (July 2008)):

- [AASB 10](#) 'Consolidated Financial Statements'.
- [AASB 12](#) 'Disclosure of Interests in Other Entities'.
- [AASB 127](#) 'Separate Financial Statements' (August 2011).

AASB 10 will apply to all entities, including those previously referred to as special purpose entities. The AASB has yet to add 'Aus' paragraphs for not-for-profit entities to AASB 10. Accordingly not-for-profit entities cannot early adopt the standard.

We expect the new standard will have implications for the NSW public sector. Under the new standard, the following requirements will need to be considered on a continuous basis when assessing control:

- power over the investee's relevant activities, such as capital decision-making and appointment of key management personnel
- exposure, or rights to variable returns
- ability to affect those returns.

The *Public Finance and Audit Act 1983* identifies a controlled entity as one 'defined as controlled by Australian Accounting Standards'. The wider definition of control in AASB 10 will increase the number entities thus defined. Where parent entities determine an entity is controlled, they must notify both the Treasurer and Auditor-General of the existence of the newly identified controlled entity within one month of the application of the new standard (s63B).

<i>AASB 127 Consolidated and Separate Financial Statements (July 2008)</i>	<i>AASB 10 'Consolidated Financial Statements'</i>
Silent on whether control can be obtained without a majority voting right.	Specific guidance for assessing control when there is no majority voting right.
Only <i>currently exercisable</i> potential voting rights are examined.	<i>Substantive</i> potential voting rights will need to be considered when assessing control.
No guidance if agency decision-making power has been delegated.	Gives factors to consider and examples of control in organisational relationships.

[AASB 12](#) covers the disclosure requirements for interests in controlled entities, previously in AASB 127 (July 2008). The new standard will require entities to disclose more information about:

- the nature of and risks associated with its interests in controlled entities
- the financial effects of those interests.

[AASB 127](#) 'Separate Financial Statements' (August 2011) will prescribe the accounting and disclosure requirements for subsidiaries when an entity prepares separate financial statements.

# ACCOUNTING UPDATE

## [ED 220 Investment Entities](#)

This AASB exposure draft, incorporating [IASB ED/2011/4](#), proposes criteria for an entity to qualify as an 'investment entity' and how such an entity would measure its investments. The AASB has significant concerns with the proposals; particularly the absence of a conceptual underpinning for the proposals and their rules-based nature.

Comments to the AASB and IASB are due by 30 November 2011 and 5 January 2012 respectively.

## [Discussion Paper Towards Integrated Reporting - Communicating Value in the 21st Century](#)

The International Integrated Reporting Committee (IIRC) initiated this discussion paper to help arrive at a global consensus on the direction in which reporting needs to evolve; creating a framework for reporting that is better able to accommodate complexity, and, in so doing, integrating different strands of reporting. Comments to the IIRC are due by 14 December 2011.

## *AASB Meeting Highlights - 7-8 September 2011*

Topics discussed by the AASB at its [meeting](#) include:

- income of not-for-profit (NFP) entities
- service concession arrangements - grantors
- NFP public sector projects
- financial reporting implications of a carbon tax
- consolidation - investment entities
- financial instruments - deferral of mandatory effective date of IFRS 9
- IFRS annual improvements
- differential reporting.

## *Meeting Highlights from International Accounting Standard Setting Bodies - 19-22 September 2011*

The IASB and FASB discussed the following topics at their recent joint [meeting](#):

- leases
- impairment
- insurance contracts.

Topics discussed at a separate IASB meeting include:

- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'
- Put options written over non-controlling interests
- asset and liability offsetting
- IFRS 9 'Financial instruments: hedge accounting'
- annual improvements
- IFRS 8 'Operating Segments' - aggregation criteria and identification of the Chief Operating Decision Maker.

## AUDITING UPDATE

### *New AUASB Exposure Drafts*

- [ED 02/11](#) Proposed ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information (Re-issuance of AUS 804).
- [ED 03/11](#) Proposed ASRS 4450 Comfort Letter Engagements.

### *AUASB Meeting Highlights - 12 September 2011*

Topics discussed by the AUASB at its [meeting](#) include:

- service organisations
- comfort letters and fundraisings project
- assurance on water accounting reports
- future of audit report.

## ETHICS UPDATE

### *[ED 04/11](#) Proposed Guidance Note: APES GN 40 'Ethical Conflicts in the workplace - Considerations for Members in Business'*

This exposure draft proposes guidance on various ethical issues such as: potential conflicts arising from responsibilities to the employer; financial interests of a Member in Business; disclosure of information and whistleblowing. It also includes case studies which illustrate examples of ethical issues faced by Members in Business and an ethical decision making approach that could be adopted to resolve such ethical issues using the conceptual framework in the Code. Comments to the APESB are due by 16 December 2011.

