

AWARENESS

Accounting and Auditing Developments - ISSUE 5 - JUNE/JULY 2011

HOT TOPICS!

Changes to the recognition of long term leases of land

Recent changes to AASB 117 mean agencies can no longer automatically treat leases of land as operating leases. The change means agencies must assess leases of land as finance or operating leases in the same way they assess any other lease. In many instances this will result in a change in accounting policy at agencies.

In response to the change in the accounting standard, Treasury issued [TPP 11-01](#) requiring lessee and lessor agencies to consider whether leases of land they hold, that exceed 50 years transfer 'substantially all the risks and rewards incidental to ownership' and accordingly, should be treated as finance leases ([AASB 117.8](#)). While the TPP requires agencies to consider whether leases of land exceeding 50 years may be finance leases, it does not require them to be treated as finance leases. Similarly, while the TPP does not does compel agencies to evaluate leases of less than 50 years, it does not prevent agencies making an evaluation and treating them as finance leases if the risks and benefits have transferred.

When applying the changes to AASB 117 and the requirements of TPP 11-01, agencies and auditors must consider:

- whether it is appropriate or possible to apply full retrospectivity to the policy change
- if full retrospectivity cannot be applied, the earliest period in which it can practicably be applied
- how lessee and lessor agencies intend to recognise, measure and disclose long term leases of land
- whether a significant difference between the fair value of the leased asset and the present value of the future lease payments, (e.g. peppercorn rentals) represents a grant between the lessor and lessee, and how that grant might be treated by each party
- the reliability of information supporting the proposed entries
- the materiality of potential misstatements where estimates are used to apply the policy change
- the substance of the transaction and not merely its legal form ([Framework](#) paragraph 35). This may include considerations about whether the agreement intends to transfer the rights and benefits permanently, or for a period of time, or not at all ([Interpretation 127](#)).

Lessor and lessee agencies are encouraged to discuss the implications of the change with The Treasury and their Audit Office representatives.

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THE AUDIT OFFICE
OF NEW SOUTH WALES

New Release Standards

[ASRS 4400](#) *Agreed-upon Procedures Engagements to Report Factual Findings*

This new standard (issued June 2011) clarifies when to accept, how to perform and what to report on for agreed-upon procedures engagements. It replaces AUS 904 'Engagements to Perform Agreed-Upon Procedures' and contains updated and additional requirements and application material. It is applicable to new engagements from 1 October 2011.

Horizon Issues

Upcoming AASB standards

The AASB intends to adopt the following new IASB standards and monitor implementation issues.

- **IFRS 10 Consolidated Financial Statements** - the definition of 'control' is revised. Significantly more judgement will be required to determine whether control exists. Inputs into the decision will be the parent entity's power over significant decisions and its exposure to variability in returns.
- **IFRS 11 Joint Arrangements** - includes new definitions:
 - 'joint operations', where the operators have a right to the underlying assets and obligations
 - 'joint ventures' where joint venture parties have rights to the net assets.

The rights and obligations arise from the legal form, contractual obligations and other facts and circumstances underlying the joint arrangement. The option of proportional consolidation is no longer permitted.

- **IFRS 12 Disclosure of Interests in Other Entities** - enhanced disclosures for subsidiaries, joint arrangements, associates and 'structured entities'.
- **IFRS 13 Fair Value Measurement** - defines 'fair value', sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements.

NEW SOUTH WALES AUDITOR-GENERAL'S REPORTS

[Financial Audit](#) - *Universities and other Audits*

New South Wales' ten universities recorded a combined operating surplus of \$582 million in 2010. Capital works expenditure increased by 16 per cent in 2010.

Despite this, financial and reputational issues continue for universities. The maintenance back log has fallen but remains significant, substantial funds are required for planned capital works and the ageing workforce remains a challenge.

In this report the Auditor-General also presents a revised version of his 17 key governance components, first published in 2009, and publishes his Corporate Governance Lighthouse.

