

AWARENESS

Accounting and Auditing Developments ISSUE 02 - MARCH 2006

AUDIT OFFICE UPDATE

The Department Of Education And Training: The New Schools Privately Financed Project

Background

The NSW Government is increasingly turning to the private sector to help provide public infrastructure using public-private sector partnership (PPP) type contracts. In recent years the NSW Department of Education and Training (DET) has let two major contracts of this kind to provide NSW Government schools in new urban release areas.

There are many forms of PPP. Each needs to be assessed on its merits. The *New Schools Privately Financed Project* is a form of public-private partnership known as a privately financed project (PFP).

We examined this new approach to see whether the process for awarding the first privately financed schools contracts were adequate to maximise the potential for value for money.

Key Findings

In our view the contracts in the New Schools Privately Financed Project were established and let in a way that greatly assists their potential for delivering value-for-money.

We found that the Department of Education and Training developed:

- ◀ a clearly defined business case with the objectives of a faster supply of schools, possible cost savings, innovation and simplified services management
- ◀ good tender lists with competitive tension maintained throughout the tender processes
- ◀ a sound performance monitoring and reporting system, with provision for it to intervene in the case of poor contractor performance.

The contracts in the New Schools Privately Financed Project are at an early stage of their 30-year lives and the savings and other benefits are not guaranteed. The contracts will need to be carefully managed over the 30 year period to ensure that benefits are realised and that costs do not escalate beyond expectations.

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THE AUDIT OFFICE
OF NEW SOUTH WALES

Summary of Recommendations

We recommend measures to strengthen DET's and Treasury's oversight of the 'New Schools Privately Financed Project' including:

- ◀ expediting completion of the Contract Administration Manual
- ◀ utilising the cross-agency 'Project Management Steering Committee'
- ◀ designing a process to review whether the project continues to provide value for money.

Further Information

Sean Crumlin, Director, Performance Audit sean.crumlin@audit.nsw.gov.au or phone 02 9275 7286. The full report is available from our Internet site on www.audit.nsw.gov.au.

ACCOUNTING UPDATE

Australian Accounting Standards (AASB) Update

Meeting 8 March 2006

GAAP/GFS Convergence

The Board is continuing to review submissions on ED 142 'Financial Reporting of General Government Sectors by Government'. It is considering the views of constituents and those presented by representatives of the Heads of Treasuries on pertinent issues in this process.

Interpretations Model

The Board finalised the features of a new Interpretations Model which will now be discussed with the Financial Reporting Council. Under the proposals:

- ◀ the Board would have direct responsibility for developing and approving Interpretations
- ◀ an Interpretations Agenda Committee made up of Board members would be established to consider issue proposals and recommend a course of action to the Board
- ◀ issues relating to interpretation of Australian equivalents of IASB requirements would, in the first instance, be referred to the International Financial Reporting Interpretations Committee (IFRIC)
- ◀ Advisory Panels would be formed on a topic-by-topic basis with the purpose of making recommendations for consideration by the Board

◀ the recommendations of an Advisory Panel would be published on the website in the normal way before being considered at an AASB meeting. Where the AASB proposes to issue an Interpretation, the Proposed Interpretation would be further exposed before being considered for formal adoption.

UIG Interpretation

The Board approved UIG Interpretation 8 'Scope of AASB 2'. The Interpretation will apply to annual reporting periods beginning on or after 1 May 2006, and may be applied early to reporting periods beginning on or after 1 January 2005. (Refer to the UIG Update further on in this Awareness edition for further details.)

First-time Adoption

The Board decided to proceed with the amendment proposed in Invitation to Comment 10 to permit access to AASB 1 for some not-for-profit entities experiencing difficulties in complying with AEIFRS due to information deficiencies. Some wording changes will be made to improve clarity. The amendment will apply for periods ending on or after 30 June 2006 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Forthcoming EDs

The Board noted that EDs on Borrowing Costs and the Presentation of Financial Statements will be issued soon.

Source: AASB Action Alert 92 (March 2006).

Urgent Issues Group (UIG) Update

Meeting 16 February 2006

The Restatement Approach to Hyperinflation

The UIG reached a consensus on a draft Australian version of IFRIC Interpretation 7 'Applying the Restatement Approach under IAS 29 'Financial Reporting in Hyperinflationary Economies'. IAS 29 (and the Australian equivalent, AASB 129) requires financial statements, including the comparatives, to be stated in terms of the measuring unit current at the reporting date when they are reported in the currency of a hyperinflationary economy. The Interpretation addresses how to restate the financial statements when hyperinflation is first identified.

