

AWARENESS

Accounting and Auditing Developments ISSUE 08 - OCTOBER 2006

ACCOUNTING UPDATE

Australian Accounting Standards Board (AASB)

Meeting 4-5 October 2006

Review of AAS 27, AAS 29 and AAS 31

The Board met with public sector constituents to discuss their views on the treatment of issues arising out of the short-term review of the requirements in these Standards. The discussions also confirmed the Board's view that a more fundamental review of some public sector issues is required once the short-term review is complete.

The meeting considered a series of topic based consultation papers. Key outcomes were:

- current requirements in AAS 27, 29 and 31 on contributions (non-exchange revenue) will be integrated into a separate new section of AASB 1004 'Contributions' applicable to local government, government departments and governments
- current requirements in AAS 31 on control in the public sector will be incorporated as Aus paragraphs in AASB 127 'Consolidated and Separate Financial Statements'
- current requirements covering administered items in AAS 29 will be included in a separate new topic-based Standard applicable to government departments
- current requirements of AAS 27, 29 and 31 on segment-like reporting will be incorporated in a new topic-based Standard. Requirements for different entities will be expressed separately
- AASB 116 'Property, Plant and Equipment' will be amended to include Aus paragraphs confirming that infrastructure, cultural, community and heritage assets are examples of property, plant and equipment held by not-for-profit entities. In addition, material will be provided to address reliable measurement, revaluations and depreciation of heritage assets as Australian guidance accompanying the Standard
- regarding restructure of administrative arrangements, the current arrangements in AAS 29 will not be retained. AASB 1004 will be amended to require such transfers to be treated as transactions with owners by the transferor and transferee. This will result in a significant change in current requirements

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THE AUDIT OFFICE
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- ◀ the current requirements in AAS 27 for accounting for restructures of local governments will not be retained because the general principles in other Standards are considered adequate. This will result in a significant change in current requirements. Local governments will still not be considered as controlled by governments or agencies
- ◀ obligations arising from local government and government budget policies, election promises and statements of intent will be excluded from the scope of AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'
- ◀ the reporting entity definition in AASB 3 'Business Combinations' will explicitly state that local governments, governments, and most, if not all government departments are reporting entities.

Copies of the issues papers are available on the AASB's website. The Board directed staff to prepare an exposure draft for future consideration.

Land under roads

The Board made AASB 2006-3 'Amendments to Australian Accounting Standards [AASB 1045]'. This gives effect to the Board's decision to extend the current land under roads transitional provisions for a further 12 months.

Small and medium sized entities

Previously, the Board noted that any application of the international project on small and medium sized entities would create fundamental issues on the application of Standards more generally. At this meeting, the Board considered staff papers on differential reporting and the reporting entity concept. Further consideration of this issue will occur in the future.

Sector neutrality

The Board discussed its draft response to the FRC Consultation Paper on 'The Use of a Sector Neutral Framework for the Making of Australian Accounting Standards'. The Board supports a transaction neutrality strategy for the standards, under which like transactions are treated in the same way for all entities. A copy of the final submission will be placed on the AASB website.

Superannuation entities

The Board discussed various alternative approaches to the treatment of assets held by superannuation entities in the context of Australian equivalents to IFRS. One of the approaches appears inconsistent with the policy of transaction neutrality, but otherwise warrants consideration. The Board identified the need to determine whether, in the context of transaction neutrality, superannuation entities should be treated differently from other entities. The Board will consider an issues paper in the future.

Interpretations

The Board noted that the IFRIC has issued Draft Interpretation D20 'Customer Loyalty Programmes'. The Board will make a submission to the IFRIC and welcomes any comments from constituents before 25th October 2006. A copy of the draft interpretation is available on the AASB website.

The Board discussed its draft submission on IFRIC Draft Interpretation D19 'IAS 19 - The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements'.

The Board discussed the Australian petroleum resource rent tax (PRRT) and concluded that PRRT is within the scope of AASB 112 'Income Taxes'. This issue will not be added to the interpretations agenda and a rejection statement is available on the AASB's website.

Conceptual framework

The Board discussed a preliminary draft submission on the IASB's Discussion Paper on the objective of financial reporting and qualitative characteristics of financial information.