[Performance Audit](#) - *Two Ways Together - NSW Aboriginal Affairs Plan*

The Two Ways Together Plan was developed to improve the wellbeing of Aboriginal people. The disadvantage still experienced by some of the estimated 160,000 Aboriginal people in New South Wales is substantial. New South Wales spends approximately \$240 million annually on specific services for Aboriginal people.

The Auditor-General recommends that the community governance bodies be given extra support; and an independent advisor be appointed to be a strong voice on issues that are fundamental to improving the lives of Aboriginal people.

[Performance Audit](#) - *Government Expenditure and Transport Planning in relation to implementing Barangaroo*

Barangaroo is an ambitious and significant development on Government-owned Sydney Harbour foreshore. Developer contributions to Government of \$1.0 billion are to provide for public domain and other Government development costs. When completed the precinct is to service an anticipated 26,000 workers and residents and up to 33,000 visitors a day.

The Auditor-General concluded that while there was extensive transport planning and extensive documentation supporting Government financial forecasts, considerable risks remain for the implementation of the Barangaroo project.

ACCOUNTING UPDATE

New Australian Accounting Standards Board (AASB) Standards

- [AASB 1054](#) 'Australian Additional Disclosures' (New standard arising from Trans-Tasman Convergence Project).
- [AASB 2011-1](#) Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project.
- [AASB 2011-2](#) Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements.
- [AASB 2011-3](#) Amendments to Australian Accounting Standards - Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049].

New International Pronouncements

- IAS 19 Employee Benefits (revised).
- IAS 1 Presentation of Financial Statements (amended).
- ED Improvements to IFRSs [IFRS1, IAS 1, IAS 16, IAS 32, IAS 34].

AASB Meeting Highlights - 8-9 June 2011

At its [meeting](#), the AASB discussed the following topics:

- consolidation, associates and joint arrangements (IFRS 10, 11 and 12; IAS 27 and 28 / AASB 10, 11, 12, 127 and 128)
- fair value measurement (IFRS 13 / AASB 13)
- presentation of other comprehensive income
- post-employment benefits
- financial instruments (hedge accounting; impairment; offsetting of financial assets and liabilities)
- insurance contracts
- leases
- revenue recognition
- income of not-for-profit entities
- IPSASB conceptual framework
- interpretations update
- emerging issues (implications of the IASB's SMEs Implementation Group guidance; individual KMP disclosures)
- differential reporting.

IASB Meeting Highlights

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

- IFRS 9: financial instruments: classification and measurement
- IFRS 9: financial instruments—impairment
- impairment
- insurance contracts
- investment property
- leases
- offsetting financial assets and financial liabilities
- revenue recognition.

AUDITING UPDATE

AUASB Meeting Highlights - 14 June 2011 (now [available](#))

IAASB CP - Enhancing the Value of Auditor Reporting: Exploring Options for Change

This [consultation paper](#) describes issues with current financial reporting, including a perceived 'information gap'. Some stakeholders want additional, and more pertinent, information for their decision making. The IAASB wants to better understand these views. The paper explores possible options for change, including whether auditors should provide additional information such as the quality of financial reporting.

Comments to the IAASB are requested by 16 September 2011.

ETHICS UPDATE

Accounting Professional and Ethical Standards Board (APESB) exposure drafts

[ED 01/11](#) *Revisions to APES 330 'Insolvency Services'*

This exposure draft proposes to extend the independence requirements of insolvency practitioners. Comments to the APESB are due by 22 July 2011.

An options paper related to this topic, [A Modernisation and Harmonisation of the Regulatory Framework Applying to Insolvency Practitioners in Australia](#), examines reforms to address possible misconduct in the insolvency profession and to improve the value for money for recipients of insolvency services.

[ED 02/11](#) *Proposed new Standard: APES 325 'Risk Management for Firms'*

This exposure draft proposes mandatory requirements on establishing and maintaining a risk management framework; monitoring and documenting risk management policies and procedures. Comments to the APESB are due by 22 August 2011.

