

AWARENESS

Accounting and Auditing Developments - ISSUE 8 - December 2008/January 2009

AUDIT OFFICE UPDATE

Auditor-General's Report to Parliament: Financial Audits Volume Six

This volume summarises the results of a number of our financial audits. Significant items include:

Department of Environment and Climate Change

The Climate Change Fund in its first year has paid more than 25,000 rebates to New South Wales residents saving more than 14,000 tonnes of greenhouse gas emissions and 790 million litres of water.

More than 250 energy and water savings plans were approved potentially reducing greenhouse gas emissions by almost one million tonnes per year and saving 7.3 billion litres of water a year. Savings of \$40.0 million on energy bills and \$12.0 million on water bills are likely to occur.

Management plans exist for less than half of 788 areas that require them under the *National Parks and Wildlife Act 1974*. A further 128 plans are on public exhibition.

Department of Commerce

After repeated delays the Government Licensing System is expected to be implemented in 2012, 11 years after it commenced.

Only seven of the 15 major government agencies have implemented the Government's smartbuy® system and usage is well below target.

Emergency Services Overview

The State Rescue Board, a statutory body representing the Crown, has not prepared a financial report.

New South Wales Fire Brigades

The New South Wales Fire Brigades payroll computer processing environment contains significant internal control weaknesses.

It also has significant numbers of staff with excessive flexitime credits and annual leave balances.

WorkCover Authority of New South Wales

A new funding model designed to improve the transparency and predictability of the Authority's budget process was introduced on 1 July 2008.

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THE AUDIT OFFICE
OF NEW SOUTH WALES

Department of Lands

Aboriginal land claimants are unable to fully access or use \$1.0 billion of land granted to them, as the land has not been surveyed and recorded. Based on current resourcing this will take more than 20 years.

The Department has a \$3.2 million Treasury loan that under current arrangements will take 605 years to repay.

Roads and Traffic Authority of New South Wales

Guaranteed payments to the Sydney Harbour Tunnel operator are forecast to exceed \$1.0 billion over the next 14 years.

The basis of allocating payroll costs to infrastructure assets has not been reviewed by the Authority for over ten years.

Overtime paid to staff continues to increase.

Road fatalities have decreased over the past five years.

Over the last four years, the average morning peak speed on the seven major routes into the city has decreased from 34 kph to 30 kph.

Estimated expenditure on nine major projects has increased by nearly 50 per cent with extended completion dates.

Further information

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

Auditor-General's Report to Parliament: Managing Injured People

About the Audit

There are currently over 15,000 police officers in NSW. Today, injured police are covered by two different schemes each with their own requirements. Around 3,000 officers employed before 1 April 1988 (pre'88 officers) are covered by the Police Superannuation Scheme (PSS), which closed in 1988.

Officers employed after 1 April 1988 (post'88 officers) are covered for work related injury under NSW workers compensation legislation, and have additional insurance benefits available under the 2005 Death and Disability scheme.

In 2006, the Force established the safety command staffed with specialists to improve the case management of injured staff.

Our audit examines how well the Force manages police officers who are injured at work to minimise the impact on policing.

Audit Opinion

Overall, the NSW Police Force's approach to managing injured officers since 2006 is appropriate, focussing on notification and early intervention and the development of successful return to work plans.

Early intervention and return to work are the key factors in successfully managing injured officers and reducing the cost of workplace injuries. The Force has not done this well in the past. Through the establishment of the safety command, the Force has built a framework for managing injured officers that should optimise early return to work.

The results are already promising. The Force has had some success in reducing the impact of injuries. More officers now return to work than in the past, benefiting both the officer's well being and reducing the Force's financial exposure. Workers compensation insurance premiums for 2008-09 have also reduced by \$7 million to below \$58 million.

Yet, the Force still faces a number of serious problems. In 2006-07, 24 police officers retired due to age and 263 resigned. But 445 officers were retired on medical grounds, the majority on medical discharge. According to NSW Police, approximately 80 per cent of these were officers employed before 1988.

The rate of medical discharge increased by over 40 per cent between 2003 and 2007. This rate appears excessive. In Victoria, around 15 per cent of officers retire on medical grounds compared to 57 per cent in NSW.

In fact, following the introduction of the new Death and Disability insurance scheme in 2005, the number of officers employed after 1988 leaving the Force on medical grounds increased by 300 per cent. And like the old scheme, these officers if capable, can engage in any employment elsewhere after they have received their lump sum payment.

Some officers might perceive this new scheme in the same way that the old scheme was seen, that is, as a preferred means of leaving the NSW Police Force.

When introduced by the Government in 2005, the scheme was intended to limit the Government's financial exposure to 3.6 per cent of the total salary of police officers covered by the scheme. If the scheme cost too much it had to be reviewed.

Claims history and lump sum payments under the scheme increased its cost to over five per cent after its first year, costing around \$33 million. As yet, the Force has not completed a review of the scheme.

The increase in costs is due mainly to the partial and permanent disability cover where lump sum payments are a factor of the officer's age and can be more than eight times the officer's salary. And the future looks bleak. An actuarial assessment of future liabilities under this part of the scheme predicts an increase from around \$29 million at June 2006 to over \$115 million at June 2008.

This trend is unacceptable and must not be allowed to continue. The review of the scheme should be completed as a matter of urgency.

Further information

For further information, please contact Sean Crumlin, Director Performance Audit on +61 2 9275 7286. The full report is available on the Audit Office of New South Wales [website](#).