The Board expressed the following preliminary views:

- ◀ providing information for assessing the entity's future cash flows would not necessarily provide sufficient information for satisfying the proposed objective of financial reporting or assessing management's stewardship or accountability
- ◀ concepts of relevance and materiality should be distinguished more clearly
- ◀ information should be supportable or consistent with all known facts, but not necessarily independently verifiable
- ◀ present and potential investors and creditors should be identified as the primary users of financial reports of private sector businesses
- ◀ the primary users of financial reports of not-for-profit entities should be identified as providers of finance, beneficiaries and parties providing a review or oversight function.

IPSASB report

The Board received a verbal report on topics likely to be discussed at the next IPSASB meeting. Topics include social policy obligations, revenue from non-exchange transactions, service concession arrangements, conceptual framework, budget reporting, heritage assets and the IPSASB's general improvement project.

Australian additions to, and deletions from, IFRSs

The Board considered a draft ED proposing making the requirements in Australian equivalents to IFRSs the same as those in IFRSs in respect of for-profit entities. The ED will propose inclusion of optional treatments in IFRSs that are presently not

permitted under Australian equivalents to IFRSs, and removal of many additional Australian disclosures. The Board aims to have a document out for comment in November.

Presentation of Financial Statements

The Board made revised AASB 101 'Presentation of Financial Statements', which is based upon ED 148. The revised AASB 101 includes some text from the international equivalent standard and has fewer additional Australian disclosure requirements. This Standard applies to annual reporting periods beginning on or after 1 January 2007 and early adoption is permitted.

Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation

The Board noted submissions received in response to ED 150 'Proposed Amendments to AASB 132 Financial Instruments: Presentation and AASB 101 Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation'. Constituents raised concerns that notwithstanding proposed amendments, there are many entities which will still have to classify as debt amounts that they consider to be equity. They also noted that the added complexity to the standard may reduce the comparability of financial reports. The Board's submission to the IASB will indicate its acceptance of the proposed amendments and note these concerns.

Source: AASB Action Alert 98, October 2006.

Pronouncements issued

AASB 1049 'Financial Reporting of General Government Sectors by Governments'

The Standard sets out requirements for the form and content of General Government Sector (GGS) financial reports. It adopts many Government Finance Statistics (GFS) concepts and key fiscal aggregates specified in the GFS Manual issued by the Australian Bureau of Statistics. The Standard applies to annual reporting periods beginning on or after 1 July 2008 and early adoption is permitted. A copy of the Standard is available from the AASB's website.

Source: AASB Media Release 14 September 2006.

AASB Interpretation 10 'Interim Financial Reporting and Impairment'

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 financial asset carried at cost. The Interpretation applies to annual reporting periods beginning on or after 1 November 2006 and early adoption is permitted. A copy of the Interpretation is available from the AASB's website.

Financial Reporting Council (FRC) Meeting 26 September

The FRC discussed the following matters:

- ◀ the annual report of the FRC and the associated reports and financial statements of the Australian Accounting Standards Board and the Auditing and Assurance Standards Board
- ◀ progress of the FRC's 2005-6 auditor independence report
- ◀ guidelines outlining procedures for the development of any broad strategic directions issued to the AASB or AUASB
- ◀ 2007 appointments to the AASB and AUASB
- ◀ reports from FRC sub-committees and from the AASB and AUASB.

Source: FRC Bulletin 2006/6, 4 October 2006.

INTERNATIONAL UPDATE

International Accounting Standards Board (IASB) Meeting 18-22 September

The IASB discussed the following issues:

- ◀ insurance
- ◀ business combinations II
- ◀ accounting standards for small and medium sized entities
- ◀ IAS 37 redeliberations
- ◀ conceptual framework
- ◀ consolidations (including special purpose entities)
- ◀ revenue recognition
- ◀ short-term convergence: segment reporting
- ◀ financial instruments
- ◀ financial statement presentation
- ◀ update on IFRIC activities
- ◀ IAS 24 'Related party Disclosures'
- ◀ fair value measurement
- ◀ IFRS 1 amendments
- ◀ technical plan.

Source: IASB Update September 2006.

International Financial Reporting Interpretations Committee (IFRIC)

Meeting 7-8 September

The IFRIC discussed the following issues:

- ◀ service concession arrangements
- ◀ IFRS 2 'Share-based Payment' - group and treasury share transactions
- ◀ IAS 18 'Revenue' - real estate sales
- ◀ IAS 18 'Revenue' - revenue recognition in respect of initial fees received by a fund manager
- ◀ IAS 38 'Intangible Assets' - treatment of catalogues and other advertising costs
- ◀ tentative agenda decisions.