Subject to AASB approval, the Interpretation will apply to annual reporting periods beginning on or after 1 March 2006, with early adoption permitted for reporting periods beginning on or after 1 January 2005.

Scope of AASB 2 'Share-based Payment'

The UIG forwarded Interpretation 8 'Scope of AASB 2' to the AASB for approval. The Interpretation clarifies that the scope of AASB 2 includes transactions in which the entity cannot identify specifically some or all of the goods and services received as consideration for the equity instruments of the entity or other share-based payment. If the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration (i.e. unidentifiable goods or services) has been or will be received.

Interim Financial Reporting and Impairment

The UIG discussed IFRIC Draft Interpretation D18, which addresses an issue with the general principle in IAS 34 [AASB 134] *Interim Financial Reporting*. IAS 34's general principle, that the frequency of reporting should not affect the measurement of an entity's annual results, conflicts with the impairment non-reversal requirements in other Standards in relation to goodwill and certain financial assets.

The IFRIC Draft Interpretation proposes to clarify that once impairment losses on such assets have been recognised in profit or loss in an interim period, they affect the profit or loss for the annual reporting period. This is the case even if an impairment would not have been recognised had the asset been tested for impairment on an annual basis or a different interim basis (e.g. half-yearly instead of quarterly). Consequently, the frequency of reporting affects the annual result, contrary to a general principle in IAS 34 [AASB 134].

The UIG is currently revising its draft submission that will be sent to the IFRIC by 31 March 2006.

Separate Financial Statements issued before the Consolidated Financial Statements

UIG members discussed a tentative IFRIC agenda decision concerning the question under IAS 27 [AASB 127] 'Consolidated and Separate Financial Statements' of whether a parent entity's separate financial statements can be considered to comply with International Financial Reporting Standards (IFRSs) when they are issued before the related consolidated financial statements are prepared.

Members decided that a UIG submission on the tentative agenda decision is not warranted. The issue is not significant in Australia as the *Corporations Act 2001* (s. 295) requires both the parent's financial statements and the consolidated financial statements in the one financial report.

Source: UIG Action Alert 06-1 (February 2006).

Financial Reporting Council (FRC)

The Council held a special strategy meeting on 20 February 2006. The Council considered its role, progress so far, long term issues and ways of being more effective.

Source: FRC Bulletin 06-1 (March 2006).

Exposure Drafts and Invitations to Comment Released

ED 146 'Proposed Amendments to AASB 2 'Share-based Payment - Vesting Contributions and Cancellations'

This ED proposes two amendments to AASB 2 'Share-based Payments' equivalent to the amendments proposed internationally. These are:

- ◀ the definition of a 'vesting condition' should be restricted to include only service and performance conditions identified by the IASB as the most common conditions
- ◀ where a party other than the entity, whether employees shareholders or any other party, makes a cancellation of a grant of equity, the recognition of the remaining expense should be accelerated, as it is when the entity cancels the grant of equity.

The ED is open for comment until 2 May 2006 and is available at: www.aasb.com.au.

Sources: AASB website, Accounting and Audit News Today Issue 06/2006, 24 February 2006.

ED 147 'Revenue from Non-Exchange Transactions (Including Taxes and Transfers'

ED 147 is identical to ED 29 of the same name released by the International Public Sector Accounting Standards Board (IPSASB) in January 2006. The purpose of ED 147 is to invite comments from Australian constituents on IPSAS ED 29, which may form the basis of a proposed revision of AASB 1004 'Contributions'.

The proposals apply only to revenue from non-exchange transactions received by public sector entities aside from government business enterprises. Essentially, the meaning of non-exchange transactions in ED 147 is substantially the same as the meaning of non-reciprocal transfers in AASB 1004. The main differences include:

- ◀ income will not be recognised upon receipt of the contributed assets if it is a contribution other than from a contribution of the owner
- ◀ recognition of services in-kind as assets or revenues be permitted but not required; an issue not specifically addressed in AASB 1004

◀ disclosure requirements are more detailed than those contained in the current AASB 1004.

In 2005, the AASB issued ED 144, which proposed interim Guidance to accompany AASB 1004. After considering submissions received, the AASB decided not to issue Guidance.

ED 147 is open for comment until 12 May 2006 and is available at: www.aasb.com.au

Sources: AASB website, Accounting and Audit News Today Issue 08/2006, 10 March 2006.