ACCOUNTING UPDATE

Financial Instruments

Extract: 'Financial Instrument Impairment - Crunch Time' with David Sauer

The recent global financial crisis and resulting declines in market values clearly represent a trigger for impairment of financial instruments at balance date. The decline in economic conditions will also prompt impairment assessments in a range of unlisted financial instruments, from trade debtors to derivatives.

Some important issues on application of impairment of financial assets:

- Fair value declines on financial assets categorised as 'available for sale' are recognised directly in equity if they do not meet the criteria of 'significant' or 'prolonged'. If either of those criteria is satisfied, the fair value decline is an impairment loss, with total decline in value since initial recognition recognised in the income statement. Entities should have a policy on

what represents those criteria. Even if they determine that there is no impairment, disclosure may be required about critical assumptions and accounting policy choice.

- Impairment losses on equity instruments categorised as ‘available for sale’ are reversed only through increments direct to equity, even though the losses were expensed through the income statement.
- In applying the fair value hierarchy, the absence of an active or orderly market is not sufficient reason to work with a valuation model using management assumptions alone. Recent guidance makes clear the need to use market reference points, if they are available, in valuation models. Financial asset values need to reflect the uncertainty in current markets even when management may hold a more positive view. The preparer needs to be clear as to the basis of fair value, which will be disclosed in the financial report, and where it fits into the newly specified hierarchy of:
 - Level 1 - unadjusted quoted prices at the measurement date sourced from active markets for identical financial assets.
 - Level 2 - directly or indirectly observable quoted prices; indirect observation means using market quotes for valuation inputs.
 - Level 3 - unobservable inputs into a valuation model.

Some entities will be in a position where the Level 1 data previously used is no longer available, so that much more work is involved in financial asset measurement. Assessments of fair value may require a ‘look-through’ of investment vehicles, with consequential difficulties in accessing information and making judgements. Where those vehicles are using cost accounting, their financial statements may be an inadequate reference point.

- Some financial assets such as intra-group loans and investments in subsidiaries may be supported by guarantees. Their effectiveness, including consideration of all consequences of exercising those guarantees, should be considered in impairment assessments. Similarly, reliance on insurance contracts that support fair value may need to be reviewed to consider the financial capacity of the insurer.

Source: GAAP Alert No. 21/2008 (9 December 2008)

Extract: ‘Financial Instruments: Disclosure - Learning the Lessons’ with Stephen LaGreca

AASB 7 ‘Financial Instruments: Disclosure’ helps users understand how an entity manages its risks related to financial instruments. It also helps entities to explain how they manage such risks. The following common threads have emerged:

- preparers lack knowledge on information requirements
- accounting systems did not capture the information so extensive manual collation was required
- templates used to fast track preparation had little consideration of the relevance and usefulness of the disclosures
- sensitivity analysis was an issue
- audit staff needed more extensive training in the whole topic of financial instruments.

A review of a number of smaller listed entities observed the following:

- The financial risk management disclosures were very general and dominated by template disclosures, which could apply to any entity. No insight was provided into the actual policies or procedures of the companies. This is despite the current financial market turmoil, and its impact on the sources of debt and capital. With the exception of maturity tables (not enough time buckets) and market risk sensitivities (simplistic), there is very little quantitative data provided.
- Credit Risk disclosures had little real insight in the credit policies adopted, in particular, credit scoring and use of credit bureau. There was little information on how concentration risk was identified and mitigated.
- The biggest omission from liquidity risk was the impact of covenants on maturity profiles. There was no mention of the fact there are usually annual reviews in most borrowing agreements,

which can trigger either re-pricing or accelerated repayment. The maturity buckets were uninformative due to the use of 1-5 year bucket.

- For market risk, most notes had some sensitivity analysis, usually 10% for currency and 100 basis points for interest rates. However, 10% may not be appropriate, particularly in the case of foreign exchange where some currencies may be more or less volatile than others. A similar case may be made for interest rate movements in relation to foreign currency borrowings. Aside from the use of derivatives to manage foreign exchange and interest rate risk there is no mention of other techniques, i.e., use of multiple rollover dates for debt to manage repricing risk.
- Capital Disclosures was the poorest section dominated by the use of template disclosure; it begs the question as to whether the companies have a documented and well thought out capital management plan. There is little disclosure of targets. There is no mention of required return on capital employed, how excess capital is determined, and the optimisation of capital structures with hybrids. There should be a policy of how imbalances in the capital measure will be rectified with a tiered approach in both the cases of excess and insufficient capital.

AASB 7 disclosures need to be updated each year; financial risks, fair values, and assumption change, as do the entity's business operations. Expect users to pay particular attention to AASB 7 disclosures.

Source: GAAP Alert No. 21/2008 (9 December 2008)

Australian Accounting Standard Board (AASB) Pronouncements

AASB 2008-12 Amendments to Australian Accounting Standards - Reclassification of Financial Assets - Effective Date and Transition

The Standard clarifies the effective date of the amendments made to AASB 139 Financial Instruments: Recognition and Measurement and AASB 7 Financial Instruments: Disclosures as a result of the issuance of AASB 2008-10 Amendments to Australian Accounting Standards - Reclassification of Financial Assets in November 2008.

Source: AASB News (19 December 2008)

AASB Interpretation 17 Distributions of Non-Cash Assets to Owners

The Interpretation provides guidance on the measurement of non-cash distributions to owners (dividends), other than those transactions subject to common control. It corresponds with IFRIC 17 issued by the IASB in early December 2008.

The Interpretation clarifies that dividends payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity. Such dividends should be measured at the fair value of the net assets to be distributed, with any difference between this and carrying value being taken to profit and loss.

