

AWARENESS

Accounting and Auditing Developments - ISSUE 6 - JULY 2010

AUDIT OFFICE UPDATE

Auditor-General's Report to Parliament: Severance Payments to Special Temporary Employees

About the audit

The Premier, Ministers and the Opposition Leader have advisers and assistants to provide support and advice on policy direction, and liaise with public sector agencies, business representatives and other interest groups. As at 31 December 2009 there were 252 of these staff comprising 36 permanent public servants on temporary transfer and 216 Special Temporary Employees (STEs). STEs are selected by the office holder and not through normal public service processes.

STE employment terminates when the office holder dies or loses office, on the day appointed for the next general election, or if the services of the STE are dispensed with. The Director-General, Department of Premier and Cabinet (DP&C) may retain the services of an STE despite the above circumstances. Severance entitlements are set out in guidelines issued by the DP&C. When an STE's employment is terminated for any reason other than misconduct or poor performance, they receive a payment based on their salary and length of service.

Between 1 July 2006 and 31 December 2009, STE turnover including resignations averaged 34 per cent each year. A total of 257 STEs had their employment terminated or resigned. Of these, 147 received severance payments worth around \$5.9 million. The audit examined whether severance payments to STEs were been made in accordance with clear rules and were not excessive.

Audit conclusions

The severance guidelines are clear and all except two payments were made in accordance with them. In these two cases the severance payment was stipulated in the employment contract guaranteeing the STE six months pay on termination, irrespective of the length of service. The two STEs were terminated after less than a year in the job. Together they received \$177,800 more than what they would have received if severance was paid in accordance with the guidelines. Also, the guidelines do not require the reason for termination to be given or an indication of whether the STE's job has been abolished. In the interest of accountability and transparency the reasons for these decisions should be clearly recorded in writing.

Since 1995, all STE severance payments have been treated as redundancies for tax purposes. Yet the usual practice was for a new person to be employed after the STE was terminated, so some payments may have been taxed incorrectly. The DP&C advises the roles of the new STEs often changed, but we do not know whether this made the terminations genuine redundancies.

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THE AUDIT OFFICE
OF NEW SOUTH WALES

The DP&C has set and published salary bands for the lower five levels of STE, but has not done so for the two most senior levels. In the interests of transparency, the salary bands for all STE levels should be set and published.

STE's and permanent public servants get the same number of weeks of severance pay per year of service. Prior to 2006, STE severance entitlements were lower than those of permanent public servants. It was not clear to us why the 2006 increase was necessary. Unlike permanent public servants, STEs can be hired and promoted without competitive selection and are temporary employees engaged for a limited period.

The severance payments available to NSW STEs are generally greater than those available to similar staff in other jurisdictions, although some other jurisdictions provide higher payments for those who serve 17 years or more. Some jurisdictions, including the Commonwealth, provide different rates of severance pay depending on the reason for termination. These pay a lower rate to staff terminated for reasons other than the office holder dying, resigning or losing office. The underlying principle seems to be that terminations where the office holder changes are closer to redundancy, but are not treated as a bona fide redundancy for taxation purposes.

Recommendations

We recommended that the Director-General, Department of Premier and Cabinet:

- set salary bands for all STE levels and publish these on the DP&C website
- record in writing the reason for termination and whether or not the job has been abolished
- only pay STEs severance in accordance with the guidelines
- obtain taxation advice on whether STE severance pay should be treated as a redundancy for tax purposes
- review the NSW severance guidelines before the next general election and consider
 - the effect of the taxation advice
 - adopting different levels of severance pay depending on the reasons for termination.

Further information

The full report is available on the [Audit Office of New South Wales website](#).

Auditor-General's Report to Parliament: Government Investment in V8 Supercar Races at Sydney Olympic Park

Background

A proposal for government funding of street car races at Sydney Olympic Park was presented to the Minister for State Development by V8 Supercars Australia (V8SA) in April 2008.

The Government announced its support for the event at Sydney Olympic Park in late September 2008. An industry assistance grant was capped at \$35 million for five annual races from 2009. The first race was held over 4-6 December 2009 and attracted an estimated 77,000 individual spectators over the three days, or a total of 151,000 through the gates.

The audit's objective was to examine the effectiveness of the process and analysis supporting the Government's investment in the V8 supercar races at Sydney Olympic Park.

Audit conclusions

We recognised that the event was prepared in a tight timeframe, attracted a large crowd and was proclaimed a success by the Premier.

However, we concluded that:

- the Government received inadequate advice when assessing the proposal
- post-event analysis indicates that costs are more than planned and that economic impacts are less than estimated largely because of fewer visitors from interstate.

Was direct negotiation with the proponent properly handled?

We concluded that direct negotiation with the proponent was not well handled. The approach to assessing the proposal and negotiating an agreement did not follow established procedures for investing public funds. We found that:

- initial advice by State Development to Cabinet in June 2008 was not based around a business case and did not allow Government to make a well informed decision
- further advice provided to Cabinet in July and September 2008 was based on limited analysis and restricted consideration of options
- events NSW, the major event experts, were not requested to provide advice to Government before the Cabinet's in-principle support in June
- the Government's negotiating position was weakened by the media reports in July 2008 about the Government's in-principle support for the event at Sydney Olympic Park. The Government and the proponent negotiated an agreement ten months later.

