

AWARENESS

Accounting and Auditing Developments ISSUE 03 - MAY 2006

AUDIT OFFICE UPDATE

Agency Collaboration: Agencies Working Together to Improve Services

Government departments traditionally work independently of each other. But the services that citizens need do not always fall conveniently within the scope of a single agency.

Since the 1990s, the NSW Government has been promoting collaboration between departments. Guidelines have been issued on how to set up collaborative projects; central agencies have provided support and forums have been established to facilitate joint problem solving.

In this audit we reviewed three case studies where collaboration had been used: a community based Aboriginal employment program, strategies to improve road safety and a program to divert people with a mental illness from the criminal justice system to hospital or community based care.

If done well, collaboration between departments can improve services and results. But the approach also creates risks because it can take longer and cost more than a single agency response. Collaboration can also diminish accountability if it is unclear what each department is responsible for.

This report highlights some of the benefits to be gained from the Government taking a collaborative approach to resolving complex problems. It also highlights the risks that chief executives need to address to make sure these approaches work.

Audit opinion

In the cases we examined, we found that agencies working together can improve services or results. However, the changes were not always as great as anticipated or had not reached maximum potential.

Establishing the right governance framework and accountability requirements between partners at the start of the project is critical to success. And joint responsibility requires new funding and reporting arrangements to be developed.

Guidance material from the NSW Premier's Department goes some way to help agencies establish collaborative partnerships, but it is now

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THE AUDIT OFFICE
OF NEW SOUTH WALES

somewhat outdated (1999). Recent involvement of the NSW Cabinet Office in coordinating collaborative projects is having positive results.

The establishment of five joint chief executive forums covering portfolios such as human services, provides a stable platform to progress issues of shared interest that affect clients. These forums are possibly the best means of ensuring that collaboration between agencies occurs.

Summary of recommendations

We made a series of recommendations for NSW Premier's Department to:

- ◀ routinely update its guidelines on agency collaboration
- ◀ establish a means of publicly reporting on collaborative projects being undertaken as well as the results
- ◀ work with NSW Treasury to examine ways of funding collaborative projects.

Further information

Jane Tebbatt, Director Performance Audit jane.tebbatt@audit.nsw.gov.au or phone 02 9275 7274.

The full report is available from our Internet site at www.audit.nsw.gov.au

Auditor-General's Report to Parliament 2006 Volume One

Significant items within the report included:

New South Wales Aboriginal Land Council

The Council's financial report was not qualified for the second consecutive year. The Council's financial management has improved during the year.

WorkCover Scheme Statutory Funds

The accumulated deficit continued to decrease and was \$1,998 million at 30 June 2005 (\$2,353 million at 30 June 2004). Scheme reforms and increased investment earning contributed to the improvement.

New South Wales Cancer Council

The *New South Wales Cancer Council Act 1995* was repealed, and on 1 October 2005 the Cancer Council NSW was established as a company limited by Guarantee under the *Cancer Institute (NSW) Act 2003*. The NSW Government does not control the company and the Auditor-General will not be the auditor.

Further information

Barry Underwood, Executive Officer barry.underwood@audit.nsw.gov.au or telephone 02 9275 7220.

The full report is available from our internet site on www.audit.nsw.gov.au

ACCOUNTING UPDATE

Australian Accounting Standards Board (AASB) Update Meeting 5-6 April 2006

GAAP/GFS Convergence

The Board revisited the relationship between the General Government Sector (GGS) and the Whole of Government (WoG) and decided that:

- ◀ the Standard to be developed from ED 142 'Financial Reporting of General Government Sectors by Government' should require both a partially consolidated GGS financial report and a fully consolidated WoG financial report and that these reports should both be available at the same time
- ◀ if the WoG and GGS are presented separately, they should refer to the existence and availability of the other
- ◀ the Standard will specify the form and content of the financial report
- ◀ the GGS financial report should adopt GAAP definition, recognition and measurement principles to the extent they are consistent with Australian Bureau of Statistics Government Finance Statistics (ABS GFS). The operating statement will reflect GFS notions of transactions and other economic flows
- ◀ the face of the financial statement should include key fiscal aggregates e.g. net lending/borrowing.