AASB Interpretation 17 applies prospectively for annual reporting periods beginning on or after 1 July 2009.

Source: ANT Issue 02 (16 January 2009)

AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 Distributions of Non-Cash Assets to Owners

AASB 2008-13 makes consequential amendments to AASB 5 and AASB 110.

Amendments to AASB 5 include:

- A non-current asset classified as held for distribution to owners shall be measured at the lower of its carrying amount and fair value less costs to distribute; i.e. similar to a non-current asset classified as held for sale.

- The classification, presentation and measurement requirements applicable to a non-current asset classified as held for sale are also applicable to a non-current asset classified as held for distribution to owners.
- An entity must be committed to distribute a non-current asset classified as held for distribution to owners and the asset must be available for distribution in its present condition with the distribution being highly probable. 'Highly probable' means that the distribution should have been initiated, that the expected completion is within one year from the date of classification and that the likelihood of shareholder approval is also an important consideration.

AASB 110 is amended to state that dividends declared after the reporting period, but before the financial statements are authorised for issue, are not recognised as a liability for the reporting period because no obligation exists at that time.

AASB 2008-13 apply prospectively for annual reporting periods beginning on or after 1 July 2009.

Source: CPA Media Release (12 January 2009)

Technical Article on Not-for-profit entity requirements in Australian Accounting Standards

The AASB has updated the technical article 'Not-for-profit (NFP) entity requirements in Australian Accounting Standards'. The document identifies requirements in Australian Accounting Standards that relate specifically to NFP entities. Part A of the document outlines the main issues and accounting treatments required when a NFP entity has a for-profit subsidiary. Part B identifies paragraphs in Australian Accounting Standards that relate to NFP entities and briefly describes the reasons for including specific paragraphs.

The updated article is available on the [AASB website](#).

Source: ANT Issue 03 (23 January 2009)

AASB Exposure Drafts and Invitations to Comment

ED 170 Relationships with the State (Proposed Amendments to AASB 124)

This ED proposes simplifying the disclosure requirements imposed by IAS 24 'Related Parties' on state controlled entities in relation to their transactions with other state controlled entities.

The IASB previously issued an ED on this topic in 2007 that exempted state-controlled entities from providing disclosures about transactions with other state-controlled entities, if specific conditions were met. However, respondents to that ED argued that the requirements were still too complex.

The new proposals do not require state-controlled entities to assess the extent of state influence and thus exempt such entities from providing full details about transactions with other state-controlled entities and the state. Instead, it requires general disclosures about the types and extent of significant transactions.

The discussion paper is available on the [AASB website](#) and comments are due to the AASB by 15 February 2009. Comments are due to the IASB by 13 March 2009.

Source: AASB website and ANT Issue 02 (16 January 2009)

ED 171 Consolidated Financial Statements

The proposals:

- present a new, principle-based, definition of control of an entity that would apply to a wide range of situations and be more difficult to evade by special structuring
- include enhanced disclosure requirements that would enable an investor to assess the extent to which a reporting entity has been involved in setting up special structures and the risks to which these special structures expose the entity.

The discussion paper is available on the [AASB website](#) and comments are due to the AASB by 22 February 2009. Comments are due to the IASB by 20 March 2009.

Source: AASB website and ANT Issue 01 (12 January 2009)

ED 172 Embedded Derivatives (Proposed Amendments to AASB Interpretation 9 and AASB 139)

This ED clarifies the financial instrument reclassification amendments made in October 2008 to ensure that embedded derivatives are not incorrectly treated when hybrid financial assets are reclassified in accordance with these new requirements. The proposed amendments will require an entity to assess whether an embedded derivative needs to be separated from the host contract prior to reclassifying the hybrid instrument and make that assessment based on the circumstances that existed when the parties first entered into the contract. If separation is required but the fair value of the embedded derivative cannot be reliably measured then reclassification will not be permitted.

The discussion paper is available on the [AASB website](#) and comments are due to the AASB by 16 January 2009. Comments are due to the IASB by 21 January 2009.

Source: AASB website and ANT Issue 01 (12 January 2009)

ED 173 Investments in Debt Instruments (Proposed Amendments to AASB 7)

Proposals require entities to provide additional disclosures on all investments in debt instruments, other than those classified in the 'fair value through profit or loss' category.

The new disclosures will show the effect on before-tax profit and loss that classifying these instruments as either at amortised cost or available for sale would have had. It will also permit comparison of their values in the statement of financial position with their fair value and amortised cost.

The discussion paper is available on the [AASB website](#) and comments are due to the AASB by 8 January 2009. Comments are due to the IASB by 15 January 2009.

Source: AASB website and ANT Issue 01 (12 January 2009)

ED 174 Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS

ED 174 includes proposals for the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) for entities within the General Government Sector (GGS).

If adopted, the proposals would potentially change the format of financial statements issued by certain government controlled entities, including government departments and statutory authorities. The proposals would result in the financial statement formats of those entities and their controlling governments looking broadly the same.

The ED is available on the [AASB website](#) and comments are due to the AASB by 19 May 2009.

Source: AASB News (14 January 2009)

ITC 18 Requests for Comment on IASB Discussion Paper - Preliminary Views on Revenue Recognition in Contracts with Customers

This discussion paper invites comments on the preliminary view of a single, contract-based revenue recognition model that can be applied consistently regardless of the industry. The new model is based on the underlying principle that revenue should be recognised when an entity satisfies a performance obligation by transferring goods or services as per the contractual agreement.

