

AWARENESS

Accounting and Auditing Developments ISSUE 07 - SEPTEMBER 2006

AUDIT OFFICE UPDATE

Auditor-General's Report to Parliament - Department of Education and Training: Educating Primary School Students with Disabilities

Background

Since 1980, the Department of Education and Training has adopted a policy of 'inclusion'. Inclusion gives students with disabilities the right to attend the neighbourhood school where this is possible, practicable and in their best interests. Special education programs support these students in regular and special classes.

The department also provides special schools for students where attendance at neighbourhood schools is not appropriate.

In 2004, the NSW Government announced its special education initiative to provide more money and support to students with disabilities. This initiative includes an examination of special education programs to ensure they are delivering the best results for students and an additional \$15.6 million to employ a teacher's aide for every special class from 2007 onwards.

The department estimates there are around 35,000 students (primary and secondary) with some form of confirmed disability. This audit examined special education programs for around 10,000 of these students in primary schools assessed as having moderate or severe levels of intellectual disability, physical disability, hearing or vision impairment, autism or mental health problems enrolled in a regular class or a special class.

We wanted to find out whether the department, in helping these particular students:

- ☛ meets the demand for special education
- ☛ provides services that meet individual needs
- ☛ knows if its special education programs are successful.

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THE AUDIT OFFICE
OF NEW SOUTH WALES

Audit opinion

Teachers, principals and schools need to adapt to meet the needs of students with disabilities. Inclusion creates significant challenges for the school community; some schools are old and need to have buildings modified, principals need to assess and manage any risks to the child, staff or other pupils and teachers may need to change the way they teach.

Special education programs so far have been able to support schools to accommodate these students and as a result, we have an inclusive education system. Our concern is that as the number of students with disabilities increases, pressure will be placed on both funding and the capacity of schools to provide quality services.

In particular, the system around special classes can be inflexible and slow to respond. Parents or carers in collaboration with the department may decide a special class would be best for the student, but this request may not be met if there is not a special class nearby or any vacancies in a special class.

The Government's special education initiative is a positive step towards addressing these problems. Nevertheless, other changes need to be made to improve services to meet the needs of individual students. For example, the department needs to develop a common assessment tool to capture the additional support needs of students with disabilities on enrolment and improve accountability for services and results after enrolment.

International studies show that enrolment in a regular school is the most beneficial educational setting for students with disabilities. What is not so clear in the NSW system are the relative merits of enrolment in a regular class versus enrolment in a special class.

Today, more students with severe or moderate levels of disability are enrolled in a regular class rather than a special class. The department needs to know if this reflects parent or carer choice. Such information is essential in developing and planning services for the future.

Summary of recommendations

Regarding the special education services covered by this audit, we recommended that the department:

- ◀ better collect data on demand for special education services and use this to improve its service planning
- ◀ review its approach to assessing student need
- ◀ change the basis for organising special classes in regular schools, from 'disability type' to 'student need'
- ◀ improve accountability for the significant spending on students with disabilities and reporting on their results.

Further information

Jane Tebbatt, Director, Performance Audit, jane.tebbatt@audit.nsw.gov.au or on 02 9275 7274. The full report is available from our Internet site: www.audit.nsw.gov.au

Audit Office of NSW 2006 Annual Report

The Annual Report provides an appraisal of the Audit Office of NSW's performance for 2005-06. It includes extensive comment on whether agencies have accepted and acted on our audit recommendations - a good measure of how successful we have been. Also reported is how satisfied Parliamentarians and our audit clients are with our services and the efficiency of our processes. The full report is available from our Internet site: www.audit.nsw.gov.au.

ACCOUNTING UPDATE

Australian Accounting Standards Board (AASB) Meeting 6-7 September 2006

GAAP/GFS harmonisation standard approved

The Board approved the issue of AASB 1049 'Financial Reporting of General Government Sectors by Government', subject to a final review. The Standard will apply to financial reporting periods beginning on or after 1 July 2008, with early adoption permitted.

The Board will now consider the implications for other public sector entities of the decisions reflected in the Standard.

Administered items

The Board considered two different ways that government departments may be perceived. View 1 is that government departments are distinct from government and that a distinction is drawn between administered and controlled items. Administered items are not recognised in financial statements. View 2 is that a government department is an arm of government and no distinction is drawn between administered and controlled items. Administered items are recognised in the financial statements.

The Board decided that View 2 has merit and has the potential to show a more effective depiction of a government department's activities. However, View 2 raises some significant issues in relation to the application of the Framework and current Australian Accounting Standards. The Board will consider a revised paper addressing these issues at its October meeting. This paper will form the basis for consultation with constituents.

Land under roads

The Board noted that the current transitional provisions for land under roads are due to lapse for reporting periods ending after 31 December 2006. The Board agreed to extend the provisions for one year. This will ensure they do not lapse prior to the issue of any new or amended standards arising from the short-term review of AAS 27, AAS 29 and AAS 31. A Standard to this effect will be issued after the October Board meeting.