Were estimates of costs and benefits complete and accurate?

We concluded that estimates of costs and benefits were not complete and accurate. We found that:

- Costs to Government are estimated to exceed the cap of \$35 million of cash and in-kind costs approved by Cabinet by \$10 million relating to government agency support. There is no indication that the contribution to V8SA will be exceeded.
- Government received advice that the net direct cost to government would be approximately \$33.9 million. The cost to government will also be reduced by an estimated \$2 million from the sale of infrastructure purchased for the event.
- Estimated economic impacts of the proposal have declined by at least 24 per cent. They are now near the level of earlier benefits analysis that rejected the event at Sydney Olympic Park. While the global financial crisis was a factor in the decline, the 2008 economic analysis of the event proposal was based on increased attendance figures for interstate and overseas visitors.
- The costs and benefits of major events are not routinely made public.

Recommendations

Our recommendations focussed on assisting major event agencies to adopt a more coherent strategy for approaching and assessing major events. We recommended:

- events NSW provide expert advice for assessing and negotiating major event proposals adopting guidelines for economic evaluations agreed with NSW Treasury
- agencies agree a consistent method for determining the impacts of major events
- more consistent, complete and accurate costing of events by all agencies
- agencies expand their reporting on major event performance.

Further information

The full report is available on the [Audit Office of New South Wales website](#).

Public Accounts Committee - Sixth Report on the Examination of the Auditor-General's Performance Audits

In this [report](#), the Public Accounts Committee examined the following Auditor-General's Performance Audit reports.

Delivering Health Care out of Hospitals

The Committee recommended that NSW Health:

- develop and implement a coordinated communication strategy that clearly identifies how it will inform the public and health care professionals about the benefits of in home care
- promote equality of access to healthcare by giving greater priority to rolling out successful out of hospital health care initiatives across NSW.

Managing Injured Police

The Committee recommended that the NSW Police Force develop a new injury compensation model, with a return to work focus, to form the basis of negotiations with the Police Association.

Efficiency of the Office of the Director of Public Prosecutions (ODPP)

The Committee is of the opinion that, in the two years since the tabling of the performance audit, the ODPP has made significant and satisfactory progress in implementing the Auditor-General's recommendations.

Source: NSW Parliamentary Website.

Information Systems Audit

What's New

We have introduced a number of new tools over the last 9 months to enhance the effectiveness of our audits.

New tools include:

- **ACL AuditExchangell** - a powerful, server-based data mining / interrogation tool used for data matching, exception reporting, sampling and recalculation. We have developed specific scripts for - journal entries, payroll, expenditure, expense claims, fixed assets, credit cards and fraud detection.
- **Sekchek** - a data gathering and analyses tool for the audit of operating system security.
- **Padlock** - a data gathering and analyses tool for the audit of database security.
- **Sainchek** - a tool for the audit of SAP BASIS security settings.
- **EQSmart** - a tool for the audit of SAP BASIS security settings and the integrity of an organisation's segregation of duties implementation.

These tools enhance our ability to detect inappropriate and unauthorised activities and uses of our client's financial systems. As a result, we have the capability to:

- uncover persons with unauthorised system access
- compare system security settings with industry best practice
- identify persons using official credit cards for personal use
- reveal ghost employees in the payroll system
- track down fraudulent transactions.

The above are only a sample of what is possible. In addition, the use of these tools goes hand-in-hand with our ongoing technical training regime covering the UNIX and WINDOWS operating systems as well as the SAP and ORACLE enterprise system applications.

In addition to the tools, we can review and/or assess aspects of client's information systems projects including project governance, project management, financial management and IT solution management. We pinpoint why, how and when projects have come off the rails.

Source: Henry Szus - Director, Information Systems Audit.

ACCOUNTING UPDATE

Australian Accounting Standards Board (AASB) Pronouncements

[AASB 1048](#) *'Interpretation of Standards' (re-issued)*

This standard was re-issued in June 2010 and is applicable to annual reporting periods ending on or after 30 June 2010.

Source: AASB website, [media release](#) (6 July 2010).

[AASB 1053](#) *'Application of Tiers of Australian Accounting Standards'*

This new standard aims to significantly reduce the disclosure burden and costs of preparing and auditing financial reports for most entities that currently apply full IFRSs as adopted in Australia. These entities (now called 'Tier 2' entities) include large proprietary companies in the for-profit private sector, all not-for-profit private sector entities and the majority of public sector entities.

However, the standard recognises that regulators have the power to require the application of Tier 1 reporting requirements.

This standard applies to annual reporting periods beginning on or after 1 July 2013, with early adoption permitted.

Source: AASB website, [media release](#) (30 June 2010).

[AASB 2010-2](#) *'Amendment to Australian Accounting Standards arising from Reduced Disclosure Requirements'*

This new standard complements AASB 1053. It determines disclosures in Australian Accounting Standards from which Tier 2 entities are exempt.

This standard applies to annual reporting periods beginning on or after 1 July 2013. Earlier application is permitted provided that AASB 1053 is early adopted for that period.

Source: AASB website, [media release](#) (30 June 2010).

[AASB 2010-3](#) and [AASB 2010-4](#) *'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'*

These new standards amend a number of different Australian Accounting Standards. AASB 2010-3 is operative for reporting periods beginning 1 July 2010. AASB 2010-4 is operative for reporting periods beginning 1 January 2011.

