

Professional update

Accounting and auditing developments |



February 2012

Hot Topics

IPSAS 32 Service Concession Arrangements: Grantor

The International Public Sector Accounting Standards Board (IPSASB) released [IPSAS 32](#) 'Service Concession Arrangements: Grantor' in October 2011, applicable to annual financial statements beginning on or after 1 January 2014. Although the AASB has not exposed IPSAS 32 in Australia, it has confirmed an Australian exposure draft will be developed based on the finalised IPSAS.

IPSAS 32 was released to address accounting for public – private partnerships by the grantor, being a public sector entity (e.g. government) contracting with a private operator to develop (or upgrade) and maintain public infrastructure such as roads, airports, tunnels etc. IPSAS 32 defines these contractual arrangements, known as service concession arrangements, as a 'binding arrangement between a grantor and an operator in which:

- the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time
- the operator is compensated for its services over the period of the service concession arrangement.'

Not all public–private partnerships fall within the scope of IPSAS 32. However, where a service concession arrangement exists, the grantor is required to:

- recognise a new service concession asset at its fair value and the related liability, or
- reclassify an existing asset as a service concession asset (either as a non-financial asset or an intangible asset), as appropriate.

After the initial recognition or reclassification, the service concession asset is accounted for as either a non-financial asset or an intangible asset, and subsequently measured within the appropriate frameworks.

Where a new service concession asset is recognised at its fair value, the grantor will need to recognise either a financing liability under the 'financial liability model' or deferred income under a 'grant of a right to the operator model', depending on how the grantor compensates the operator.

The IPSAS 32 approach provides an accounting treatment for the recognition, measurement and disclosure of service concession assets and related liabilities, revenues and expenses, in the private and public sector that mirrors the approach in IFRIC 12 'Service Concession Arrangements' issued by the IASB (reissued by the AASB as [Interpretation 12](#) 'Service Concession Arrangements'). Until the release of IPSAS 32 international and local pronouncements only addressed the accounting by the private operator (grantee).

Currently, Treasury's [TPP 06-8](#) 'Accounting for Privately Financed Projects' remains authoritative for grantors in the NSW public sector. Agencies should note the TPP prescribes a different approach to IPSAS 32.

This edition includes:

- **IPSAS 32 Service Concession Arrangements: Grantor**
- **Quality and Timeliness of Financial Reporting**

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Quality and Timeliness of Financial Reporting

With 30 June approaching, it may be beneficial to consider what can be implemented now to ensure the year-end process produces more timely and accurate reporting. NSW Treasury will shortly release a circular detailing the reporting deadlines for the 2011–12 financial statements and Annual Returns.

To help agencies meet their financial reporting obligations, including more timely and accurate reporting, the NSW Auditor-General's [Financial Audit Report \(Volume Three\)](#), recommended that agencies:

- improve monthly reporting practices so year-end reporting becomes an extension of the month-end close process
- perform 'soft' or 'hard' close procedures including:
 - preparing proforma financial statements with all disclosures for review by the auditors
 - identifying significant accounting issues, judgements, assumptions, etc and resolving/agreeing these with Treasury and the auditors, where appropriate
 - identifying whether experts are needed, e.g. valuers, tax experts, etc.

Further guidance can be found in an Australian National Audit Office Better Practice Guide [Preparation of Financial Statements by Public Sector Entities](#). The guide is written in the context of the Commonwealth Government legislative framework, but provides useful information for any organisation preparing financial statements, especially Part Two 'Important Factors in Financial Statement Preparation' and Part Three 'Preparing Entity and Whole-of-Government Financial Statements'.

Accounting Update

International Update – International Accounting Standards Board

[IASB Meeting Highlights – 25–27 January 2012](#)

Topics discussed at the joint IASB/FASB meeting included:

- financial instruments: classification and measurement
- financial instruments: impairment.

Topics discussed by the IASB included:

- agenda consultation – comment letter summary
- effective dates for IFRS 10,11 and 12
- IFRS 1 comment letter analysis

- insurance contracts: education session
- macro hedge accounting
- matters to report to the Board from the Interpretations Committee
- work plan.

International Update – Interpretations Committee

[IFRIC Meeting Highlights – 17–18 January 2012](#)

The Committee discussed the following topics:

- current agenda:
 - IAS 2 'Inventories' – long-term prepayments for inventory supply contracts
 - IAS 32 'Financial Instruments: Presentation' – put options written over non-controlling interests
 - IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' – levies charged for participation in a specific market (date of recognition of a liability)
- IFRS Interpretations Committee agenda decisions and work in progress
- issues considered for Annual Improvements.

International Update – International Public Sector Accounting Standards Board

The IPSASB commenced its Conceptual Framework project in 2006, developed primarily for all public sector entities other than GBEs, with the objective of establishing concepts to be applied in developing IPSASs. This project is led by the IPSASB, in collaboration with a number of national standard setters around the world including Australia.