## DEPARTMENT OF PREMIER AND CABINET

### *New Ministerial Memoranda and Circulars*

- [M2011-16](#) NSW Government Tenders advertised on <https://tenders.nsw.gov.au> only.
- [M2011-17](#) Public Interest Disclosures Policies and other Changes.
- [C2011-24](#) Whole of NSW Government Expression of Interest (EOI) website.
- [C2011-25](#) Crown Employees (Public Sector Salaries - 2008) Award.
- [C2011-26](#) Optional transition period for agencies to move to using the new medical assessment service.

## AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION

### *Recent ASIC Update*

- [INFO 145](#) ASIC's Compulsory Information Gathering Powers.
- [Report 251](#) Review of Financial Advice Industry Practice.
- [Report 252](#) Overview of decisions on relief applications (February to May 2011).

## NEW SOUTH WALES AUDITOR-GENERAL'S REPORTS

### [Performance Audit](#) - *Prequalification Scheme: Performance and management services*

The Government's Prequalification Scheme was introduced in February 2008 to improve agencies' procurement of consultants. While the processes for engaging consultants have improved, the Government does not know if it is getting value for money from the more than \$300 million worth of consultancy work provided through the Scheme.

The Scheme cannot continue to operate in its current form. The Department of Finance and Services and the Department of Premier and Cabinet need to be clearer about the Scheme's rules; provide better information about consultants' performance; and be more active in overseeing the Scheme to ensure that agencies and the taxpayer are getting value for money.

### *Triennial Review of the New South Wales Audit Office*

The New South Wales Public Accounts Committee has released the [report](#) of its latest triennial review of the New South Wales Audit Office carried out under the *Public Finance and Audit Act 1983* (PF&A Act). The Committee made 21 recommendations, 16 of which have been implemented and the remaining five are in progress.

The Committee found their 'recommendations were broadly accepted by the Audit Office and it provided the Committee and the Parliament with assurance that the Auditor-General is leading a high performing agency.'

The Committee is of the view that there would be merit in extending the time between reviews to four years by amending the PF&A Act.

## NEW PUBLICATIONS BY OTHER AUDIT OFFICES

### *Australian National Audit Office* ([ANAO](#))

- 2010/11 Annual Report.
- Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund.
- Fair Work Education and Information Program.
- The National Blood Authority's Management of the National Blood Supply.

### *ACT Auditor-General's Office* ([ACT AGO](#))

- 2010/11 Annual Report.

### *Office of the Auditor-General for Western Australia* ([WA OAG](#))

- Ensuring Compliance with Conditions on Mining.

### *New Zealand Office of the Auditor-General* ([NZ OAG](#))

- The Treasury: Implementing and managing the Crown Retail Deposit Guarantee Scheme.
- Transpower New Zealand Limited: Managing risks to transmission assets.
- Annual Report 2010/11.
- Managing freshwater quality: Challenges for regional councils.
- Local government: Improving the usefulness of annual reports.
- New Zealand Transport Agency: Delivering maintenance and renewal work on the state highway.

### *Queensland Audit Office ([QLD AO](#))*

- Acquisition and public access to the Museum, Art Gallery and Library collections.
- Follow up of four audits completed in 2008 and 2009.
- National Partnership Agreement for Natural Disaster Reconstruction and Recovery.

### *Tasmanian Audit Office ([TAS AO](#))*

- Children in out of home care.

### *Victorian Auditor-General's Office ([VAGO](#))*

- Maternity Services: Capacity.
- Supporting Changes in Farming Practices: Sustainable Irrigation.
- Individualised Funding for Disability Services.
- Business Planning for Major Capital Works and Recurrent Services in Local Government.
- Presentation - Lessons from audits: Key themes from VAGO's 2010-11 audit program.
- Presentation - Parliament's Auditor: Role and Perspectives.
- Presentation - Trends in public sector audit legislation: from Federation to follow-the-dollar.

## **MISCELLANEOUS RESOURCES**

### *Concise guide to managing valuation risk*

This joint PWC/ICAA [guide](#) aims to assist directors to assess the board's exposure to valuation risk; evaluate the board's expertise to deal with valuation issues; exercise appropriate due diligence when addressing questions around valuation risk.

### *NGER eNews (September 2011 edition)*

This [edition](#) includes new and updated resources available and a [fact sheet on common errors](#) from the previous reporting period (2009-10).

### *Directors Social Impact Study 2011*

This study, conducted by the UNSW Centre for Social Impact, examines the governance of the not-for-profit sector and the contribution made by its directors.