Source: AASB website, [media release](#) (7 July 2010).

[ED 198](#) *'Revenue from Contracts with Customers'*

This exposure draft reflects IASB [ED/2010/6](#) of the same name. It aims to improve and align the financial reporting of revenue from contracts with customers and related costs. If adopted, the proposal would create a single revenue recognition standard that would be applied across various industries and markets.

In Australia, the proposed standard would replace AASB 118 'Revenue', AASB 111 'Construction Contracts' and related Interpretations. The core principles in the proposed standard are that:

- an entity should recognise revenue from contracts with customers when it transfers goods or services to the customer
- revenue should be measured at the amount of consideration the entity receives, or expects to receive, from the customer.

Submissions to the AASB and IASB are due by 24 September 2010 and 22 October 2010 respectively.

Source: AASB website, [media release](#) (2 July 2010).

ED 199 'Measurement Uncertainty Analysis Disclosure for Fair Value Measurements (Limited re-exposure of proposed disclosure)'

This exposure draft reflects IASB [ED/2010/07](#) of the same name. It proposes improvements to the Level 3 fair value measurement disclosures that were proposed in ED 181 'Fair Value Measurement' published in June 2009.

In that exposure draft, the IASB proposed a three-level fair value hierarchy that categorises observable and non-observable market data used as inputs for fair value measurements. According to that hierarchy, Level 3 inputs are 'unobservable inputs' used for the fair value measurement of assets or liabilities for which market data are not available.

In response to comments received, the IASB proposes to enhance its original proposal by requiring the measurement uncertainty analysis disclosure to reflect the interdependencies between unobservable inputs used to measure fair value in Level 3. Users of financial statements commented that this information would allow them to assess the effect that the use of different unobservable inputs would have had on the fair value measurement.

Submissions to the AASB and IASB are due by 16 August 2010 and 7 September 2010 respectively.

Source: IASB website, [press release](#) (29 June 2010); and AASB website, [media release](#) (6 July 2010).

ED 200A /FRSB ED 121 'Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand'

This [exposure draft](#) intends to amend financial reporting standards in Australia and New Zealand to move closer to a common set of financial reporting standards. It proposes to eliminate many of the IFRS-related differences between the two countries for for-profit entities and represents the first phase of a longer-term project to harmonise accounting requirements in Australia and New Zealand.

Submissions are requested by 8 October 2010.

Source: AASB website, [media release](#) (8 July 2010).

AASB Meeting Highlights - 9-10 June 2010

At its meeting, the AASB discussed the following.

Differential Reporting

The Board finalised its thoughts on the following key issues:

- which entities should be deemed 'publicly accountable' in the Australian environment
- the possible need for second Tier requirements in respect of insurers and superannuation plans
- constituent proposals on inclusions/exclusions of disclosure requirements in relation to the second tier
- transitional provisions.

ED 179 'Superannuation Plans and Approved Deposit Funds'

The Board continued its deliberations on ED 179 'Superannuation Plans and Approved Deposit Funds' and tentatively decided on certain aspects of accounting for insurance contracts under a replacement Standard for AAS 25 'Financial Reporting by Superannuation Plans'.

Improvements to IFRSs

The Board considered draft AASB Standards corresponding to the IASB's Standard 'Improvements to IFRSs' (May 2010). They will be circulated as ballot drafts for the Board for out-of-session approval.

Financial Instruments - Financial Asset Impairment

The Board discussed IASB ED/2009/12 'Financial Instruments: Amortised Cost and Impairment' and the FASB ED 'Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities'.

In general, the Board is not supportive of the proposed expected loss impairment model. The Board is also concerned about the usefulness and extent of the proposed disclosures on cumulative loss development, stress testing and 'vintage' information.

As an alternative to the proposed impairment model, the Board considers that the IASB should retain a form of incurred loss model that takes into account a broad range of information in assessing whether events have occurred that give rise to credit losses.

Financial Instruments - Fair Value Option for Financial Liabilities

The Board discussed IASB ED/2010/4 'Fair Value Option for Financial Liabilities' and the FASB ED 'Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities'.

The Board agreed to comment that:

- a clear measurement attribute should be applied to financial liabilities designated at fair value - if fair value has been chosen, the accounting should be fair value through profit or loss without separately measuring and re-presenting the effects of changes in a liability's credit risk from profit or loss to other comprehensive income
- whilst feedback received by the IASB indicates that there is little demand for changing most of the other requirements under IAS 39 for financial liabilities, the IASB should consider the consistency of the measurement models for financial assets under IFRS 9 and financial liabilities.

IASB's Conceptual Framework Exposure Draft 'The Reporting Entity'

The Board tentatively decided to support the proposals in this exposure draft, subject to comment letters it receives on AASB ED 193. The Board also tentatively decided to recommend that the revised IASB 'Framework' should separately include concepts identifying the characteristics of entities that should prepare general purpose financial reports.

Conceptual Framework - Objective and Qualitative Characteristics: Not-for-Profit Entities

The Board decided that the IASB's forthcoming Conceptual Framework chapters on the 'Objective of General Purpose Financial Reporting' and the 'Qualitative Characteristics of, and Constraints on, Useful Financial Information' should, when issued in Australia, be applicable to all reporting entities. Those chapters will include limited additional guidance necessary for their application by not-for-profit entities.