APESB Meeting Highlights - 23-24 May 2011

The Board considered six potential options for the definition of a Public Interest Entity (PIE) in the Australian context. Other items discussed are detailed in its [meeting highlights](#).

Subsequently, the APESB released the [Consultation Paper](#): Proposed Definition of Public Interest Entity for the Code. Comments to the APESB are due by 28 July 2011.

LEGISLATIVE UPDATE

Acts Interpretation Amendment Act 2011

This [Act](#) makes reading and interpreting Commonwealth legislation easier.

Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011

Reforms in this [Act](#) commenced operation on 1 July 2011. The reforms strengthen Australia's remuneration framework, empower shareholders to hold directors accountable for their decisions relating to executive remuneration and eliminate conflict of interest in the remuneration setting process.

DEPARTMENT OF PREMIER AND CABINET UPDATE

[M2011-11](#) *Changes to the Management of Excess Employees*

The memorandum ends the policy of no forced redundancies. Excess employees have a choice of a voluntary redundancy package or the opportunity to seek redeployment.

[M2011-12](#) *Strengthening Whistleblower Protections*

Public authorities must adopt changes to the *Public Interest Disclosures Act 1994*. This includes having a policy for receiving, assessing and dealing with protected disclosures; and complying with annual reporting obligations. See also the [Ombudsman's guidelines](#) for preparing a policy.

Other recent Ministerial Memoranda and Circulars

- [M2011-09](#) Code of Conduct for Ministers of the Crown.
- [M2011-10](#) NSW Public Sector Wages Policy.
- [M2011-13](#) Lobbying of New South Wales Government Officials.
- [C2011-16](#) Nominations sought for the Public Service Medal.
- [C2011-17](#) National Aboriginal and Islander Day Observance Committee (NAIDOC) Week 2011.
- [C2011-18](#) Premier's Public Sector Awards 2011.
- [C2011-19](#) Public Sector Industrial Relations.

THE TREASURY UPDATE (NEW SOUTH WALES GOVERNMENT)

[TC 11/09](#) *Financial and Annual Reporting Implications of the April 2011 Agency Restructures*

This circular includes answers to frequently asked questions such as:

- should a restructured department prepare financial statements from 1 April 2011 only or the full 12 months?
- if a statutory body has the same CEO as a department from which it receives personnel services, does the department control the statutory body?
- where assets transfer between agencies, does the asset revaluation reserve also transfer?
- if a department is responsible to more than one Minister, which Minister should the Department submit its financial and annual report to?

Other recent Treasury Circulars

- [TC11-08](#) Agency compliance with goods and services tax (GST) and fringe benefits tax (FBT).
- [TC11-10](#) Funding for Redundancy Payments.

AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION (ASIC) UPDATE

[11-125MR](#) Decision in Centro civil penalty case

This Federal court case centres on Board responsibilities to review and approve financial statements.

[Report 240](#) - Compensation for retail investors: the social impact of monetary loss

This report explores the social impact of investors not being fully compensated when they suffer financial loss because of their licensee's misconduct.

[Report 242](#) - Audit inspection program public report for 2009-10

Major findings include weaknesses on the quality of audit evidence, insufficient exercise of professional scepticism and inadequate engagement quality control review.

In Focus

The [May edition](#) includes updates on the Personal Properties and Securities (PPS) Register, the lodging of financial reports, reports of misconduct and breaches; and relief for companies affected by the recent flood disasters.

MISCELLANEOUS RESOURCES

CPA Australia

- [Assurance review results](#) - Common Breaches in Compliance.