To date, the following have been issued:

- [Exposure Draft on Phase 1](#): Role, Authority and Scope; Objectives and Users; Qualitative Characteristics; Reporting Entity
- [Consultation Paper on Phase 2](#): Elements and Recognition in Financial Statements
- [Consultation Paper on Phase 3](#): Measurement of Assets and Liabilities in Financial Statements
- [Consultation Paper on Phase 4](#): Presentation in General Purpose Financial Reports

The comment period for phases 1–3 ended in June 2011, with phase 4 open until 31 May 2012.





Auditing Update

International Update

The International Auditing and Assurance Standards Board (IAASB) recently issued an International Standard on Assurance Engagements, [ISAE 3420](#) 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus'. This standard is applicable for assurance reports issued on or after 31 March 2013.

[IAASB Meeting Highlights – 25 January 2012](#)

The objective of the meeting was to consider the Limited Assurance Illustrative Report(s) to be included in the final draft of [ISAE 3410](#) 'Assurance Engagements on Greenhouse Gas Statements' for the IAASB's approval at their March 2012 meeting.

Ethics Update

Australian Update

The Accounting Professional & Ethical Standards Board issued an Exposure Draft on Proposed Guidance Note [APES GN 30](#) 'Outsourced Services' and requests comments by 30 March 2012.

International Update

The International Ethics Standards Board for Accountants recently released:

- [Exposure Draft](#) 'Proposed Changes to the Code of Ethics for Professional Accountants Addressing Conflicts of Interest' and requests comments by 31 March 2012
- [IESBA Code of Ethics High Level Summary](#) Prohibitions Applicable to Audits of Public Interest Entities as a guide and support tool.

Department of Premier and Cabinet

Ministerial Memoranda

[M2012-01](#) Policy on Identity and Full Face Coverings for NSW Public Sector Agencies

This policy was developed, following the amendment to the *Law Enforcement (Powers and Responsibilities) Act 2002* and other laws, to explain circumstances where a person may be required to remove a face covering to establish identity.

[M2012-02](#) Red tape reduction – new requirements

This policy is an implementation of the government's election commitment to reduce regulatory costs for business and the community by 20 per cent by 30 June 2015. It requires that for each new piece of legislation proposed, ministers must demonstrate that at least two other pieces of principal legislation have been repealed or are proposed to be repealed.

Ministerial Circulars

[C2012-01](#) Leave for Staff Affected by Flooding in Northern NSW

This circular is to be applied to employees directly affected by the floods and employees who volunteer to assist emergency services.

[C2012-02](#) Government press Clip Monitoring Arrangements

This circular supersedes circular 2006-30 and highlights that the government has entered a new press clips contract with Media Monitors commencing 1 March 2012.

NSW Treasury

Treasury Circulars

[TC 12/01](#) Funding for Redundancy Payments

This circular withdraws and replaces TC 11/10 and must be read in conjunction with Premier's Memorandum [M2011-11](#) 'Changes to the Management of Excess Employees'.

It details funding assistance, available to all general government sector agencies, to meet the specific one-off costs associated with redundancies that will result in a permanent reduction in the expenses of an agency. Assistance may also be available to agencies which receive significant operating subsidies or budget funded grants to deliver programs.

[TC 12/02](#) Guideline for Reimbursing Agency Expenditures Related to Disaster Emergency and Recovery Operations

This circular covers NSW Government agencies involved in disaster emergency and recovery operations. It defines what expenditure should be funded from an agency's operating budget and what can be reimbursed from the Disaster Relief Account (DRA), and sets out the agency's reporting obligations in relation to these expenditures.





Department of Finance and Deregulation

Finance Circular

[No. 2011/08](#) Clarification of the terms Audit and Assurance

This circular was issued to clarify the meanings of 'audit' and 'assurance' within the Auditing and Assurance Standards Board and the Accounting Professional & Ethical Standards Board frameworks. It is a useful guide for the parties requesting independent external services to understand what to request and the opinion to expect from their auditors; and for the auditors to understand what type of opinion should be provided.

Australian Securities and Investments Commission

Following its reviews of financial reports for the year ended 30 June 2011, ASIC has stated their areas of focus for the 31 December 2011 financial reports will be:

- asset values and going concern assessments
- consolidation transactions and off balance sheet arrangements
- segment information disclosures.

Recent reports released:

- [Report 270](#) Response to submissions on CP 159 Acquisitions approved by members: Update to RG 74
- [Report 271](#) Response to submissions on CP 165 Credit assistance for home loans
- [Report 272](#) Response to CP 134 and CP 154 Infrastructure entities: Improving disclosure for retail investors
- [Report 273](#) Response to submissions on CP 133 Agribusiness schemes: Improving disclosure for retail investors
- [Report 274](#) Overview of decisions on relief applications (June to September 2011)

Recent regulatory guides released:

- [RG 231](#) Infrastructure entities: Improving disclosure for retail investors
- [RG 232](#) Agribusiness managed investment schemes: Improving disclosure for retail investors

Recent consultation papers released:

[CP 173](#) Trustee companies: Transfer determinations by ASIC – public comments close 6 March 2012

Australian Prudential Regulation Authority

APRA recently released a new prudential standard [APS 910](#) 'Financial Claims Scheme', effective from 1 January 2012 and applies to all authorised deposit-taking institutions (ADIs) with some exceptions. The standard allows a transition period of two years from the commencement date, unless extensions have been granted.