Liabilities - Not-for-Profit Modifications

The Board decided:

- to carry forward the guidance in paragraphs Aus26.1 and Aus26.2 of AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' to the extent necessary to accommodate changes between IAS 37 and its replacement IFRS
- that changing the scope of the guidance from local governments, government departments and governments to public sector not-for-profit entities is not expected to result in a significant change in practice.

AASB ED 194 'Request for Comment on IPSASB Exposure Draft - Service Concession Arrangements: Grantor'

The Board decided that its submission to the IPSASB should:

- express the view that the grantor should recognise a service concession asset constructed by the operator as the construction takes place, irrespective of whether the construction risk is borne by the grantor or the operator
- accept the performance obligations approach, with clarification of some aspects
- propose retrospective application of the Standard when first applied by an entity.

Interpretations

The Board decided to vote out of session on making a revised version of AASB 1048 'Interpretation and Application of Standards'. The revised AASB 1048 will no longer list all versions of Interpretations that have been superseded.

Source: [AASB website](#), AASB [Action Alert](#), Number 135 (11 June 2010).

AASB Meeting Highlights - 25 June 2010

At its meeting, the AASB discussed the following.

Differential Reporting

The Board agreed to vote to make the standards introducing a second Tier of requirements for preparing general purpose financial statements by 30 June 2010, subject to minor amendments. The standards would have a mandatory application date of periods beginning on or after 1 July 2013. Eligible entities are permitted to early adopt the standards for annual reporting periods beginning on or after 1 July 2009. This will complete Stage 1 of the AASB's differential reporting project.

Source: [AASB website](#), AASB [Action Alert](#), Number 136 (25 June 2010).

AUDITING UPDATE

Auditing and Assurance Standards Board (AUASB) Pronouncements

[ASRE 2415](#) 'Review of a Financial Report - Company Limited by Guarantee'

This transitional Auditing Standard on Review Engagements establishes requirements and provides application and other explanatory material regarding a review of a financial report for a financial year of certain companies limited by guarantee and on the form and content of the auditor's review report.

More information is available in the [Explanatory Guide](#) accompanying the standard. This standard is operative for reviews of financial reports for reporting periods ending on or after 30 June 2010.

Source: Accounting and Assurance News Today, Issue 25 (2 July 2010).

[ASAE 3402](#) *'Assurance Reports on Controls at a Service Organisation'*

This new standard complements [ASA 402](#) 'Audit Considerations Relating to an Entity Using a Service Organisation'. ASAE 3402 provides the requirements of service auditor's reports on controls, which may be used as audit evidence by user auditors under ASA 402.

AUASB GS 007 'Audit Implications of the Use of Service Organisations for Investment Management Services' will continue to provide guidance where investment management services are provided by the service organisation. However, for periods commencing 1 July 2010, service auditors must follow the requirements of ASAE 3402. GS 007 will be revised in the 2010/2011 financial year to anchor to ASAE 3402 and ASA 402 in clarity format. However, the AUASB does not anticipate the revision to significantly impact service auditors.

Source: AUASB website, [media release](#) (29 June 2010).

[GS 016](#) *'Bank Confirmation Requests'*

This guidance statement considers the enquiry and confirmation methods for obtaining audit evidence regarding an entity's bank accounts and transactions in accordance with Australian Auditing Standards.

It includes the two standard bank confirmation request forms:

- Bank Confirmation—Audit Request (General) (Appendix 1) - requests on normal banking activities
- Bank Confirmation—Audit Request (Treasury and Other Operations) (Appendix 2) - requests on an entity's treasury operations and use of treasury management instruments.

GS 016 is effective for reporting periods ending on or after 30 September 2010 to allow time for auditors and banks to update processes and systems for the new guidance. GS 016 will replace AGS 1002 'Bank Confirmation Requests', which remains in effect for audits with reporting periods ending 30 June 2010.

Source: Accounting and Assurance News Today, Issue 24 (25 June 2010).

[GS 017](#) *'Prudential Requirements for Auditors of a Life Company'*

This guidance statement provides guidance to auditors of life companies, reporting in line with APRA's Prudential Standard LPS 310 'Audit and Related Matters'.

It is to be read in conjunction with, and is not a substitute for referring to:

- LPS 310 and other applicable APRA Prudential Requirements and Reporting Standards, including the *Life Insurance Act 1995* (Life Act), the *Financial Sector (Collection of Data) Act 2001* (FSCODA)
- applicable AUASB Standards
- relevant ethical and professional standards.

GS 017 is effective for reporting periods commencing on or after 1 July 2010.

Source: [AUASB website](#).

[AUASB publication](#) *'Overview of the revised and redrafted Australian Auditing Standards'*

The AUASB prepared this publication as supplementary material for information sessions held in December 2009, and March and May 2010, on the Clarity versions of the Australian Auditing Standards.

The overview aims to provide a helpful guide to certain aspects of a selection of Auditing Standards. It contains limited information about some of the changes to, and/or significant aspects of, the selected Auditing Standards.

Source: AUASB website.

SBR and XBRL Update

The AUASB has issued a [Bulletin](#) 'Standard Business Reporting and XBRL: Information for Audit and Assurance Practitioners' to provide information about how the introduction of Standard Business Reporting (SBR) in Australia, from 1 July 2010, may impact audit and assurance practitioners.