Review of Australian Guidance

All Australian Guidance will be removed from the Australian Equivalents to International Financial Reporting Standards for the following standards because they are either no longer relevant or may be misinterpreted.

- ◀ AASB 1 'First-time Application of Australian equivalents to International Financial Reporting Standards'
- ◀ AASB 102 'Inventories'
- ◀ AASB 116 'Property, Plant and Equipment'
- ◀ AASB 119 'Employee Benefits'
- ◀ AASB 127 'Consolidated and Separate Financial Statements'
- ◀ AASB 128 'Investments in Associates'
- ◀ AASB 129 'Financial Reporting in Hyperinflationary Economies'
- ◀ AASB 141 'Agriculture'.

ED 148 Proposed Amendments to AASB 101 Presentation of Financial Statements: a Revised Presentation

The Board considered a Preface to ED 148 'Proposed Amendments to AASB 101 Presentation of Financial Statements: A Revised Presentation' following the IASB releasing an ED proposed to bring IAS 1 'Presentation of Financial Statements' largely into line with the FASB's SFAS 130 'Reporting Comprehensive Income'.

The main changes proposed to IAS 1 are:

changing the title of the balance sheet and cash flow statement to the statement of financial position and statement of cash flows respectively

- ◀ presentation of three statements of financial position being at the current reporting period, the comparative reporting period and the start of the comparative period
- ◀ separate presentation of non-owner and owner, changes in equity
- ◀ choice of presenting income and expenses in one statement or separate
- ◀ disclosure of reclassification adjustments, and of income tax relating to components of other recognised income and expense
- ◀ presentation of dividends and dividend per share on the face of the statement of changes in equity or in the notes.

ED 148 has adopted the international definition of general purpose financial reports which has been extended to the international definition to include all regulatory filings of accounts on a public register. This extended definition would have a significant effect on the content of the financial reports of many entities which are required to file their accounts with ASIC.

ED 148 has been issued for comment by 15 June 2006.

Superannuation Plans

The AASB reviewed AAS 25 'Financial Reporting by Superannuation Plans' and decided that:

- ◀ the reporting entity concept should be retained in determining the application of any proposed replacement for AAS 25
- ◀ the comprehensive review should at least initially consider any replacement to AAS 25 to also applied to pooled superannuation and trusts
- ◀ managed investment schemes should be excluded from any proposed replacement for AAS 25.

Interpretations Model

The AASB's model proposed the AASB as a replacement for the existing UIG. Under this model, the AASB would have responsibility for developing and approving

interpretations from 1 July 2006. The model also proposed an Interpretations Agenda Committee and advisory panels which would be committees of the AASB. The FRC provided a response that agreed with the AASB model but recommended a register of experts to facilitate greater consultation with preparers and users of financial statements.

The Board considered comments of the FRC on the Proposed Interpretations Model and agreed that it would seek to establish a register of experts from which members of advisory panels may be drawn.

UIG Interpretation

The Board approved UIG Interpretation 9 'Reassessment of Embedded Derivatives'. UIG Interpretation 9 will apply to annual reporting periods beginning on or after 1 June 2006 and may be early adopted for reporting periods beginning on or after 1 January 2005 but before 1 June 2006.

Source: AASB Action Alert No. 93 www.aasb.com.au.

Accounting Standards and Pronouncements Released

AASB 2006-02 amendment to AASB 1

AASB 2006-02 provides assistance to particular not-for-profit entities to access the transitional provisions in AASB 1. Generally in order to access the transitional provisions contained within AASB 1, an entity is required to make an unreserved statement of its compliance with Australian equivalent to IFRSs. Some not-for-profit entities are unable to make this statement due to information deficiencies. Where this is the case, a not-for-profit entity may still access the transitional provisions where it discloses in its first financial report:

- ◀ an explanation of information deficiencies and its strategy for rectifying those deficiencies
- ◀ the AIFRS that have not been complied with
- ◀ makes an explicit and unreserved statement of compliance with other AIFRSs for which there are no information deficiencies.