ITC 10 'Proposed Amendments to AASB 1

This Invitation to Comment was issued in February 2006 with a short comment period to 6 March 2006. The AASB has decided to proceed with the amendments proposed. (Refer to AASB Update appearing earlier in this Awareness edition for further details.)

AUDITING UPDATE

Auditing and Assurance Standards Board (AUASB)

AUASB Meeting 6-7 February 2006

The Board considered an analysis of submissions made on exposure drafts issued as part of its 'force of law' program. The Board does not intend to re-expose any of the Standards being addressed by this phase of the program (Phase 1).

The Board approved the issue of AGS 1038 'Access to Audit Working Papers'.

The Board noted that a number of Guidance Statements relevant to the Australian Prudential Regulation Authority would be developed or revised during the second quarter of 2006. These include:

- ◀ AGS 1026 'Superannuation Funds - Auditor Reports on Externally Managed Assets' (which will include the guidance from AUS 522 'Audit Evidence Implications of Externally Managed Assets of Superannuation, Provident or Similar Funds')
- ◀ A revised AGS which would include the guidance from AUS 524 'The Auditor's Use of the Work of the Actuary and the Actuary's Use of the Work of the Auditor in Connection with the Preparation and Audit of a Financial Report'.

AUASB Meeting 27 February 2006

The Board continued its analysis of submissions made on exposure drafts and noted a status report that indicated that the AUASB was on track to issue its Auditing Standards in early April.

Source: www.auasb.gov.au.

Auditing Pronouncement

AGS 1038 'Access to Audit Working Papers'

AGS 1038 provides guidance to auditors when establishing and agreeing to conditions under which third parties are voluntarily granted access to their audit working papers and related documentation. This AGS supersedes AGS 1038 as revised in July 2002 and is operative from the date of issue (February 2006).

Source: www.auasb.gov.au.

INTERNATIONAL UPDATE

International Accounting Standards Board (IASB)

Meeting 21-24 February 2006

The IASB discussed the following issues:

- ◀ short-term convergence - income taxes
- ◀ business combinations II
- ◀ short-term convergence: proposed amendments to IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance'
- ◀ financial instruments puttable at fair value
- ◀ Accounting Standards for small and medium sized entities
- ◀ revenue recognition
- ◀ amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'
- ◀ conceptual framework
- ◀ fair value measurement
- ◀ insurance.

Source: *IASB Update February 2006*.

Recently Released International Consultation Paper

Accounting for Heritage Assets under the Accrual Basis of Accounting

The International Public Sector Accounting Standards Board (IPSASB) of the International Federations of Accountants (IFAC) has issued a consultation paper on heritage assets. The paper has been issued as part of IPSASB's objective of developing requirements and guidance at an international level on accounting for heritage assets.

The IPSASB Consultation Paper provides the opportunity to respond to approaches that are being considered by IPSASB. Comments on the Consultation Paper are requested by 30 June 2006 and a copy of the Paper is available on the IFAC website: www.ifac.org.

Source: IFAC Press Release 28 February 2006.

MISCELLANEOUS PUBLICATIONS

Australian National Audit Office:

Performance Audit Reports:

- ◀ Integrity of Electronic Customer Records
- ◀ The ATO's Strategies to Address the Cash Economy
- ◀ Roads to Recovery
- ◀ Management of the Tender process for the Detention Services Contract
- ◀ Administration of Petroleum and Tobacco Excise Collections: Follow-up Audit

Better Practice Guides:

- ◀ User-Friendly Forms, Key Principles and Practices to Effectively Design and Communicate Australian Government Forms
- ◀ Administration of Fringe Benefits Tax

Speeches:

- ◀ Evaluation and Performance Audit - Close cousins or distant relatives?
- ◀ The Role of the Auditor-General and the Australian National Audit Office
- ◀ Successful Implementation of Government Programmes and Initiatives

These reports, guides and speeches are available at www.anao.gov.au.

Northern Territory Audit Office:

Other Publication:

- ◀ February 2006 Report to the Legislative Assembly

This report is available at www.nt.gov.au.

Queensland Audit Office:

Other Publication:

- ◀ Output Performance Measurement and Reporting

This report is available at www.qao.qld.gov.au.

Victorian Public Accounts and Estimates Committee:

- ◀ Review of the report on the performance audit of the Victorian Auditor-General's Office

This report is available at www.parliament.vic.gov.au.