The [SBR initiative](#), which aims to reduce business to government reporting, has reached some major milestones, including:

- businesses using SBR-enabled software will be able to report with AUSkey, the new online security credential
- a new product register list of software products that have been self-certified by software developers as SBR-compliant
- May taxonomy maintenance release that includes updates to the developer kit artefacts
- the Federal Government has committed to providing \$89.9m over the next four years to support the continuation of the program in streamlining business' reporting requirements
- availability of end user agreements.

Source: AUASB website, [media release](#) (30 June 2010); and [SBR website](#), Accounting and Assurance News Today, Issue 22 (11 June 2010).

LEGISLATIVE UPDATE

Statute Law (Miscellaneous Provisions) Act 2010

The *Statute Law (Miscellaneous Provisions) Act 2010* received royal assent on the 28 June 2010. It clarifies controlled entity reporting requirements by amending the following Acts:

- *Public Finance and Audit Act 1983* (PF&A Act)
- *Annual Reports (Department) Act 1985*
- *Annual Reports (Statutory Bodies) Act 1985*.

The amendments make it clear that a controlled entity of an agency is required to have separate financial reports that are prepared and audited in accordance with the same requirements that apply to statutory bodies and departments.

Notes have also been added to draw attention to the fact that statutory state owned corporations are statutory bodies for the purposes of the PF&A Act and the *Annual Reports (Statutory Bodies) Act 1985*.

Source: [NSW Parliamentary Website](#).

Associations Incorporation Legislation

The *Associations Incorporation Act 2009* and Associations Incorporation Regulation 2010 commenced on 1 July 2010. The Act separates the financial reporting requirements of NSW incorporated associations into two Tiers:

- 'Tier 1' associations with gross annual receipts of more than \$250,000, or current assets exceeding \$500,000, will need to have their annual accounts audited and lodge a copy with NSW Fair Trading, unless exempted
- 'Tier 2' associations will still only need to lodge an annual summary of their financial affairs.

Most of the other changes to the legislation are designed to modernise the law and reduce red tape, and allow more flexibility for associations.

Source: [NSW Fair Trading website](#).

Corporations Amendment (Corporate Reporting Reform) Act 2010

This [Act](#) received royal assent on 28 June 2010. It potentially impacts 30 June 2010 audits. It contains most of the 'red tape reduction' reforms contained in the draft Bill released for public consultation in December 2009. The benefits include:

- significantly reducing the regulatory burden on companies limited by guarantee, by introducing a three-tiered differential reporting framework
- removing the requirement to prepare parent-entity accounts
- replacing the profits test with a solvency-type test for the payment of dividends
- making it easier to change a company's year-end date to minimise the burden on companies and their auditors during peak reporting periods.

The reforms also implement refinements to the regulatory framework, including improving disclosure of non-financial information in the directors' report.

Further information is available on the [Treasury](#) and [Ernst & Young](#) website.

Source: Accounting and Assurance News Today, Issue 24 (25 June 2010).

National Consumer Credit Update

The *National Consumer Credit Protection Act 2009* (the Act) came into force on 1 July 2010. The existing National Consumer Credit Protection Regulations were also amended and enhanced to assist with the consumer credit reforms.

More information on these reforms is available on the [Treasury website](#) and the [ASIC website](#).

ASIC has also released a range of [regulatory guidance](#) and information sheets to assist credit providers comply with the new obligations under the Act.

Source: Accounting and Assurance News Today, Issue 25 (2 July 2010).

FINANCIAL REPORTING COUNCIL (FRC) UPDATE

FRC Meeting Highlights - 7 June 2010

At its meeting, the FRC discussed the following:

- strategic planning
- reports by Chairman and stakeholders
- differential reporting.

Source: FRC website, [Bulletin 2010/02](#) (7 June 2010).

AUSTRALIAN PRUDENTIAL REGULATORY AUTHORITY (APRA) UPDATE

Updated - Approved Audit Report Form for Superannuation Entities

APRA released an approved audit report form '[Audit Report under SIS Act](#)', applicable for reporting periods commencing on or after 1 July 2009. The new form includes a number of changes relating to compliance, including:

- moving the compliance section from Part 1 to Part 2 of the form
- making Part 2 applicable to both reporting and non-reporting entities
- including specific reference to the liquid assets requirements under section 29EA of the SIS Act as they relate to Condition C.1 of the RSE Licence.

Source: [APRA website](#).

Simplified Prudential Reporting for General Insurers

APRA released the [final prudential standards](#) to simplify APRA's prudential reporting requirements for general insurers. The standards will be effective from 1 July 2010.

The proposals align prudential reporting more closely with AIFRS for general insurers and it:

- simplifies reporting
- aims to provide APRA with more effective information to assess insurer performance
- enhances the dialogue between APRA and individual insurers on their performance.

Source: APRA website, [media release](#) (23 June 2010); Accounting and Assurance News Today, Issue 25 (2 July 2010).