While the principle is similar to many of the existing revenue recognition models currently in use in various accounting standards (meaning that many entities will not undergo significant changes), one model, consistently applied, will be of significant benefit to improve the comparability and understandability of reporting revenue for users.

The discussion paper is available on the [AASB website](#) and comments are due to the AASB by 24 April 2009. Comments are due to the IASB by 19 June 2009.

Source: AASB website and ANT Issue 02 (16 January 2009)

ITC 19 IASB Discussion Paper Preliminary Views on Financial Statement Presentation

The discussion paper contains an analysis of the current issues in financial statement presentation and presents the IASB's initial thinking on how those issues could be addressed in a possible future format.

The IASB and the FASB propose to introduce cohesiveness and disaggregation as the two main objectives for financial statement presentation. Cohesiveness would ensure that a reader of financial statements could follow the flow of information through the different statements of an entity; disaggregation would ensure that items that respond differently to economic events are shown separately.

To achieve these main objectives the boards have developed a principle-based format that is presented in the discussion paper. The model is designed to make an entity's financial statements more useful. The proposals will have wide-ranging implications for business.

The discussion paper is available on the [AASB website](#) and comments are due to the AASB by 31 March 2009. Comments are due to the IASB by 14 April 2009.

Source: AASB News (9 January 2009) and ANT Issue 02 (16 January 2009)

Discussion Paper 'Initial Accounting for Internally Generated Intangible Assets'

This discussion paper advocates consistent fair value measurement in the initial accounting for such assets. Current accounting standards treat internally generated intangible assets acquired through a business combination differently from the same kind of assets that are internally generated.

This is intended to be the first in a number of papers addressing intangible asset measurement issues.

The discussion paper is available on the [AASB website](#) and comments are due to the AASB by 15 May 2009.

Source: AASB website and GAAP Alert No. 21/2008 (9 December 2008)

AASB Meeting

AASB Meeting Highlights - 19 December 2008

At its meeting, the AASB discussed the following items.

- **Superannuation Plans and Approved Deposit Funds** - The Board continued discussions on the draft exposure draft (ED), with further amendments requested for consideration at the February meeting.
- **GAAP/GFS Harmonisation** - The Board considered a draft ED 'Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within GGS'. The Board approved the ED for issue, subject to some final amendments. During early stages of the comment period, they will develop an illustrative example of financial statements ready for consideration at roundtables in Melbourne and Canberra.

- **Income from non-exchange transactions** - A draft ED with examples based on IPSAS 23 'Revenue from Non-Exchange Transactions' was considered. Some issues require clarification and the draft ED will be reconsidered at the next AASB meeting.
- **Interpretations - Distributions of Non-cash Assets to Owners** - The Board considered and approved AASB Interpretation 17 'Distributions of Non-cash Assets to Owners' and the related amending standard effective from 1 July 2009.
- **Interpretations - Superannuation Contributions Tax** - The Board considered a draft interpretation, with amended version to be reconsidered at the next AASB meeting.
- **Modifying IFRS for Not-for-Profit Entities** - The Board was updated on the status of the New Zealand Financial Reporting Standards Board (FRSB) on identifying criteria for consideration when determining whether IFRS should be modified for not-for-profit entities.
- **Reclassification of Financial Assets in relation to insurers** - The Board decided not to proceed with an ED on this issue. Therefore, the reclassification amendment will remain available to insurers.
- **Revenue Recognition** - The Board discussed the joint IASB/FASB Discussion Paper on Revenue Recognition in Contracts with Customers. The AASB determined it would hold roundtables during the comment period.
- **Borrowing Costs** - The Board's submission to the IPSASB regarding the proposed amendments to IPSAS 5 'Borrowing Costs' was finalised, which in essence states that the AASB does not support the justification provided by IPSASB for the departure from IAS 23 'Borrowing Costs'. The Board also decided to defer the application date of AASB 123 'Borrowing Costs' for the public sector until completion of IPSAS 5 and the FRSB's project on borrowing costs and depreciated replacement cost.
- **Differential Reporting** - The Board tentatively agreed that financial statements made available to the public at large under a legal mandate would be general purpose financial reports (GPFs). Discussions to continue at a future meeting.
- **IASB Exposure Drafts** - Submissions on each of the ED's relating to amendments to IAS 33 'Earnings per Share', IFRS 1 'First-time Adoption of International Financial Reporting Standards', IFRS 7 'Financial Instruments: Disclosures' and IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' were considered and approved.

IASB is expected to issue an ED on embedded derivatives relating to hybrid financial instruments that are classified at fair value through profit or loss, with comment sought by 22 January 2009. The Board will issue their ED with comments due 16 January 2009.

IASB is expected to issue a number of EDs. The Board agreed to subsequently issue corresponding EDs with Australian preface.

Source: AASB Action Alert No 121 (19 December 2008) and ANT Issue 49 (19 December 2008)

AUDITING UPDATE

Auditing and Assurance Standards Board (AUASB)

GS 001 Concise Financial Reports

This Guidance Statement has been updated in line with recent changes made to Accounting Standard AASB 1039 'Concise Financial Reports' by the AASB. It applies to audits of a concise financial report prepared under the revised Accounting Standard.

The changes to the guidance statement GS 001 include aligning terminology with AASB 1039 and providing guidance on an auditor's report on a concise financial report.

Source: AUASB News (9 December 2008)

AUASB releases two Exposure Drafts of ASAs in Clarity Format

The exposure drafts are:

- ASA 530 'Audit Sampling'
- ASA 610 'Using the Work of Internal Auditors'

The exposure drafts are available on the [AUASB website](#) and comments are due to the AUASB by 23 January 2009.