Independent Commission Against Corruption:

- ◀ Investigation into the conduct of an officer of the Local Court Registry at Penrith

This report is available at www.icac.nsw.gov.au.

Guidance for Audit Committees

The Institute of Internal Auditors (IIA) has released a new publication: The Audit Committee: Purpose, Process, & Professionalism. The publication aims to clarify what it takes to be responsible, knowledgeable and effective. A copy of the publication is available on the IAA website: <http://www.theiia.org/>.

Checklists for Effective IT Governance

Two checklists that featured in CPA Australia's recently released publication, 'IT Governance: A Practical Guide for Company Directors and Business Executives', are now freely available. The checklists will:

- ◀ help assess how informed your organisation's board is about IT and its importance
- ◀ help focus the organisation's efforts in establishing and maintaining an IT governance framework
- ◀ provide factual evidence of the importance of IT in your organisation.

The checklists are available at: www.cpaaustralia.com.au.

Improving Performance Information

The UK's Public Audit Forum has released a paper, Improving Performance Information, clarifying the responsibilities of those who set performance indicators, those who are accountable for performance, and auditors. The paper is aimed at ensuring robust structures for generating, reporting and validating performance information and outlines good practice. The paper is available from the Public Audit Forum website: www.public-audit-forum.gov.uk.

LEGISLATIVE CHANGES

Public Authorities (Financial Arrangements) Amendment (Sydney Water Corporation) Regulation 2006

This Regulation upgrades the investment powers of Sydney Water Corporation, in respect of certain funds. This Regulation is made under the *Public Authorities (Financial Arrangements) Act 1987*.

(GG No 23, 17 February 2006, page 830).

Public Sector Employment and Management (Ministers) Order 2006

This Order sets out the allocation of the administration of Acts. It is made under the *Public Sector Employment and Management Act 2002* and commences on 17 February 2006.

(GG No 25, 17 February 2006, page 903).

Public Sector Employment and Management (General) Order 2006

This Order provides for the creation of the Department of Arts, Sport and Recreation and abolishes the Ministry of the Arts, the Department of Gaming and Racing, the Department of Tourism, Sport and Recreation, the Ministry for Science and Medical Research and the Heritage Office. It also establishes the Parliamentary Counsel's Office as a separate office within the Cabinet Office.

This Order is made under the *Public Sector Employment and Management Act 2002* and commences on 1 March 2006.

(GG No 30, 3 March 2006, page 1052).

PREMIER'S DEPARTMENT UPDATE

Premier's Department Circulars

Number		Issued
2006-05	Launch of NSW Collector Recruitment Campaign For the 2006 Census of Population and Housing	February 2006
2006-06	Crown Employees (Public Service Conditions of Employment) Reviewed Award 2006 and Review of the Personnel Handbook (supersedes C2205-65 and C2003-33. C2005-31 should now be read in conjunction with this Circular)	March 2006

2006-07 Secure Employment Test Case Decision and Actions March 2006
Following Receipt of any Applications for Variations
to Awards

**C2006-06 Crown Employees (Public Service Conditions of Employment)
Reviewed Award 2006 and Review of the Personnel Handbook**

The Crown Employees (Public Service Conditions of Employment) Reviewed Award 2006 (the Award) was made on 23 February 2006 and is effective from this date. An Appendix to this Circular includes a list of changes to the Award.

Agencies are requested to bring the revised Award to the attention of relevant staff. Agencies are also advised that a fundamental review of the Personnel Handbook has commenced with a view to completion by December 2006.

**C2006-07 Secure Employment Test Case and Actions Following Receipt of any
Applications for Variations to Awards**

The Industrial Relations Commission has granted the new Secure Employment Test Case standard comprising an opportunity for casual employees to convert to permanent employment after six months continuous employment. The decision also includes some provisions setting out Occupational Health and Safety obligations on an employer relating to labour hire workers.

The Circular contains directions to agencies should they receive an application to alter an Award.

The Circulars are available at www.premiers.nsw.gov.au.

TREASURY UPDATE

Treasury Policies

Number		Issued
TPP 06-2	Fringe Benefits Tax Manual	March 2006

TPP 06-2 Fringe Benefits Tax Manual

To provide assistance to NSW Government agencies responsible for Fringe Benefits Tax (FBT) compliance, NSW Treasury regularly review this Manual. TPP 06-2 replaces all previous editions and outlines how to identify and value each type of fringe benefit and includes discussion of the interaction between FBT and GST.