AUSTRALIAN SECURITIES & INVESTMENTS COMMISSION (ASIC) UPDATE

Focus areas for 30 June 2010 financial reports

ASIC released the [findings](#) of its December 2009 financial report surveillance programme and highlighted important areas of focus for 30 June 2010 financial reports, including:

- going concern
- asset impairment
- fair value of assets
- off balance sheet exposures
- financial instruments
- current vs. non-current classifications
- issues related to current market conditions
- non-statutory profits
- operating and financial review
- segment reporting
- financial statement disclosure
- business combination
- employee share plan loans.

Also, ASIC reminds entities of their obligations to ensure their performance reporting is meaningful and unbiased. The use of any non-statutory profit measures should not detract from statutory results. Appropriate application of the new accounting standards on segment reporting business combinations and other comprehensive income will also be important.

Source: Accounting and Assurance News Today, Issue 26 (9 July 2010).

Auditor in Breach of Various Auditing Standards

ASIC has accepted an enforceable undertaking (EU) from a Brisbane auditor after identifying a number of concerns in the conduct of the audits of a few public companies. These concerns include:

- failure to consider the risk resulting from the existence of related parties and related party transactions when planning and performing the audit
- failure to document evidence or ensure sufficient appropriate audit evidence was obtained with respect to:
 - the value and collectability of certain loans
 - doubtful debts and the carrying value of financial assets in the balance sheet
 - confirming that properties pledged as security for loans by director-related entities were owned by those entities and that the public entity's rights of security had been registered over the property titles concerned
 - assessing the capacity of director-related entities to meet their loan obligations under certain loan agreements
 - assessing the capacity of a director-related entity to meet its obligations under a deed which required the director-related entity to meet any shortfall in the repayment of certain loans
 - the appropriateness of the financial statements being prepared on a going concern basis.
- failure to issue a qualified audit opinion on the basis that there was doubt that the public company would continue as a going concern (or alternatively include an 'Emphasis of Matter' in the Auditor's Report on the basis of a lack of disclosure of matters relating to going concern).

Source: ASIC website, media advisory [10-131AD](#) (24 June 2010).

DEPARTMENT OF PREMIER AND CABINET UPDATE

The following recent Circulars and Ministerial Memoranda are available at www.dpc.nsw.gov.au.

Department of Premier and Cabinet Circulars

- [C2010-18](#) 'Staffing Freeze'.
- [C2010-19](#) 'Premier's Public Sector Awards 2010'.
- [C2010-20](#) 'NSW Government Branding Style Guide and revised logo'.

Ministerial Memoranda

- [M2010-09](#) 'Timeframes for the lodgement of cabinet minutes'.
- [M2010-10](#) 'Legislative Program Spring Sitzings 2010'.

THE TREASURY UPDATE (NEW SOUTH WALES GOVERNMENT)

The following recent Treasury Circulars are available at www.treasury.nsw.gov.au.

Treasury Circulars

[TC 10/07](#) *'Land under Roads'*

NSW public sector entities must recognise and value all land under roads at fair value for financial years ending on or after 30 June 2010. Most land under roads has no feasible alternative use and must be valued at existing use, based on an en globo valuation approach or proxy such as open space land.

The general principle in Treasury Policy TPP 07-1 'Valuation of Physical Non Current Assets at Fair Value' is that property, plant and equipment must be recognised and valued at fair value having regard to the highest and best use that is feasible. This Treasury Circular extends this principle to apply to land under roads.

This circular applies to all NSW public sector entities. It amends TPP 07-1 and withdraws TC 09/02 'Land under Roads'.

[TC10/08](#) *'Mandates of Options and Major Policy Decisions Under Australian Accounting Standards'*

This circular updates NSW Treasury mandates under Australian Accounting Standards to be applied in all NSW public sector agency financial statements for financial years ending on or after 30 June 2010.

The main changes include:

- AASB 1051 'Land Under Roads' - to recognise all land under roads at fair value
- AASB 123 'Borrowing Costs' - to mandate expensing of borrowing costs by not-for-profit General Government Sector agencies
- AASB 101 'Presentation of Financial Statements' - to mandate a single comprehensive income statement for all General Government Sector agencies.

This circular applies to all entities that are required to prepare general purpose financial statements under the *Public Finance and Audit Act 1983*. It supersedes and withdraws TC 09/03 'Mandates of Options and Major Policy Decisions under Australian Accounting Standards'.

INTERNATIONAL UPDATE

International Accounting Standards Board (IASB)

IASB and FASB convergence work

In a [joint statement](#), the IASB and the FASB have reaffirmed their intentions to complete their convergence program between IFRSs and US GAAP by June 2011. The two Boards are working on a revised work plan that will prioritise the convergence projects which offer the most significant improvements and will limit the number exposure drafts released to four per quarter.

Source: Accounting and Assurance News Today, Issue 22 (11 June 2010).

IASB Meeting Highlights - 10 June 2010

At its meeting, the IASB discussed the following:

- insurance contracts
- joint arrangements.

Source: IASB website, [IASB Update](#) (10 June 2010).

IASB Meeting Highlights - 14-17 June 2010

At its meeting, the IASB discussed the following:

- balance sheet - offsetting
- insurance contracts
- leases
- liabilities.

Source: IASB website, [IASB Update](#) (June 2010).

International Financial Reporting Standards (IFRS) Interpretations Committee

Meeting Podcasts

The IFRS Interpretations Committee is trialling 30 minute podcast summaries of its meetings, which can be downloaded from the [IASB website](#).