Institute of Chartered Accountants in Australia (ICAA)

- [Essential Guidance](#) for the June 2011 reporting season.
- [Paper](#) - CFO Survey 2011: Corporate Governance Performance and Insights.
- [Research paper](#) - Integrating sustainability into business practices: a case study approach.
- [Audit Committee guide](#): Foreign bribery and corruption.
- [Business Guidance Notes: A compilation](#) (Guidance Notes 1 - 12).
- [Business Guidance Note 13](#): Board Reporting for SMEs.

Independent Commission against Corruption (ICAC)

New publications below are available on the [ICAC website](#).

- ICAC Strategic Plan 2011-2015.
- Corruption Matters Issue 37.
- Section 11 - Report guidelines for principal officers.
- Investigation into the corrupt conduct of a Willoughby City Council Officer.
- Information for Witnesses.
- ICAC public inquiry directions.

Independent Pricing and Regulatory Tribunal (IPART)

IPART has released [new publications](#) relating to the Gas, Electricity, Water, and Transport Industries. Also available are new discussion papers on:

- regulated monopoly service providers and customer views, preferences and willingness to pay
- the incorporation of company tax in price determinations.

Greenhouse gas reporting

- [ACCA Report](#) - The carbon we're not counting: Accounting for Scope 3 Carbon Emissions.
- [Productivity Commission Report](#) - Carbon Emission Policies in Key Economies.

International

- [ISACA / IFAC Paper](#) Leveraging XBRL for Value in Organisations.

NEW PUBLICATIONS BY OTHER AUDIT OFFICES

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

- The Establishment, Implementation and Administration of the Council Allocation Component of the Regional and Local Community Infrastructure Program.
- Australian Federal Police Protection Services.
- AusAID's Management of Tertiary Training Assistance.
- Administration of the Luxury Car Tax.
- Management of Student Visas.
- The Development and Administration of National Research Flagships.
- Monitoring and Compliance Arrangements Supporting Quality of Care in Residential Aged Care Homes.
- Fuel Tax Credits Scheme.
- Administration of Tax Office Shopfronts.
- Administration of the Access to Allied Psychological Services Program.
- Administration of Deductible Gift Recipients (Non-profit Sector).
- Drought Assistance.
- Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2011.
- Administering the Character Requirements of the Migration Act 1958.
- Administering the Character Requirements of the Australian Citizenship Act 2007.
- Acceptance into Service of Navy Capability.

ACT Auditor-General's Office

- Performance Audit [Report](#) - The North Weston Pond Project.

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

- Audit Results - Annual Assurance Audits completed since 1 November 2010, including universities and state training providers; and Opinion on a Ministerial Notification.
- Information Systems Audit Report.
- Public Sector Performance Report 2011 - Agency compliance with procurement requirements; Managing the Priority Start - building policy.

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

- [Model financial statements](#) for Crown entities (Crown Service Enterprise).
- [Model financial statements](#) for council-controlled organisations (Te Motu Regional Economic Development Trust).
- Final audits of Auckland's dissolved councils, and managing leaky home liabilities.
- Progress in delivering publicly funded scheduled services to patients.
- Annual Plan 2011/12.
- Central government: Cost-effectiveness and improving annual reports.
- Inland Revenue Department: Making it easy to comply.
- New Zealand Customs Service: Providing assurance about revenue.

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

- Information systems governance and security.
- Results of audits at 31 May 2011.

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

- Follow up of Special Reports 69-73.
- Premier's Sundry Grants and Urban Renewal and Heritage Fund.
- Bushfire management.
- Financial and economic performance of Forestry Tasmania.

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

- Tertiary Education and Other Entities: Results of the 2010 Audits.
- Early Childhood Development Services: Access and Quality.
- Indigenous Education Strategies for Government Schools.
- Management of Major Road Projects.
- Victorian Life Sciences Computation Initiative.
- Allocation of Electronic Gaming Machine Entitlements.
- Municipal Solid Waste Management.
- Presentation to the Australasian Study of Parliament Group - Trends in public sector audit legislation: from Federation to follow-the-dollar.
- Presentation to Parliamentarians - Annual Plan 2011-12.