This Policy is available at www.treasury.nsw.gov.au.

Treasury Research and Information Papers

Number

Issued

TRP 05-3 New Schools Privately Financed Project
Post Implementation Review

December 2005

TRP 05-3 New Schools Privately Financed Project Post Implementation Review

The Post Implementation Review was conducted to assess compliance with the Working with Government Guidelines and identify key lessons and areas for improvement for any future projects. This Research and Information Paper contains recommendations, key findings and actions taken.

This Paper is available at www.treasury.nsw.gov.au.

AUDIT OFFICE BETTER PRACTICE GUIDES

The Audit Office produces guides to better practice to assist agencies. The following is a list of those guides and the dates that they were published. All these guides are available on the Audit Office website at www.audit.nsw.gov.au/guides-bp/bpglist.htm

Title of Guide	Issued
Fraud Control: Current Progress and Future Directions	9 February 2005
Shared Corporate Services: Realising the Benefits	November 2004
Management of Intellectual Property	October 2001
e-ready, e-steady, e-government: e-government readiness assessment guide	September 2001
Monitoring and reporting on performance audit recommendations	June 2001
Internal Financial Reporting	June 2001
Reporting Performance: a guide to preparing performance information for annual reports	November 2000
Contracting Out Review Guide	June 1999
Public Sector Corporate Governance - ready reckoner	April 1999
Methodology for the Review of Residential Services for People with Disabilities	June 1998
On Board: Guide to better practice for public sector governing and advisory boards	April 1998
The Corporate Credit Card: guidelines for the internal control	January 1997
Ambulance Service of New South Wales: debtors administration	September 1996
Ethnic Affairs Commission: administration of grants	December 1995
Joint Operations in the Education Sector: a review of establishment, management and effectiveness issues	September 1995
Fraud Control: developing an effective strategy	
Volume 1: conceptual framework	March 1994
Volume 2: strategy	March 1994
Volume 3: diagnostics	March 1994
Volume 4: Fraud Control Self Audit Kit	March 1998

ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
AIFRS / AEIFRS	Australian Equivalents of International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
AUASB	Auditing and Assurance Standards Board
ED	Exposure Draft
GAAP	General Australian Accounting Principles
GFS	Government Finance Statistics
GGs	General Government Sector
GPFR	General Purpose Financial Reporting
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPART	Independent Pricing and Regulatory Tribunal
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
UIG	Urgent Issues Group

COPIES OF REPORTS AND PUBLICATIONS

All performance audit reports are available on The Audit Office web site at www.audit.nsw.gov.au and can be purchased from the NSW Government Information Service (telephone 9743 7200).

Publications of the Australian Auditing and Assurance Standards Board (AUASB) including auditing standards, auditing guidance statements, audit guides, exposure drafts and other guidance are available direct from the AUASB as follows:

Australian Auditing and Assurance Standards Board
Phone: (03) 8080 7400
Fax: (03) 8080 7450
Postal Address: PO BOX 204 Collins Street West, Victoria 8007
Website: www.auasb.com.au

Publications of the Australian Accounting Standards Board (AASB), including Accounting Standards and Exposure Drafts are available direct from the AASB as follows:

Phone: (03) 9617 7600
Fax: (03) 9617 7608
Postal Address: PO BOX 204 Collins Street West, Victoria 8007
Website: www.aasb.com.au

Copies of International Federation of Accountants (IFAC) publications may be obtained direct from IFAC, 535 Fifth Avenue, 14th Floor, New York, NY 10017, USA (tel 212/286.9344 or fax 212/286.9570 or by visiting the IFAC web site at www.ifac.org).

Copies of International Accounting Standards, Exposure Drafts and International Accounting Standards Committee (IASC) publications may be obtained direct from the IASC, 166 Fleet Street, London EC4A 2DY, United Kingdom (tel +44 (020) 7427-5927 or fax +44 (020) 7353-0562 or email iasc@iasc.org.uk or Internet www.iasc.org.uk).

Copies of NSW Government legislation including changes to legislation can be purchased from the NSW Government Information Service. The legislation is also on the Internet at www.austlii.edu.au.

Treasury publications (including Circulars) may be viewed by visiting the NSW Treasury web site at www.treasury.nsw.gov.au

Copies of Premier's Department Circulars and Premier's Memoranda may be viewed by visiting the Premier's Department website at <http://www.premiers.nsw.gov.au>.

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