

AWARENESS

Accounting and Auditing Developments - ISSUE 06 - AUGUST 2011

HOT TOPICS!

Corporate accountability - legal duty of Directors to carefully review the proposed financial statements and the proposed directors' report

The recent decision in the Federal Court case against eight non-executive directors of the Centro Group found directors must scrutinise and apply their own minds to proposed financial statements; and control the information they receive from management.

The case has broad application to the directors of any entity but has specific relevance to those entities regulated by ASIC.

The Directors of the debt-laden Centro Group had breached their duty of care and diligence; failing to take all reasonable steps to ensure compliance with the law in relation to the approval of the proposed financial statements.

Specifically, the Directors in the Centro case failed to identify the incorrect classification of AUD 1.5 billion of borrowings as non-current, rather than current liabilities in the financial statements. The accounts also failed to disclose guarantees of USD 1.7 billion of short term liabilities given after balance date. The Directors should have been aware of the misstatements because this information had been previously presented to the Board and made available to each director for some time.

Directors of agencies with TCorp debt are encouraged to review the maturity dates of this debt. Directors should note that if there is no approval under the *Public Authorities (Financial Arrangements) Act 1987* to extend debt arrangements for at least one year after the reporting period, the debt should be classified as current rather than non-current.

The Centro decision makes it clear that directors must:

- be financially literate and have a basic knowledge in the reading of accounts
- maintain an acceptable knowledge of an entity's operations
- review and query any matters they do not understand before approving the accounts.

Directors cannot simply rely on management and the auditors in discharging their responsibilities for the financial report.

CONTENTS

HOT TOPICS!	1
NEW SOUTH WALES AUDITOR-GENERAL'S REPORTS	2
ACCOUNTING UPDATE	3
AUDITING UPDATE	4
LEGISLATIVE UPDATE	5
DEPARTMENT OF PREMIER AND CABINET UPDATE	5
THE TREASURY UPDATE (NEW SOUTH WALES GOVERNMENT)	5
OTHER RESOURCES	6
NEW PUBLICATIONS BY OTHER AUDIT OFFICES	6



THE AUDIT OFFICE
OF NEW SOUTH WALES

Requirements to be applied by user and service entity auditors

GS 007 'Audit Implications of the Use of Service Organisations for Investment Management Services' provides guidance for user and service auditors with respect to reporting on controls and financial information. However GS 007 predates, and is inconsistent with, the following new clarity standards:

- ASA 402 'Audit Considerations Relating to an Entity Using a Service Organisation'
- ASAE 3402 'Assurance Reports on Controls at a Service Organisation'.

ASA 402 and ASAE 3402 take precedence over GS 007. To the extent that it is consistent with the new clarity standards, GS 007 is still applicable. The principal inconsistencies are the:

- format of the example engagement letter and reports
- inclusion of an overall system description by the service organisation and the audit of that description (as required in ASAE 3402).

GS 007 is under revision and is due to be reissued in September 2011 and will address inconsistencies with the new standards.

An AUASB [news release](#) summarises the scope of current auditing pronouncements on service organisations.

The Clean Energy Draft Legislation

The Federal Government released the following key bills from the Government's Clean Energy Legislative Package (Package) on 28 July 2011:

- Clean Energy Bill 2011 (which sets up the carbon price mechanism)
- Clean Energy Regulator Bill 2011 (which establishes a regulatory body to administer the mechanism)
- Climate Change Authority Bill 2011 (which establishes a new Authority to advise the government on the future design of the carbon price mechanism)
- Clean Energy (Consequential Amendments) Bill 2011.

In addition to the above, there are several bills dealing with other consequential and procedural matters and bills dealing with fuel tax arrangements.

Also, an additional bill which incorporates the Government's household assistance measures is currently being drafted.

The [draft bills](#) and a [summary](#) of the Package are available at www.climatechange.gov.au. Submissions on the Package to the [Department of Climate Change and Energy Efficiency](#) are due by 22 August 2011.

Other available publications of interest:

- [EY paper](#): Navigating the complexities of carbon pricing policy - Key issues from the Australian Government's Climate Change Plan: Securing a Clean Energy Future.
- [CPAA fact sheet](#): Carbon price and financial reporting.

NEW SOUTH WALES AUDITOR-GENERAL'S REPORTS

Performance Audit - Speed Cameras

This audit assessed whether the Roads and Traffic Authority's fixed, mobile and safety cameras were located in black spots and reduced speeding and crashes. Overall, speed cameras changed driver behaviour and improved road safety. Total crashes and injuries each fell 26 per cent and fatalities fell by more than two-thirds, in the three years after the installation of fixed speed cameras.

It is too soon to assess whether safety and mobile speed cameras reduce crashes, although early results indicate that drivers are slowing down. The audit also identified 38 of 141 fixed speed camera locations that should be examined further as they appeared to have no significant road safety benefit. This means other road safety measures may be needed for these sites. Also there is no evidence that revenue is a factor in determining where to locate cameras; and revenue declines over time.

ACCOUNTING UPDATE

New Australian Accounting Standards Board (AASB) Standards

- [AASB 2011-4](#) Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements
- [AASB 2011-5](#) Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation
- [AASB 2011-6](#) Amendments to Australian Accounting Standards - Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation - Reduced Disclosure Requirements

Recently Released Exposure Drafts open for comment

- [ED 212](#) Not-for-Profit Entities within the General Government Sector.
- [ED 213](#) Improvements to IFRSs.
- [ED 214](#) Extending Related Party Disclosures to the Not-for-Profit Public Sector.
- [ED 215](#) Mandatory Effective Date of IFRS 9.
- [Tier 2 Supplement to ED 201](#) Insurance Contracts.
- [ITC 25](#) Request for comment on IASB Request for Views on Agenda Consultation 2011.