Source: IFRIC Update September 2006.

AUDITING UPDATE

Australian Auditing and Assurance Standards Board (AUASB) Meeting 4-5 September 2006

Solicitors' representation letters

The Board agreed that it was not feasible to provide any additional definitive guidance on various issues arising from the 'Westpac case' at this stage. The Board agreed to continue monitoring the issues relevant to the case.

AGS 1064 'Audit of Prudential Requirements of General Insurers'

APRA has released new and revised Prudential Standards that impact on the reporting requirements for general insurers and approved auditors. The Board is in the process of updating the addendum and pro-forma review report in AGS 1064 as required.

Concise financial reports

The AUASB was briefed on the legislative requirements relating to Concise Financial Reports and the existing approach taken in an appendix to AUS 702. The Board discussed the draft unmodified illustrative report and agreed the approach used to demonstrate modifications to the auditor's report. Whether the pronouncement should be a standard or guidance will be further considered at the next meeting.

Withdrawal of pronouncements

The Board considered the continuing relevance of a range of guidance pronouncements. They agreed to withdraw the following pronouncements with immediate effect:

- ◀ AAA 1 'Audit Implications of the Introduction of the Euro Currency'
- ◀ AAA 2 'Auditors' Responsibilities in relation to the Adequacy of Financial Records and Internal Controls throughout the Year'
- ◀ AAA 3 'Lessons For Auditors - Current Issues'
- ◀ AAA 4 'Auditor Association with Electronic Financial Reporting'
- ◀ AAA 5 'Electronic Reporting and Continuous Assurance Engagements'
- ◀ AAA 6 'Auditor's Responsibilities in relation to Reporting Contraventions of the Corporations Law'
- ◀ AAA 8 'Electronic Commerce and its Impact on Audits'
- ◀ AAA 9 'Sophisticated Investor Reports under the Corporations Law'
- ◀ AAA 10 'Earnings Management by Entities: Audit Considerations and Issues'
- ◀ AAA 11 'Communicating with Entities in Relation to Auditor Independence'
- ◀ AAA 12 'The Implications for Auditors of the Private Sector Amendments to the Privacy Act'
- ◀ AAA 13 'The Implications of the U.S. Sarbanes-Oxley Act 2002 (U.S.) for Auditors and Their Clients'
- ◀ AAA 14 'The Implications for Auditors on the Transition to Australian equivalents to IFRSs'
- ◀ Guidance Note: 'Improving Communication between Auditors and Shareholders'
- ◀ Guidance Note: 'Auditor's Report on AASB 1046 Remuneration Disclosures contained in the Annual Director's Report'.

The Board considered the need for guidance on some matters dealt with by these withdrawn pronouncements. They requested that the Technical group assess this need in relation to:

- ◀ AAA 2 'Auditors' Responsibilities in relation to the Adequacy of Financial Records and Internal Controls throughout the year'
- ◀ AAA 9 'Sophisticated Investor Reports under the Corporations Law'
- ◀ AAA 11 'Communicating with Entities in Relation to Auditor Independence'.

The Board agreed to withdraw the following guidance statements from the time the AUSs cease to operate:

- ◀ AGS 1028 'Uncertainty'
- ◀ AGS 1044 'Audit Reports on Information Provided Other than in a Financial Report'.

Other items

The AUASB approved the formation of a Project Advisory Group for the Service Organisation Project, which includes the revision of AGS 1026 'Superannuation Funds - Auditor Reports on Externally Managed Assets'.

The Board considered a recent Institute of Chartered Accountants in Australia discussion paper on 'Differential Auditing Standards'.

Source: AUASB website.

MISCELLANEOUS PUBLICATIONS

Australian Capital Territory Auditor-General's Office

Performance audit reports:

- ◀ Rhodium Asset Solutions Limited
- ◀ Vocational Education and Training

Other publication:

- ◀ Annual report for the year ended 30 June 2006

The reports and annual report are available at www.audit.act.gov.au.