Review of AAS 27, AAS 29 and AAS 31

The Board will consult with constituents at its October meeting as to how to manage the review of these Standards so that there is no vacuum created if the Standards are withdrawn. The basis for discussions will be the issues papers prepared covering the treatment of particular paragraphs that the Board proposes to relocate into other Standards.

Intangible assets

The AASB is leading an IASB intangible assets research project. AASB staff are continuing work on this project with a view to presenting papers to the IASB later this year.

Small and medium sized entities

The IASB is developing an exposure draft for small and medium sized entities. The Board agreed that the IASB's project interacts with a number of fundamental issues in the financial reporting regime in Australia. These fundamental issues will be debated by the Board before any decisions regarding the pending IASB exposure draft are made.

AASB Interpretation 10 'Interim Financial Reporting and Impairment'

The Board approved this Interpretation, the Australian equivalent to IFRIC Interpretation 10. The key principle in the Interpretation is that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The Interpretation will apply to annual reporting periods beginning on or after 1 November 2006, and may be early adopted.

Presentation of financial statements

In respect of ED 148 'Proposed Amendments to AASB 101 Presentation of Financial Statements: A Revised Presentation', the Board considered constituent's comments and decided to proceed with most of the proposals it made in the ED. The Board will consider a revised draft AASB 101 at its next meeting.

Borrowing costs

The Board considered responses on ED 149 'Proposed Amendments to AASB 123 Borrowing Costs' (which is based upon the IASB's ED proposing changes to IAS 23). Most respondents do not support the proposal to remove the 'expense option' from AASB 123 (IAS 23). The AASB agreed to forward comments to the IASB expressing the view that the proposals should not proceed.

Differences between IFRSs and Australian equivalents of IFRSs

The Board continues to reconsider all the changes it made to the IFRS when developing the Australian equivalents (excluding differences relating to not-for-profit entities). A draft Invitation to Comment is being developed on the Board's proposals for reconsidering these differences and will be considered by the Board at its next meeting.

Other items

The Board discussed the conceptual framework in preparation for the roundtable discussions with constituents on this topic.

The Board discussed issues raised by the FRC Consultation Paper on 'The Use of a Sector Neutral Framework for the Making of Australian Accounting Standards'. Discussions will continue at the next meeting.

Source: AASB Action Alert 97 (September 2006).

INTERNATIONAL UPDATE

International Financial Reporting Interpretations Committee (IFRIC)

Draft IFRIC Interpretation D19 'IAS 19 - The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements'

IAS 19 limits the measurement of the defined benefit pension asset to the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. However, a minimum contribution requirement may result in contributions being paid into a plan that do not become available to the entity as either a refund or a reduction in future contributions.

This draft Interpretation addresses the questions that have arisen over the interaction of minimum contributions requirements and the limit on the measurement of the defined benefit pension asset. The draft is open for comment until 31 October 2006 and a copy is available from the IASB's Internet site: www.iasb.org.

Source: IFRIC Press Release 24 August 2006.

Draft IFRIC Interpretation D20 'Customer Loyalty Programmes'

The main issue addressed in this draft Interpretation is the recognition and measurement of obligations to provide customers with free or discounted goods or services if and when they choose to redeem loyalty award credits.

The draft is open for comment until 6 November 2006 and a copy is available from the IASB's Internet site: www.iasb.org.

Source: IFRIC Press Release 7 September 2006.

International Federation of Accountants

Proposed International Education Practice Statement: Approaches to Developing and Maintaining Professional Values, Ethics and Attitudes

This exposure draft has been issued by the International Accounting Education Standards Board (IAESB), an independent standard setting board of the IFAC. The new guidance is designed to assist IFAC member bodies in developing ethics education and continuing professional development programs for their members.

The exposure draft is open for comment until 15 December 2006 and a copy is available from IFAC's Internet site: www.ifac.org.

Source: IFAC Media Release 7 September 2006.

Internal Controls - A Review of Current Developments

The International Federation of Accountants (IFAC) has released a paper that summarises key internal control frameworks, highlights recent legislative and other initiatives, and discusses the role of internal control in enhancing corporate governance.

The paper finds that current views on internal controls support a principles and market based approach in which organisations make a commitment to develop internal control systems particular to their specific internal and external environments. It also identifies the importance of the tone at the top and the culture and ethical framework throughout the organisation to the effective implementation of an internal control system.

A copy of the paper is available from IFAC's Internet site: www.ifac.org.

Source: IFAC Media Release 22 August 2006.

AUDITING UPDATE

Australian Auditing and Assurance Standards Board (AUASB)

Meeting 3 July 2006

The Board discussed the types of pronouncements it intends to develop in future. It agreed to develop:

- ◀ AUASB Standards - which set out basic principles and essential procedures
- ◀ Guidance Statements - which contain guidance relevant to specific industry and regulatory matters
- ◀ Emerging Issues Bulletins - which provide timely notice of current issues or other potentially relevant matters.