AASB Meeting Highlights - 13-14 July 2011

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

- GAAP/GFS Harmonisation - Post-Implementation Review of AASB 1049
- Service Concession Arrangements - Grantors
- Income of Not-for-Profit (NFP) Entities - Liabilities for Onerous Contracts
- IPSASB ED on Key Characteristics of the Public Sector with Potential Implications for Financial Reporting
- Presentation of Other Comprehensive Income
- Revenue from Contracts with Customers
- Leases
- Consolidation - Investment Entities
- Financial Instruments - Impairment
- Reduced Disclosure Requirements (RDR)
- Integrated Reporting
- Interpretations Update
- AASB Business Plan

Meeting Highlights from International Accounting Standards Setting Bodies

The IASB and FASB discussed the following topics at their recent joint [meeting](#) (July 2011):

- asset and liability offsetting
- effective dates
- ICAS and NZICA disclosure report
- impairment
- insurance contracts
- leases.

The IASB discussed the following topics at its [meeting](#) (July 2011):

- agenda consultation report
- IFRS 9 Financial instruments: hedge accounting.

The IFRS Interpretations Committee discussed the following topics at their recent [meeting](#) (July 2011):

- IFRS 8 ‘Operating Segments’ - aggregation of operating segments and identification of the chief operating decision maker
- IAS 16 ‘Property, Plant and Equipment’ - accounting for stripping costs in the production phase of a surface mine
- IAS 19 ‘Employee Benefits’ - defined contribution plans with vesting conditions
- IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’ and IFRIC 6 ‘Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment’ - use of IFRIC 6 by analogy
- IFRS 3 ‘Business Combinations’ - definition of a business
- IFRS 11 ‘Joint Arrangements’ - acquisition of interest in a joint operation.

AUDITING UPDATE

New Auditing Standard

[ASA 2011-1](#) Amendments to Australian Auditing Standards

AUASB Meeting Highlights - 25 July 2011

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

- corporate fundraisings and prospective financial information
- GS 009 ‘Auditing Self-Managed Superannuation Funds’
- service organisations
- ASA 510 ‘Initial Audit Engagements - Opening Balances’
- assurance on water accounting reports
- comfort letters project

The Board also noted the latest [International Update](#) (summary of news and activities during the period April - July 2011).

LEGISLATIVE UPDATE

Appropriations

Appropriation (Supply and Budget Variations) [Act](#) 2011

Restructures

Allocation of the Administration of [Acts](#) 2011

Public Sector Employment and Management (Departments and Ministers) Amendment [Order](#) 2011

Incorporated Associations

[Class order No. 11/01](#) Financial reporting requirements for a class of Tier 1 associations

DEPARTMENT OF PREMIER AND CABINET UPDATE

New Circulars and Ministerial Memoranda available

- [C2011-20](#) Informing NSW public sector employees of the eCensus.
- [C2011-21](#) Senior Executive Service - Notional Salary.
- [C2011-22](#) Increase in Parking Space Levy 2011-2012.
- [M2011-14](#) Legislative Program Spring Sittings 2011.

THE TREASURY UPDATE (NEW SOUTH WALES GOVERNMENT)

[TC 11/11](#) *Goods and Services Tax (GST) exemption for certain government taxes, fees and charges (Division 81 of the GST Act)*

The Commonwealth has replaced the 'Division 81 Determination listing' approach to exempting certain government taxes, fees and charges from GST with a new self assessment 'principles-based' approach to providing the exemptions. As a result of the change, agencies need to:

- compare items that are currently exempt under the 'listing approach' against the new principles
- seek guidance and rulings from the Tax Office where necessary
- advise Treasury of any discrepancies by 31 October 2011
- apply the new exemption arrangements on an ongoing basis.

[TC 11/12](#) *Payment of Accounts*

This circular specifies the Government's payment of accounts policy. It includes new requirements, effective from 14 July 2011, for agencies to pay small business suppliers within 30 days for goods and services (unless an alternative time period is provided) or else automatically pay interest on the amount outstanding.

OTHER RESOURCES

Miscellaneous Publications

- [ASX Report](#) - Analysis of Corporate Governance Disclosures in Annual Reports for the year ended 30 June 2010.
- [ICAA Academic Leadership paper](#) - Bridging the Gap between Academic Accounting Research and Professional Practice.
- [ICAA/PwC Audit Committee Guide](#) - Foreign Bribery and Corruption
- [IIA Practice Guide](#) - Assisting Small Internal Audit Activities in Implementing the International Standards for the Professional Practice of Internal Auditing.
- [Superannuation paper](#) - Standard Risk Measure Guidance Paper for Trustees.
- [Treasury Report](#) - Scoping Study for a National Not-For-Profit Regulator.

Independent Commission Against Corruption (ICAC)

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

- Corruption risks in NSW Government - Suppliers Perception of Corruption
- Corruption risks in NSW Government - Recommendations to Government

Independent Pricing and Regulatory Tribunal (IPART)

IPART has released [new publications](#) relating to the Water and Transport Industries.

NEW PUBLICATIONS BY OTHER AUDIT OFFICES

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

- The Australian Defence Force's Mechanisms for Learning from Operational Activities.
- Opinions (Winter 2011).

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

- Home-based support services for older people.
- Model Financial Statements (Te Motu District Health Board 2010-11).