The amendment applies only in rare circumstances and where the entity had also been non-compliant with previous GAAP.

This Standard applies to annual reporting periods ending on or after 30 June 2006.

Source: www.aasb.com.au.

AASB 1048 'Interpretation and Application of Standards'

This Standard seeks to clarify the status of the pronouncements of the UIG, UIG Interpretations that are approved by the AASB and AASB Interpretations. The Standard provides a table of all Australian Interpretations which must be applied in order for an entity to make an explicit and unreserved statement of compliance with IFRSs. A second table is provided of other Australian Interpretations, to assist financial report users and preparers to identify the other authoritative pronouncements necessary for compliance in the Australian context.

AASB 1048 is created as a service standard. This allows all references to the Interpretations referred to in all other AASB Standards to be updated by re-issuing the service standard. Australian Interpretations are treated as external documents to the AASB standards, which means that a reference to an Interpretation in a Standard refers only to the Interpretations in place at the time the Standard was issued, not any subsequent revised versions of the referred Interpretation. This differs to AASB Standards where a reference to another standard is taken to mean the most current version of that Standard regardless of the date of issue of the referring standard.)

This Standard is applicable in general to annual reporting periods ending on or after 30 April 2006.

Source: www.aasb.com.au.

UIG interpretations 7 & 8 approved

The AASB has approved and released UIG interpretation 7 'Applying the Restatement Approach under AASB 129 - Financial Reporting in Hyperinflationary Economies' and Interpretation 8 'Scope of AASB 2-Share-Based Payment'.

Sources: *Accounting and Audit News Today Issue 12-07 April 2006*

Urgent Issues Group (UIG) Meeting 23 March 2006

UIG Interpretation 9 -Reassessment of Embedded Derivatives

The Interpretation clarifies that an entity is required to reassess whether an embedded derivative should be accounted for separately from the host contract only when there is a change in the terms of the contract that significantly modifies the cash flows otherwise required.

The Interpretation also deals with the assessment of embedded derivatives for separation from the host contract when an entity first adopts Australian equivalents to International Financial Reporting Standards.

Interim Financial Reporting and Impairment

The IFRIC Draft Interpretation proposes to clarify that once impairment losses on such assets have been recognised in the profit and loss in an interim period, they affect the profit or loss for the annual reporting period, even if an impairment would not have been recognised had the asset been tested for impairment on an annual basis. Therefore the frequency of reporting does affect the annual result. The majority of UIG members however preferred the approach where impairments recognised in interim financial report should not determine the profit or loss recognised in the annual financial report.

Service Concession Arrangements

The proposed IFRIC interpretation does not address accounting by concession grantors. The UIG expressed concern over this issue as it is a significant issue for Australia. As most grantors are public sector or not-for-profit entities, members noted that the sector neutrality of Australian Accounting Standard would be an issue in determining whether a grantor would need to mirror the operator's accounting.

The UIG will continue to monitor developments in the IFRIC Interpretation.

Source: UIG Action Alert 06-02 www.aabs.com.au

AUDITING UPDATE

Auditing and Assurance Standards Board (AUASB) AUASB Meeting 21-22 March 2006

The AUASB considered an analysis of submissions made on exposure drafts in relation to ASA 508 Inquiry regarding Litigation and Claims (formerly AUS 508), as well as a paper on the impact of Westpac Banking Corporation v 789TEN Pty Ltd (2005) NSWCA 321.

The Board also considered a draft the 'Glossary'. The Glossary would not be a statutory Auditing Standard but would be issued at the same time as the statutory Auditing Standards.