Source: AUASB ASA redrafting news (5 December 2008)

AUASB Meeting

AUASB Meeting Highlights - 1 & 2 December 2008

The Board discussed a working document based on ASA 100 'Preamble to AUASB Pronouncements'. This interpretive document is being revised progressively as other standards are redrafted. Progressive versions are available on the [AUASB website](#) to assist constituents in responding to exposure drafts.

The Board received an update on matters relating to the Department of Climate Change on its 'External Audit Consultation Paper'. Consultation with The Department of Climate Change is ongoing, and over the next month, the AUASB will provide staff assistance to the Department to assist in the finalisation of auditing requirements for the NGER Scheme.

On 2 December 2008, the Board held a consultative meeting in Melbourne with more than 30 stakeholders, including the Institute, audit practitioners, regulators, other standard setters, academics and other professional accounting bodies.

The Board presented a summary of its current and future work program, which includes:

- the ongoing 'Clarity' revisions of the suite of auditing standards, due for completion in 2009 and applicable for audits of financial reporting periods commencing on or after 1 January 2010
- SME auditing and assurance issues
- assurance standards and guidance on subject areas other than historical financial reports and information
- assurance on sustainability matters including the National Greenhouse and Energy Reporting System (including Emissions Trading)
- assurance on prospective financial information
- other significant industry specific auditing and assurance matters (such as Self Managed Superannuation Funds and XBRL (extensible Business Reporting Language) issues.

The Board solicited feedback on six major topics, and invited participants to raise other matters as well. The topics were:

- auditing in periods of financial instability
- Clarity project - timing, implementation issues, costs and benefits
- assurance on sustainability reporting
- applying auditing standards in the SMP / SME environment
- assurance reporting (other than historical financial information)
- interface between auditing standards and other regulatory and professional requirements

Participants encouraged the Board to address the first four topics above by way of further guidance. There is a particular need for guidance regarding the application of the auditing standards to what may be termed 'micro audits'.

Source: AUASB Meeting Highlights (1 December 2008) and ANT Issue 47 (5 December 2008)

FINANCIAL REPORTING COUNCIL (FRC)

Meeting Highlights - 26 November 2008

The meeting covered the following items:

- an update on recent international and stakeholder meetings
- outcomes of the Public Sector accounting workshop
- appointments to the AASB and AUASB

For further details, go to the FRC website - www.frc.gov.au.

Source: FRC Bulletin - Issue 2008/06 (26 November 2008)

Member appointments and reappointments of the AASB & AUASB

The FRC approved the new appointments and reappointments of members to the AASB and the AUASB.

The AASB members from 1 January 2009 until 31 December 2011 are:

- Mr Victor Clarke, Partner, PricewaterhouseCoopers
- Mr Ian McPhee, Auditor General of Australia.
- Mr John O'Grady, Partner, Ernst & Young
- Mr Glenn Appleyard, Economic Consultant

AUASB members from 1 January 2009 until 31 December 2011:

- Mr Chris Hall, Partner, KPMG
- Mr David Simmonds, Partner, Ernst & Young
- Mr Mike Blake, Auditor General of Tasmania
- Mr Greg Pound, Independent Consultant
- Ms Elizabeth Johnstone, Partner, Blake Dawson
- Mr Colin Murphy, Auditor General of Western Australia

Source: FRC Bulletin - Issue 2009/01 (5 January 2009)

Memorandum of Understanding between the FRC & APRA

The FRC has entered into a new Memorandum of Understanding (MOU) with the Australian Prudential Regulation Authority (APRA). The new MOU provides that APRA will report to the FRC, at least annually, on matters relating to auditor independence. The MOU also provides that APRA will report to the FRC on compliance with APRA's reporting requirements that are relevant to the FRC's functions, when such matters arise.

Source: FRC Bulletin - Issue 2008/06 (26 November 2008)

ETHICS UPDATE

Accounting Professional and Ethical Standards Board (APESB)

ED 05/08 Proposed Standard APES 330 Insolvency Services

Proposed Standard APES 330 'Insolvency Services' will replace APS 7 'Statement of Insolvency Standards'. It covers the following topics:

- fundamental responsibilities of members in public practice
- professional independence and conflicts of interest
- professional engagement matters
- dealings with property
- expert witness obligations
- professional fees
- documentation and quality control

The exposure draft is available on the [APESB website](#) and comments are due to the APESB by 6 March 2009.

Source: APESB Media Release (24 December 2008)

Withdrawal of APS 9 Statement of Compilation of Financial Reports

APESB has withdrawn APS 9 'Statement on Compilation of Financial Reports' with effect on 31 December 2008. APES 315 'Compilation of Financial Information' that is effective from 1 January 2009 will replace APS 9.

Copies of the replacement standard and the basis for conclusions are available from the [APESB website](#).

Source: APESB Technical Update (9 January 2009)

ASIC UPDATE

Capital Markets Update

ASIC Commissioner, Belinda Gibson, gave a speech to the Australasian Investor Relations Association 2008 Annual Conference on capital markets update.

Topics discussed include:

- disclosure in a stressed economy
- ASIC's capital markets taskforce - improving enforcement of market abuse offences
- analyst briefings - ensuring all investors have access to information

The speech is available on the [ASIC website](#).

Source: ASIC Speeches (27 November 2008)

ASIC Review of 30 June 2008 Financial Reports

ASIC issued guidance to entities preparing their 31 December 2008 financial and audit reports. This guidance incorporates specific issues identified through ASIC's review of 30 June 2008 financial reports. ASIC recommends entities focus on:

- going concern
- impairment of assets
- determining fair values
- off balance sheet arrangements
- new financial instrument disclosures

Further details are available on the [ASIC website](#).