Australian National Audit Office

Performance audit reports:

- ◀ Tax Agent and Business Portals
- ◀ The Senate Order for the Departmental and Agency Contracts (Calendar Year 2005 Compliance)

Speech:

- ◀ Simply Better Business - Creating Opportunity through Risk Management

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

Victorian Audit Office

Performance audit report:

- ◀ Government Advertising

Other publications:

- ◀ Auditor General's Report on the Annual Financial Report of the State of Victoria, 2005-06
- ◀ Annual report for the year ended 30 June 2006

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

Office of the Auditor-General for Western Australia

Performance audit report:

◀ Management of the Ramsar Wetlands

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

Independent Commission Against Corruption

◀ Report on investigation into the case management and administration of community service orders

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

Institute of Chartered Accountants in Australia (ICAA)

The ICAA has released a report titled 'Not-for-profit sector reporting: a research project'. The publication clarifies the financial and annual reporting requirements of not-for-profit organisations. A copy of the report is available at www.charteredaccountants.com.au.

Source: ICAA website.

International Federation of Accountants (IFAC)

IFAC has launched a website to assist in searching on financial and management accounting topics. www.ifacnet.com accesses information provided by professional accountancy bodies from around the world, particularly those that focus on serving the needs of business and management accountants.

Source: CPA Update Edition 38, 4 October 2006.

The Committee of Sponsoring Organisations of the Treadway Commission (COSO)

COSO has released a guide for smaller public companies titled 'Internal Control Over Financial Reporting - Guidance for Smaller Public Companies'. The publication is available from www.coso.org.

Public Finance Magazine Article

Public Finance Magazine is a UK based publication for the public sector. A recent article 'Asking for Trouble?' questioned the effectiveness of the use of external consultants by the public sector. A copy of the article is available at www.publicfinance.co.uk.

LEGISLATIVE UPDATE

Public Finance and Audit Amendment (Marine Parks Authority) Regulation 2006

The object of this Regulation is to amend the *Public Finance and Audit Regulation 2005* to add, under section 44(1)(a) of the *Public Finance and Audit Act 1983*, the Marine Parks Authority to the list of statutory bodies that are subject to particular audits.

(GG No 116, 15 September 2006, page 7988)

Public Authorities (Financial Arrangements) Amendment (Public Transport Ticketing Corporation) Regulation 2006

The object of this Regulation is to amend the *Public Authorities (Financial Arrangements) Regulation 2005* to add the Public Transport Ticketing Corporation to Schedule 2 to that Regulation.

An authority referred to in Schedule 2 to that Regulation is declared to have, in respect of funds of the authority, the investment powers described in Part 2 of Schedule 4 to the *Public Authorities (Financial Arrangements) Act 1987*.

(GG No 118, 22 September 2006, page 8089)

PREMIER'S DEPARTMENT UPDATE

Premier's Department Circulars

Number		Issued
C2006-37	2006-07 Strategic Management Framework and Calendar (supersedes C2005-44)	September 2006
C2006-38	Walk to Work Day (supersedes M2003-11)	September 2006
C2006-39	NSW Interagency Guidelines for Child Protection Intervention 2006	September 2006

C2006-37 - 2006-07 Strategic Management Framework and Calendar

This update of the Framework and Calendar contains essential information on key NSW Government legislation, policies, resources and reporting requirements, including an overview of the recently announced NSW State Plan.

C2006-39 - NSW Interagency Guidelines for Child Protection Intervention 2006

This Circular provides an overview of the update of existing guidelines for human service agencies.

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

Premier's Memoranda

Number		Issued
M2006-14	Counter Terrorism Exercise Programme Liability Issues	September 2006

M2006-14 - Counter Terrorism Exercise Programme Liability Issues

This Memorandum outlines the Government's risk management approach for exercises conducted under the New South Wales Counter Terrorism Exercise Programme.

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

TREASURY UPDATE

Treasury Policy and Guidelines Papers

Number		Issued
TPP06-9	What You Do and Why - An Agency Guide to Defining Results and Services	September 2006

TPP06-9 What You Do and Why - An Agency Guide to Defining Results and Services

This Policy provides guidance to General Government agencies to assist them with preparation of their Results and Services Plans. It is part of a package of materials on Results and Services Plans.

The Policy is available at www.treasury.nsw.gov.au.

Treasury Research and Information Papers Papers

Number		Issued
TRP06-1	Eastern Creek Alternative Waste Treatment Facility Project: Post-Implementation Review	September 2006

TRP06-1 Eastern Creek Alternative Waste Treatment Facility Project: Post-Implementation Review

This Paper is the outcome of a review conducted under the "Working with the Government: Guidelines for Privately Financed Projects".

The Paper is 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 (IASC) publications may be obtained direct from the IASC, 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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