Source: IASB website.

International Accounting Standards Committee (IASC) Foundation

The [2009 Annual Report](#) of the IASC Foundation is available.

Source: IFRS website.

International Federation of Accountants (IFAC)

IFAC Articles on Business Reporting

Over the next few months, IFAC will publish the following series of business reporting articles on what should be done to improve corporate governance, business reporting, and auditing in the aftermath of the financial crisis.

- Good Governance and Sustainability Fundamental for Improved Business Reporting. ([available](#))
- Business Reporting Beyond the Crisis: How to Make Sure That We Don't Tumble Into Another Black Hole. ([available](#))
- Business Reporting Through the Lens of the Investor.
- A Global Language for Business Reporting.
- Towards a Broader View of Business Reporting.

Source: [IFAC website](#).

Other International Updates

Article: FASAB Aims for Consistent Reporting on Asbestos-Related Liabilities, Equipment Cleanup Costs

The Accounting and Auditing Policy Committee (AAPC) of the Federal Accounting Standards Advisory Board (FASAB) issued a pair of technical releases intended to achieve consistent reporting among federal entities of asbestos-related liabilities and cleanup costs associated with equipment.

[Technical Release \(TR\) 10](#) 'Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment', addresses questions regarding the consistent application of [Technical Bulletin 2006-1](#) 'Recognition and Measurement of Asbestos-Related Cleanup Costs', as it relates to asbestos cleanup costs associated with facilities and installed equipment. It clarifies existing accounting requirements and creates a framework for identifying assets containing asbestos, assessing the assets to collect information and developing key assumptions to estimate asbestos cleanup costs for federal facilities and installed equipment.

[Technical Release \(TR\) 11](#) 'Implementation Guidance on Cleanup Costs Associated with Equipment' focuses on when to recognise cleanup costs as an environmental liability and when to expense. It also aims to help federal entities provide reasonable estimates of cleanup costs associated with the disposal of equipment assets.

Source: [Journal of Accountancy](#) (4 June 2010).

COSO Study on Fraudulent Financial Reporting

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) published a study '[Fraudulent Financial Reporting: 1998-2007](#)' which examined 347 alleged accounting fraud cases investigated by the US Securities and Exchange Commission. The study provides an in-depth analysis of the nature, extent, and characteristics of those accounting frauds and offers insights regarding new and ongoing issues needing to be addressed.

Key findings of the study include:

- the CEO and/or CFO were involved in 89 per cent of the fraud cases and over 60 per cent of those indicted were convicted
- the median size of the companies affected had assets and revenues just under \$100 million
- revenue frauds accounted for over 60 per cent of the cases
- companies engaged in fraud often experienced bankruptcy, delisting from a stock exchange, or material asset sales at rates much higher than those experienced by no-fraud firms.

Source: COSO website, news release (20 May 2010).

MISCELLANEOUS PUBLICATIONS

ICAA's 'Essential guidance for 30 June 2010 financial year-end'

This paper provides guidance to preparers, auditors and audit committees as they discharge their responsibilities this financial year-end.

The ICAA developed the paper from research on 30 listed companies for the 6 months to 31 December 2009. The challenges for the 2010 financial year-end continue to be fair value, impairment of assets and going concern. Research also indicates that liquidity remains tight for businesses so careful forecasting of small to medium term finance needs is critical. Also, the volatility of the Australian dollar continues to place pressure on corporate risk management and hedging strategies.

Source: Accounting and Assurance News Today, Issue 24 (25 June 2010).

Financial reporting certification - A practical guide to implementing and enhancing the process supporting the *Corporations Act 2001* and Principle 7.3 certification (revised) - June 2010

Group of 100 and Ernst & Young recently updated their guide to reflect:

- the impact of the ASX *'Principles of Good Corporate Governance and Good Practice Recommendations'*
- changes in operating conditions and the perceived impact of events such as the global financial crisis
- feedback based on how certification programmes have developed within organisations over recent years.

Source: [Group100 website](#).

[CIMA Discussion Paper](#) 'Executive Remuneration Schemes and their Alignment with Business Sustainability'

This discussion paper, published by the Chartered Institute of Management Accountants (CIMA), offers principles that should underpin remuneration schemes, reassuring stakeholders that performance-related pay reinforces behaviour that creates long-term sustainability. It also gives practical examples of how companies can refine how they report their executive pay.

Source: Accounting and Assurance News Today, Issue 23 (18 June 2010).

Revised Memorandum of Understanding (MOU)

On the 23 June 2010, the Australian and New Zealand Government signed a revised MOU on the Coordination of Business Law. This revision was to meet their commitment to review the MOU every five years.

Source: MFSSCL website, [media release](#) (23 June 2010).

Australian National Audit Office (ANAO) Publications

The publications below are available on the [ANAO website](#).

- Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies.
- Defence's Management of Health Services to Australian Defence Force Personnel in Australia.
- Community Intelligence - Collecting and Processing Tip-offs.
- Management of Live Animal Imports.
- Child Support Reforms: Building a Better Child Support Agency.
- Contracting for Defence Force Recruiting Services.
- Administration of the Tax Obligations of Non-Residents.
- Army Individual Readiness Notice.
- Implementing Better Practice Grants Administration.

ACT Auditor-General's Office Publication

The publication below is available on the [ACT Audit Office website](#).