Source: ASIC Media Release (3 December 2008) and ANT Issue 47 (5 December 2008)

Short Selling of Financial Securities

ASIC will keep the ban on covered short selling of financial securities in place until 6 March 2009.

ASIC's current reporting and disclosure regime on short selling data will continue pending the commencement of the Government's permanent measures. Continuing to require disclosure of covered short selling will reduce the potential for abusive behaviour and disorderly markets.

Source: ASIC Advisories 09-05 (21 January 2009)

LEGISLATIVE UPDATE

Independent Commission Against Corruption Amendment Act 2008

The Independent Commission Against Corruption Amendment Act 2008 was assented on 16 December 2009. The amendments include:

- clarifying the reference to "serious and systemic corrupt conduct" in relation to the functions of the Independent Commission Against Corruption (the Commission)
- an increase to the maximum penalty for an offence under section 82 of failing to provide information (or providing false information) to the Commission
- ensuring the Commission may make a non-publication order in respect of any written submissions received by the Commission by counsel assisting the Commission or by any other person
- extending the time period within which proceedings for offences against sections 82 (relating to providing information) and 95 (impersonation of Commission officer) may be commenced to 3 years (instead of 6 months) from the commission of the alleged offence,
- changing the definition of public official in the Protected Disclosures Act 1994 to remove any doubt that the Act extends to any individual in the service of the Crown or of a public authority.

Source: [NSW Parliament Website](#)

PREMIER'S DEPARTMENT UPDATE

Premier's Department Circulars

The following is a list of recent Premier's Department Circulars available at: www.dpc.nsw.gov.au

C2008-47 Voluntary Redundancy Payments

The Commonwealth Government changed the treatment of payments made on termination of employment. Circular 2007-35 advised that the Department of Premier and Cabinet (DPC) was seeking a tax ruling to see if redundancy payments made under Premier's Memorandum 97-27 meet the transitional Employment Termination Payment (ETP) tax rules which commenced on 1 July 2007. Taxation advisers were engaged to assist with this request.

The Australian Tax Office (ATO) has advised that the Commissioner of Taxation is unable to issue a class ruling on this matter as each individual's termination of employment is subject to that individual's employment contract. The ATO has indicated that individuals need to apply to the Commissioner for their own Private Binding Ruling.

Alternatively, the taxation advisers suggest that some individuals may wish to record a redundancy payment as a transitional ETP in their tax return and lodge an objection if the ATO disagrees with the assessment.

Please see [C2008-47](#) for further details.

C2008-50 Crown Employees (Public Service Training Wage)

The *Crown Employees (Public Service Training Wage) Award 2005* was reviewed by the NSW Industrial Relations Commission on 16 December 2008. As part of that process, the rates in the Award were varied to give effect to the 4 per cent increase awarded by the State Wage Case 2008. The varied rates were backdated to commence in the first full pay period on or after 8 September 2008, being 12 months from the last increase.

Please see [C2008-50](#) for further details.

C2009-01 Further Amendments to the Public Sector Employment and Management Act 2002

The *Public Sector Employment and Management Act 2002* and the Public Sector Management (Goods and Services) Regulation 2000 were amended from 4 December 2008.

There are five amendments applying only to Public Service Departments with the remainder applying to all public sector agencies. This includes the Government Service (Public Service Departments, Non-Public Service Divisions and Special Employment Divisions), the Teaching Service, NSW Police and the NSW Health Service.

Please see [C2009-01](#) for further details.

C2009-02 Work-Related Transport for NSW Public Sector Employees

In December 2008, the NSW Government introduced a free shuttle bus service in the Sydney CBD. The service runs in both directions between Circular Quay and Central Railway Station along George and Elizabeth streets, at 10 minute intervals.

The "555" numbered service provides a convenient and free alternative for short trips that may previously have been taken by taxi, agency or private vehicle.

All public sector staff are encouraged to use the distinctive lime green buses for trips within the Sydney CBD.

Please see [C2009-02](#) for further details.

Other Premier's Department Circulars

- [C2008-48](#) Rostered Days Off For 2009-2010 Crown Employees (Skilled Trades) Award and General Construction (State) Award
- [C2008-49](#) Accessing Leave Entitlements and Flexible Work Hours Arrangements to Observe Religious Duties
- [C2009-03](#) Coordination of e-Recruitment-Related Initiatives

Premier's Department Memoranda

The following is a list of recent Premier's Department Memoranda available at: www.dpc.nsw.gov.au

M2008-26 Obligation on Ministers to Report

On 4 December 2008, Parliament passed amendments to the *Independent Commission Against Corruption Act 1988* ("the Act"). The amendments commence on assent.

Some of the amendments impose a duty on each Minister under section 11 of the Act to report any matter that the Minister suspects, on reasonable grounds, concerns or may concern corrupt conduct.

A Minister may comply with this obligation either by reporting the matter to the ICAC him or herself or by reporting the matter to the head of any agency responsible to the Minister.

If a matter is reported to the Minister's agency head, that officer is in turn under an obligation under the Act to report any matter the officer suspects, on reasonable grounds, concerns or may concern corrupt conduct to the ICAC.

Please see [M2008-26](#) for further details.

M2008-28 Sustainability Policy for NSW Government

The NSW Government Sustainability Policy outlines how the Government will lead by example in sustainable water and energy use, reducing greenhouse gas emissions, waste and fleet management and sustainable purchasing.