Source: www.auasb.gov.au

INTERNATIONAL UPDATE

International Financial Reporting Interpretations Committee (IFRIC) Meeting 2-3 March 2006

The IASB discussed the following issues:

- ◀ Customer Loyalty Programs
- ◀ Financial Instruments: Classification of a financial instrument as liability or equity
- ◀ IAS 18 Real Estate Sales
- ◀ IAS 19 Employee Benefits- Minimum Funding Requirements and the asset ceiling
- ◀ IAS 39 Financial Instruments: Recognition and Measurement-Aspects of deregulation in the context of securitisation, overview of the deregulation requirements, derecognition of financial instruments, and hedging inflation risks
- ◀ IFRIC relationship with National Standard-Setters and National Interpretative Groups
- ◀ IFRS 1 First-time adoption of International Financial Reporting Standards- Cost of a subsidiary in the separate financial statements of a parent.

Source: www.iasb.org.

Recently Released International Exposure Draft

The international Auditing and Assurance Board (IAASB) has released a proposal designed to enhance the quality of audits of group financial statements. The IAASB has recently approved and issued a re-exposure draft of the Proposed International Standard on Auditing 600 (revised and redrafted) 'The Audit of Group Financial Statements'. Comments are due by 31 July 2006.

The IAASB has released the '2006 Hand book of International Auditing, Assurance and Ethics Pronouncements' (All versions include final ISAs, IAPs, ISREs and ISRSs as of December 31, 2005).

Source: *AASB International Update March 2006 no. 13-06.*

MISCELLANEOUS PUBLICATIONS

Australian National Audit Office:

Performance Audit Reports:

- ◀ Advance Passenger Processing
- ◀ The Australian Taxation Office's Administration of Activity Statements of High Risk Refunds

Better Practice Guides:

- ◀ Preparation of Financial Statements by Public Sector Entities

Speeches:

- ◀ Contract Management in the Public Sector
- ◀ Engaging with Risk

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

ACT Auditor-General's Office:

- ◀ Regulation of Charitable Collections and Incorporated Associations

This report is available at www.audit.act.gov.au

Office of the Auditor General for Western Australia:

- ◀ Audit Results Report on Universities and TAFE Colleges and other audits completed since 11 November 2005
- ◀ Management of the TRELIS Project (Transport Executive Licensing Information System)

These reports are available at www.audit.wa.gov.au

Tasmanian Audit Office:

- ◀ Special Report No. 59 - Delegations in Government Agencies, Local Government Delegations and Overseas Travel.

This report is available at www.audit.tas.gov.au

The Accounting Professional and Ethical Standards Board (APESB):

The APESB has recently released the first exposure draft on professional standard *APS 5* 'Quality Control for Firms'.

The APESB is an independent board charged with the responsibility of promulgating, reviewing and overseeing the ethical and professional standards that govern CPAs and Chartered Accountants.

Source: Accounting and Auditing News Today Issue No 13-13 April 2006

Checklist to help business managers with IT projects:

CPA Australia has made this checklist available to assist managers to identify key areas when managing information technology projects. The checklist provides tips on planning, developing project governance structures, assessing and managing risks that impact project success, and managing scope and communication.

The checklist is available for CPA members at <http://www.cpaaustralia.com.au>.

Audit and Assurance Omnibus Edition 2 2006:

The Omnibus contains links to audit reports and related topics produced both in Australia and Internationally.

The second edition is now available to subscribers. Subscription is free at the following link <http://www.ibaz.net>.

Australian Security and Investment Commission - IR 06-11 ASIC seeks comment on proposed auditor rotation policy

ASIC is seeking comment on a new policy proposal paper regarding ASIC's power to give relief from auditor rotation obligations in the *Corporations Act 2001* (the Act).

The Act provides that the auditor of a listed company or listed registered companies is only permitted to play a significant role in the audit of the company for a limited period of time. This requirement on auditor rotation is part of the auditor independence requirements introduced into the Act by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9).

LEGISLATIVE CHANGES UPDATE

Public Sector Employment and Management (Children and other matters) Order 2006

This Order establishes the Office for Children and abolishes the Office for Children and Young People and the Children's Guardian as departments and transfers these functions to the Office for Children.

(GG No 42, 31 March 2006, page 2).