The Board will revise the Foreword in due course to reflect changes in the types and authority of AUASB pronouncements. Also, where material in current guidance pronouncements has generic application, the Board will consider whether it can be included in the applicable AUASB Standard. The Board will also develop drafting conventions for guidance pronouncements.

The AUASB considered the draft Guidance Note 'Auditor's Report on AASB 124 Remuneration Disclosures contained in the Annual Directors' Report' (see next item).

The AUASB deferred further consideration of AGS 10XX 'Investor Directed Portfolio Services and Investor Directed Portfolio-like Services: Special Considerations for the Auditor' until ASIC revise their related class orders.

The Board approved the project plan for 'Internal Control Engagements - Review of AUS 810 & AGS 1006'.

The AUASB will not continue the publication of Audit Guide No 4 'The Audit of Superannuation Funds'.

The Board requested staff correct a typographical error in ASA 550 'Related Parties'.

New Guidance Note - 'Auditor's Report on AASB 124 Remuneration Disclosures contained in the Annual Directors' Report'

The *Corporations Act 2001* requires that listed companies include certain remuneration disclosures from AASB 124 'Related Party Disclosures' in both the annual financial report and the annual directors' report.

A Regulation to the *Corporations Act 2001* allows a listed company to choose to make these disclosures only in the directors' report. There are several requirements for this relief to be available, one of which relates to auditor reporting. Auditors must form an opinion on whether the information in the directors' report complies with AASB 124 and report on that opinion within their report on the audit.

This Guidance Note discusses implications of the relief for auditors and includes sample independent audit reports.

The Guidance Note is published on the AUASB Internet site: www.auasb.gov.au.

MISCELLANEOUS PUBLICATIONS

Australian National Audit Office

Performance audit reports:

- ◀ Administration of the Native Title Respondents Funding Scheme
- ◀ Export Certification Australian Quarantine and Inspection Service
- ◀ Management of Army Minor Capital Equipment Procurement Projects

Speech:

- ◀ Financial Management in the Public Sector - How accrual accounting enhances government accountability

The reports and speech are available at www.anao.gov.au.

Northern Territory Auditor-General's Office

Other report:

- ◀ August 2006 Report to Parliament

The report is available at www.nt.gov.au/ago/.

Tasmanian Audit Office

Performance audit report:

- ◀ Elective Surgery in Public Hospitals

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

Victorian Audit Office:

Performance audit reports:

- ◀ Results of special audits and other investigations
- ◀ Condition of public sector aged care facilities

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

Office of the Auditor-General for Western Australia

Performance audit report:

- ◀ Second Public Sector Performance Report 2006

Other publication:

- ◀ Office of the Auditor-General's Annual Report 2006

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

Independent Commission Against Corruption

Corruption prevention publication:

- ◀ Lobbying local government councillors

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

Australian Securities and Investment Commission

Speech:

- ◀ Director's responsibilities: the reality vs the myths

This speech is available at www.asic.gov.au.

LEGISLATIVE UPDATE

Public Sector Employment and Management (State Property Authority) Order 2006

This Order establishes the Office of the State Property Authority as a Department of the Public Service responsible to the Minister for Finance. Certain staff from the Department of Commerce, and from the Property Group in the Ministry of Police are transferred to the Office of the State Property Authority.

(GG No 111, 1 September 2006, page 7752)

PREMIER'S DEPARTMENT UPDATE

Premier's Department Circulars

Number		Issued
C2006-36	"Making It Our Business" Improving Aboriginal Employment in the NSW Public Sector (read in conjunction with C2001-07)	September 2006

C2006-36 - "Making it Our Business" Improving Aboriginal Employment in the NSW Public Sector

This Circular encourages all agencies to be aware of the NSW Government's plan to improve its policies and programs in ways that will deliver tangible improvements to the lives of Aboriginal people and their communities.

The Circular is available at www.premiers.nsw.gov.au.

Premier's Memoranda

Number		Issued
M2006-13	Christmas Leave Arrangements	September 2006

M2006-13 - Christmas Leave Arrangements

This Memorandum sets out action required to maximise the leave taken by public sector employees in the last week of December 2006 and the first week of January 2007.

The Memorandum is available www.premiers.nsw.gov.au.

TREASURY UPDATE

Treasury Circulars

Number		Issued
TC 06/21	Annual Reporting Update	July 2006
TC 06/22	Results and Services Plans (RSPs)	July 2006

TC 06/21 Annual Reporting Update

This Circular provides an update on annual reporting matters, including the results of the 2004-05 annual reports review program.

TC 06/22 Results and Services Plans (RSAs)

This Circular requires all budget dependent and selected non-budget dependent agencies to prepare a Results and Services Plan. The Circular explains the role of the Results and Services Plan and requires its submission to Treasury.

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

Title of Guide	Issued
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	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
A I F R S / AEIFRS	Australian Equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
AUASB	Auditing and Assurance Standards Board
ED	Exposure Draft
FASB	Financial Accounting Standards Board (USA)
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
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
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
PCAOB	Public Company Accounting Oversight Board
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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