The Policy will provide an important step for the NSW Government to meet its commitment of becoming carbon neutral by 2020.

All elements of the Policy apply to all NSW Government budget dependent agencies. Fleet, waste reduction and purchasing elements also apply to other NSW Government agencies.

Local government and public trading enterprises are strongly encouraged to adopt these principles as an integral part of their business, thereby contributing to NSW's broad sustainability outcomes, while pursuing good business practice.

This Memorandum supersedes M1998-35 and M2004-04 and updates M2003-05 and M2005-03.

Please see [M2008-28](#) for further details.

M2008-29 Annual Determination of Remuneration for Chief Executive and Senior Executive Services

The Statutory and Other Offices Remuneration Tribunal (SOORT) has determined a general increase of 2.5% effective on and from 1 October 2008. These increases, as usual, must be based on satisfactory performance.

SOORT has also determined up to a further 1.4% to each SES officer in circumstances where by June 2009 there have been quantifiable productivity increases sufficient to fund the increase for the SES officer in that agency. CEOs will need to provide this information to the Director General of the Department of Premier and Cabinet by June 2009. Should the Director General consider such productivity improvements have been met then the 1.4% increase can be paid effective 1 October 2008.

The above does not apply to State Owned Corporations.

This Memorandum supersedes Premier's Memorandum 2008-20 and Department of Premier and Cabinet Circular 2007-47.

Please see [M2008-29](#) for further details.

M2009-02 NSW Legislation Website: Authorisation of Online Legislation and Online Notification of New Statutory Instruments

The official NSW legislation website (www.legislation.nsw.gov.au) has been updated and now contains authorised versions of NSW Acts, Regulations and Environmental Planning Instruments.

The latest series of enhancements provided the capacity to authorise, under section 45 C (5) of the Interpretation Act 1987, most of the legislative content. This means that NSW legislation published online now has the same status as authorised printed legislation.

An additional feature of the website, to provide for the online notification of the making of subordinate legislation instead of by publication in the Gazette, is now in place and will come into general use on:

- 26 January 2009 for all environmental planning instruments
- 2 March 2009 for other instruments drafted by PCO and made by the Governor (mainly regulations and commencement proclamations)

Please see [M2009-02](#) for further details.

Other Premier's Department Memoranda

- [M2008-23](#) Changes to Government Recruitment Advertising
- [M2008-24](#) Out of Pocket Expenses and Christmas Season Parties
- [M2008-25](#) Legislative Program Budget Sittings 2009-01-27
- [M2009-01](#) Guidelines for Disability Action Planning by NSW Government Agencies

TREASURY UPDATE

Treasury Policy Papers

TPP 08-5 Guidelines for Capital Business Cases

The purpose of these Guidelines for Capital Business Cases is to strengthen the framework and identify the requirements for all public sector agencies to undertake business cases on a consistent basis to support the:

- contribution to the strategic priorities of Government as contained in the NSW State Plan and the NSW State Infrastructure Strategy
- prioritisation of resources to meet Government service delivery objectives or priorities
- efficient, effective delivery of planned services by agencies.

This Treasury Policy Paper is available on the [Treasury website](#).

Source: TPP 08-5

INTERNATIONAL UPDATE

International Accounting Standards Board (IASB)

IFRIC 18 Transfers of Assets from Customers

The Interpretation is particularly relevant for the utility sector. It clarifies the requirements of International Financial Reporting Standards (IFRSs) for agreements in which an entity receives an asset from a customer that is used to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services. In some cases, this asset is cash to acquire or construct the item of property, plant and equipment in order to connect the customer to a network or provides the customer with ongoing access to a supply of goods or services or both.

The Interpretation clarifies:

- circumstances in which the definition of an asset is met
- recognition and measurement of the asset
- identification of the separately identifiable services
- recognition revenue
- accounting for transfers of cash from customers.

The Interpretation is effective for transfers of assets from customers on or after 1 July 2009.

Source: IASB Press Release (29 January 2009)

IASB Meeting Highlights - 15-19 December 2008 Meeting

At its meeting, the IASB discussed the following items:

- global financial crisis
- annual improvements
- conceptual framework
- first time adoption of IFRSs
- IFRS for private entities
- liabilities - amendments to IAS 37
- rate-regulated activities
- share based payments.

For further information see the [IASB Update](#) for December 2008.

International Federation of Accountants Committee (IFAC)

Audit Practice Alert - New IFAC Paper Highlights Roles of Regulators and Profession in Standard-Setting Process

IFAC released a policy position paper that describes and explains the international standard-setting process, particularly for International Standards on Auditing (ISAs). The paper 'International Standard Setting in the Public Interest' explains the shared responsibility between public and private sector organisations to produce high quality standards that are in the public interest. The paper identifies the underlying principles of legitimacy, independence, accountability, transparency and performance that are key to a successful standard-setting process. It also describes how the structures and processes of the independent standard-setting boards in the areas of international auditing, ethics and accounting education are consistent with these principles.

A copy of the paper is available from the [IFAC website](#).

Source: IFAC News Releases (12 December 2008)

International Auditing and Assurance Standards Board (IAASB)

Audit Practice Alert - Audit Considerations in Respect of Going Concern in the Current Economic Environment

The IAASB has issued this alert to raise auditors' awareness about matters relevant to the consideration of the use of the going concern assumption in the preparation of the financial statements in the current environment. In particular, management, those charged with governance and auditors alike will face the challenge of evaluating the effect of the credit crisis and economic downturn on an entity's ability to continue as a going concern and whether these effects on the entity ought to be described, or otherwise reflected, in the financial statements.