- Water Demand Management: Administration of Selected Initiatives.

Northern Territory Auditor-General's Office Publication

The publication below is available on the [NT Audit Office website](#).

- Strategic Indigenous Housing and Infrastructure Program - June 2010 Report to the Legislative Assembly.

Office of the Auditor-General for Western Australia Publications

The publications below are available on the [WA Audit Office website](#).

- Fiona Stanley Hospital Project.
- Energy Smart Government.

New Zealand Office of the Auditor-General Publications

The publications below are available on the [OAG website](#).

- Local government: Results of the 2008/09 audits.
- Local government: Examples of better practice in setting local authorities' performance measures.
- Response of the New Zealand Police to the Commission of Inquiry into Police Conduct: Second monitoring report.
- Annual Plan 2010/11.
- The Civil Aviation Authority's progress with improving certification and surveillance.

Queensland Audit Office Publications

The publications below are available on the [QLD Audit Office website](#).

- Report to Parliament No. 6 for 2010 - Using student information to inform teaching and learning.
- Report to Parliament No. 7 for 2010 - Information systems governance and control, including the Queensland Health Implementation of Continuity Project.
- Report to Parliament No. 8 for 2010 - Results of audits at 31 May 2010.

Tasmanian Audit Office Publications

The publications below are available on the [TAS Audit Office website](#).

- Special Report No. 89 - Post-Year 10 enrolments.
- TAO Annual Work Plan - 2010-2011.
- Special Report No. 90 - Science education in public high schools.

Victorian Auditor-General's Office Publications

The publications below are available on the [VAGO website](#).

- Access to Social Housing.
- Management of Major Rail Projects.
- Managing the Requirements for Disclosing Private Sector Contracts.

Independent Commission against Corruption (ICAC) Publications

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

- Information for witnesses.
- Government Information (Public Access) Act 2009.
- Community attitudes to corruption and the ICAC - Report on the 2009 survey.
- Report on the use of TAFE funds to pay for work on a dog kennel complex.

Independent Pricing and Regulatory Tribunal (IPART) Publications

The publications below are available on the [IPART website](#).

- Final Report - Electricity and gas retail price disclosure and comparison guidelines.
- Final Report - Review of regulated retail tariffs and charges for gas 2010-2013.
- Consultant Report - MMA - Gas Retail Price Review - Wholesale Gas Costs.
- Final Report - Review of Bulk Water charges for State Water Corporation - From 1 July 2010 to 30 June 2014.
- Determination - Review of bulk water charges for State Water Corporation - From 1 July 2010 to 30 June 2014.
- Final Report and Recommendations - 2010 Review of Taxi Fares in NSW - Annual review of fares and consideration of flat fares between Sydney Airport and Sydney CBD.

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 [Audit Office of New South Wales website](#).

Title of Guide	Date issued
Monitoring and Reporting on Audit Recommendations	May 2009
Implementing Successful Amalgamations	5 March 2008
Fraud Control Improvement Kit - Meeting your Fraud Control Obligations	20 July 2006
Fraud Control: Current Progress and Future Directions	9 February 2005
Shared Corporate Services: Realising the Benefits	3 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 internal control	January 1997
Debtors Administration	September 1996
Administration of Grants	December 1995
Joint operations in the Education Sector	September 1995
Fraud Control: developing an effective strategy: Volume 1: conceptual framework Volume 2: strategy Volume 3: diagnostics Volume 4: Fraud control self audit kit	March 1994 March 1994 March 1994 March 1998

ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
AIFRS/AEIFRS	Australian Equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASA	Australian Auditing Standard
ASEA	Australian Standard on Assurance Engagements
ASIC	Australian Securities and Investments Commission
ASAE	Australian Standard on Review Engagements
AOSSG	Asian-Oceanian Standard Setters Group
AUASB	Auditing and Assurance Standards Board
BRCWG	Business Regulation and Competition Working Group
ED	Exposure Draft
FASB	Financial Accounting Standards Board (USA)
FCAG	Financial Crisis Advisory Group
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GG	Government Gazette
GG SS	Government Gazette Special Supplement
GGS	General Government Sector
GPFR	General Purpose Financial Report
IAASB	International Auditing and Assurance Standards Board
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IFAC	International Federation of Accountants
IFRS Interpretations Committee	International Financial Reporting Standards Interpretations Committee
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISACA	Information Systems Audit and Control Association
ISQC	International Standards on Quality Control
IVSC	International Valuation Standards Council
PCAOB	Public Company Accounting Oversight Board

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 New South Wales Government Information Service (telephone 9743 7200).

Publications of the Australian Auditing and Assurance Standards Board (AUASB) including auditing and assurance standards, guidance statements, and other guidance and exposure drafts 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.gov.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 Board (IASB) publications may be obtained direct from the IASB, 30 Cannon Street, London EC4M 6XH, United Kingdom (tel +44 (020) 7332-2730 or fax +44 (020) 7332-2749 or email publications@iasb.org or Internet www.iasb.org).

Copies of New South Wales Government legislation including changes to legislation can be purchased from the New South Wales Government Information Service. The legislation is also on the Internet at www.legislation.nsw.gov.au.

Treasury publications may be viewed by visiting the New South Wales 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 www.dpc.nsw.gov.au.

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