Public Sector Employment Legislation Amendment Act 2006

Public Sector Employment Legislation Amendment Act 2006 was proclaimed on the 15th March 2006.

(GG No 35, 17 March 2006, page 1).

PREMIER'S DEPARTMENT UPDATE

Premier's Department Circulars

Number		Issued
2006-08	Salary Packaging- Removal of 50% limit	March 2006
2006-09	Accessing leave entitlements and flexible work hours arrangements to observe religious duties.	March 2006
2006-10	SES/Senior Officer Motor Vehicle Charges 2006-07	March 2006
2006-11	Secure Employment Test Case (SETC) Award variations	April 2006
2006-12	Premier's Public Sector Awards 2006	April 2006

C2006-08 Salary Packaging - Removal of 50% Limit

The restriction limiting salary packaging to 50% of an employees' superable or award salary has been removed for graded officers and SES officers. The amount of salary which can be packaged or salary sacrificed is now unrestricted. However, employees will need to pay post-tax commitments and payroll deductions such as employee superannuation contributions, union fees, health fund premiums, maintenance orders etc before determining the availability of salary for packaging purposes.

To facilitate this change, awards will need to be varied.

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

Premier's Memoranda

Number		Issued
2006-04	Government Policy - Negotiating Public Sector Wages, Salaries and Employment Conditions	March 2006
2006-05	Biofuels and Other Alternative Fuels-Commitment NSW Government	April 2006

M2006-04 NSW Government Policy - Negotiating Public Sector Wages, Salaries and Employment Conditions (issued March 2006)

All NSW public sector organisations must comply with the NSW Government Policy: Negotiating Public Sector Wages, Salaries and Employment Conditions attached to this Memorandum. The policy provides a process to ensure that all NSW public sector organisations meet the objectives of section 13 of the Fiscal Responsibility Act (NSW) 2005.

All NSW public sector organisations including public service departments, State Owned Corporations, declared authorities, independent statutory bodies and any

other public sector service within the meaning of the Public Sector Employment and Management Act 2002 are required to comply.

The purpose of this policy is to ensure compliance with Fiscal Policy No.3- Managing Public Sector Employee Costs.

Premier's Memoranda are available at www.premiers.nsw.gov.au

TREASURY UPDATE

Updated Treasury Indicative Mandates and Treasury Analysis

Treasury's IAS section of the website has been updated for the following:

- ◀ Indicative Mandates regarding AEIFRS and major policy decisions (updated)
- ◀ Treasury Analysis AASB 7 Financial Instruments: Disclosure (new)
- ◀ Treasury Analysis AASB 132 Financial Instruments: Disclosure and Presentation (updated)
- ◀ Treasury Analysis AASB 139 Financial Instruments: Recognition and Measurement (updated).

The above documents have been updated for Treasury's recently issued draft Financial Instruments Policy.

The updated Indicative Mandates and Treasury Analyses are available from Treasury's website.

Treasury Circulars

Number		Issued
TC 06/03	Total Asset Management (TAM) Policy Update	March 2006
TC 06/04	Implementation of New Employment Arrangements	March 2006

TC 06/03 Total Asset Management (TAM) Policy Update

The Treasury Circular outlines some key current issues in TAM Policy implementation across government and presents some key findings from January's annual review of agencies TAM plans.

TC 06/04 Implementation of New Employment Arrangements

This Circular provides guidance on the immediate steps that need to be taken by agencies as a result of the passage of the *Public Sector Employment Legislation Amendment Act 2006*. The Circular covers actions required by agencies with respect to:

- ◀ Income Tax (PAYG)
- ◀ Goods and Services Tax
- ◀ Fringe Benefits Tax
- ◀ Payroll Tax
- ◀ Workers' Compensation Insurance and TMF insurance
- ◀ Superannuation
- ◀ Bank Accounts
- ◀ Annual Reports

A further circular will be issued on 30 April 2006 on the steps to be taken in relation to the accounting and reporting consequences of the legislation.

These circulars are 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 (IASB) publications may be obtained direct from the IASB, 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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