New South Wales Auditor-General's Reports

Performance Audit

[Managing IT Services Contracts](#)

The audit examined the ongoing management and renewal of three IT services contracts – two at the Ministry of Health and one at the NSW Police Force.

The audit concluded that neither agency had:

- effectively managed all the risks posed by these complex contracts
- demonstrated they continued to get value for money over the life of these long term contracts
- analysed the continuing need for the mix and quantity of services being provided
- adequate procedures in place to assist staff in managing the contracts.

The audit also highlighted that the Agency Accreditation Scheme for Goods and Services did not apply to all agencies' procurement, including purchases through State contracts.

The audit provided a number of recommendations to the Ministry of Health, NSW Police Force, the State Contracts Control Board and Department of Finance and Services.

Better Practice Guides

The [Corporate Governance – Strategic Early Warning System](#) Better Practice Guide was recently released, which revisits a review conducted during 2009. In this review, the following recommendations were made for large government agencies and universities:





- review their governance frameworks against the 17 points of governance (revised during this review)
- improve their risk management processes
- focus on improving their fraud prevention and detection systems
- continue to work on their continuous disclosure and key stakeholder management.

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Opinions Summer 2012
- Report 21: Administration of Grant Reporting Obligations
- Report 22: Administration of the Gateway Review Process
- Report 23: Administration of the National Greenhouse and Energy Reporting Scheme
- Report 24: Administration of Government Advertising Arrangements: March 2010 to August 2011

ACT Auditor-General's Office (ACT AGO)

- Report 5: 2010–11 Financial Audits
- Report 6: Management of Food Safety in the Australian Capital Territory

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

- Education sector: Results of the 2010/11 audits
- Central government: Results of the 2010/11 audits (Vol 1)

Miscellaneous Resources

Commonwealth Government Treasury

Exposure drafts and draft regulations released since 1 January 2012 currently open for public comment:

- [Exposure Draft Regulations](#) – GST Financial Supply Provisions
- [Exposure Draft](#) – Limiting the Trading Stock Exception for Superannuation Entities
- [Draft Regulations and Explanatory Material](#) – Corporations Amendment Regulations 2012 – Trustee Companies
- [Exposure Draft](#) – Disallow Deductions Against Rebatable Benefits

Commonwealth Government Department of Climate Change and Energy Efficiency

- [Report](#): The role of regulation in facilitating or constraining adaptation to climate change for Australian infrastructure

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

In collaboration with PwC, COSO released an updated [Internal Control – Integrated Framework](#) that codifies the internal control concepts from the original framework into 17 principles and supporting attributes, to assist organisations in managing risk and improving performance in a changing environment. The exposure draft of the framework is open for public comment til 31 March 2012.

Another recent release is [Thought Paper: Enterprise Risk Management – Understanding and Communicating Risk Appetite](#), which highlights the importance of an organisation's 'risk appetite' when pursuing its objectives.

Independent Commission Against Corruption

- [Investigation report](#): Investigation into alleged fraud on the former NSW Department of Education and Training

Productivity Commission

- [Consultation paper](#): Carbon Policy Assistance Reviews: The Commission's Tasks
- [Report on Government Services 2012](#)

Independent Pricing & Regulatory Tribunal (IPART)

- [IPART Annual Report 2010–11](#)
- [Compliance Report](#): Hunter Water Corporation Operational Audit 2010–11
- [Compliance Report](#): Sydney Water Corporation Operational Audit 2010–11

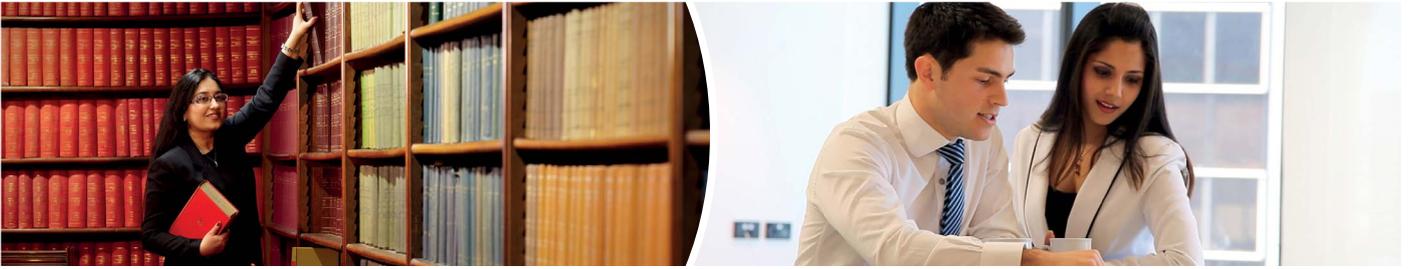
International Valuation Standards Council (IVSC)

The IVSC recently released [Exposure Draft](#) 'A Competency Framework for Professional Valuers' and requests comments by 28 February 2012.

Australian Institute of Company Directors

Media release [Australia's 'seamless economy' reform in tatters](#) highlighted that critical reforms to impose personal criminal liability on company directors were at risk of not being achieved.





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