Key messages within this Alert include:

- The going concern assumption is a fundamental principle in the preparation of financial statements.
- The assessment of an entity's ability to continue as a going concern is the responsibility of the entity's management.
- The appropriateness of the use of the going concern assumption is a matter for the auditor to consider on every audit engagement.
- International Standard on Auditing (ISA) 570, "Going Concern," establishes the relevant requirements and guidance with regard to the auditor's consideration of the appropriateness of management's use of the going concern assumption and auditor reporting.
- The credit crisis and economic downturn have led to a lack of available credit to entities of all sizes, which may affect an entity's ability to continue as a going concern; this and other factors may be relevant in the auditor's evaluation of forecasts prepared by management to support its going concern assessment.
- The extent of disclosures in the financial statements is driven by management's assessment of an entity's ability to continue as a going concern, coupled with the disclosure requirements of the applicable financial reporting framework.
- Consideration of the need for an 'emphasis of matter' paragraph in the auditor's report will be a difficult matter of judgment to be made in the context of the entity's circumstances; the mere existence of the credit crisis, though referred to in the financial statements, does not of itself create the need for an emphasis.

A copy of the alert is available on the [IFAC website](#).

Source: IFAC News Releases (21 January 2009)

MISCELLANEOUS PUBLICATIONS

Senate Committee Final Report on Not-for-profit Disclosure Regimes

The Senate Standing Committee on Economics has released their final report on 'Disclosure Regimes for Charities and Not-for-profit Organisations'.

The recommendations include:

- agreement from all Australian Governments on common terminology when referring to organisations within the sector
- unit to be established within the Department of Prime Minister and Cabinet for dealing with issues in this sector
- recommendation for a single independent national regulator for not-for-profit organisations with a similar function to regulators overseas
- Commonwealth government to develop the legislation in order to establish the national regulator
- National regulator to provide information to the ABS on size and composition of the sector

- a single mandatory specialist legal structure to be established for organisations through referral of state and territory powers
- Henry review to include an examination of taxation measures effecting not-for-profit organisations with a view to simplifying these arrangements
- a national fundraising Act to be developed through referral of state and territory powers
- a tiered reporting system based on total annual revenue to be established
- Commonwealth to work with the sector to develop a standard chart of accounts
- a new disclosure regime containing narrative and numeric reporting, as well as financial reporting to be developed acknowledging the different information needs to that of the business sector
- National regulator to investigate the cost vs. benefit of technology involving a website that publishes information on the aims and activities of not-for-profit organisations
- a taskforce to be established for the purposes of implementing the proposals in this report. This task force will report to the COAG.

Source: ANT Issue 47 (5 December 2008)

Australian Government White Paper on the Carbon Pollution Reduction Scheme

The Government released the Carbon Pollution Reduction Scheme (CPRS) White Paper, which outlines the final design of Australia's forthcoming emissions trading scheme. The Government still intends for the scheme to commence in 2010. The final design is very similar to the preferences outlined in the green paper released in July.

The government has decided not to pursue the issue of Australian specific accounting standards for the treatment of emissions permits and will instead wait for the IASB exposure draft and subsequent AASB exposure draft to be released in 2009.

The White Paper is available on the [Department of Climate Change website](#).

Source: ANT Issue 49 (19 December 2008)

Draft Amendments to NGER Regulations

Draft amendments to the National Greenhouse and Energy Reporting Amendment Regulations 2008 are on the [Department of Climate Change website](#). These amendments are required to improve the administration of the National Greenhouse and Energy Reporting System. They do not signal changes to reporting requirements for corporations.

The exposure period will close by 23 January 2009.

APRA Revised Audit Requirements for ADIs

APRA revised its prudential standard on audit requirements for Authorised Deposit-taking Institutions, APS 310 'Audit and Related Matters'. The revisions follows consultation with the audit profession and the industry with the aim of ensuring that APRA is provided with independent advice from an ADI's auditor in relation to its operations and risk control environment, as well as assurance that data provided to APRA are reliable.

Source: APRA Media Release (23 December 2008) and ANT Issue 02 (16 December 2009)

Australian National Audit Office Reports

- AUDITFocus December 2008
- The Australian Taxation Office's Administration of Business Continuity Management
- The Australian Institute of Marine Science's Management of its Co-investment Research Program
- Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2008
- Government Agencies' Management of their Websites
- Active After-school Communities Program

These publications are available at www.anao.gov.au

ACT Auditor-General's Office Reports

- Performance Audit Report 'Proposal for a gas-fired power station and data centre - site selection process'
- Auditor-General report on 2007-08 Financial Audits

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

Northern Territory Auditor-General's Office Report

- November 2008 report to the Legislative Assembly

This publication is available at www.nt.gov.au

Independent Commission Against Corruption (ICAC) Publications

- Investigation into bribery and fraud at RailCorp - Eighth Report, Corruption Prevention
- Investigation into tendering and payments in relation to NSW Fire Brigades capital works projects
- Corruption Matters Issue No. 32 December 2008

These reports are available at www.icac.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	Date issued
Monitoring and Reporting on Audit Recommendations	March 2008
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	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
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 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
ASRE	Australian Standard on Review Engagements
AUASB	Auditing and Assurance Standards Board
ED	Exposure Draft
FASB	Financial Accounting Standards Board (USA)
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
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 and assurance standards, guidance statements, 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 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.legislation.nsw.gov.au.

Treasury publications 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 www.dpc.nsw.gov.au.

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