

Professional update

Accounting and auditing developments



November 2011

Hot Topics

AASB 11 'Joint Arrangements'

The Australian Accounting Standards Board (AASB) released AASB 11 'Joint Arrangements' in August 2011. This standard replaces AASB 131 'Interests in Joint Ventures' and may change the way agencies account for some joint arrangements with other government agencies and/or the private sector, because the new standard eliminates the option for joint venturers to proportionately consolidate under AASB 131.

The new standard requires each party to a joint arrangement to recognise its rights and obligations arising from the arrangement. In doing so, an in-depth assessment of each arrangement is required. This will involve determining the legal structure; the contractual terms; the existence or otherwise of joint and several liability; and other facts and circumstances surrounding the arrangement.

A 'joint arrangement' is an arrangement where two or more parties have joint control. Joint control is the contractual sharing of control, so decisions about activities require the unanimous consent of the parties to the arrangement. A joint arrangement can be either a:

- joint operation – each party has separate rights to assets, liabilities, revenue and expenses and accounts for them accordingly
- joint venture – the parties have rights only to the net assets of the arrangement and must account for the arrangement using the equity method prescribed in AASB 128 'Investments in Associates and Joint Ventures'.

AASB 11 applies to annual reporting periods beginning on or after 1 January 2013. Early adoption is only permitted by for-profit entities.

Transitional provisions are detailed in the standard and provide guidance for joint venturers moving from proportionate consolidation to the equity method, and for joint operators moving from the equity method to accounting for assets and liabilities.

ED 214 Extending Related Party Disclosures to the Not-for-Profit Public Sector

The Australian Accounting Standards Board (AASB) recently released exposure draft ED 214 Extending Related Party Disclosures to the Not-for-Profit Public Sector, which extends the requirements of AASB 124 'Related Party Disclosures' to the not-for-profit public sector.

Although only in the exposure draft stage (comments close 31 January 2012), the ED is likely to be issued as a standard without major change. As such, early planning to identify and record related parties and key management personnel; and to capture the nature and extent of related party transactions will be critical to ensuring accurate and compliant disclosures.

Contents

• Hot Topics	1
• Accounting Update	2
• Auditing Update	3
• Ethics Update	3
• Department of Premier and Cabinet Update	3
• Department of Finance and Deregulation Update	3
• NSW Treasury Update	3
• Australian Securities & Commission (ASIC) Update	3
• New South Wales Auditor-General's Reports	4
• New Publications by Other Audit Offices	4
• Miscellaneous Resources	5

This edition includes:

- AASB 11 – Joint Arrangements
- ED 214 – Extending Related Party Disclosures to the Not-for-Profit Sector
- GST Ruling GSTR 2011/2



The changes will apply to reporting periods beginning on or after 1 July 2013. No transitional provisions are proposed, therefore comparative information will be required on initial adoption of the standard.

Key disclosures required by AASB 124 include:

- relationships between parent entities and subsidiaries, irrespective of whether transactions have occurred between the entities
- key management personnel compensation in specified categories
- related party transactions during the period.

Certain transactions between government related entities in the same jurisdiction will not be required to be disclosed in detail. Other related party transactions, such as ministerial transactions, only need to be disclosed if material.

Goods and Services Tax Ruling GSTR 2011/2

This [ruling](#) was released by the ATO on 13 July 2011 and deals with the application of para. 9-15(3)(c) of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act), to payments made between government related entities specifically covered by an appropriation under an Australian law.

Payments not subject to GST under para. 9-15(3)(c) of the GST Act are payments:

- appropriated under an Australian law, but only where the terms of the appropriation specifically state that it is to another government related entity
- by one government related entity to another government related entity.

Not all payments between government related entities are exempt under para. 9-15(3)(c). To determine whether a payment is subject to GST, the relevant terms and conditions of an appropriation need to be identified. For example, if a payment could, under the terms of the appropriation, be paid to either a government related entity or a non-government related entity, then para. 9-15(3)(c) will not apply and the payment will be subject to GST.

The ruling provides a number of useful examples to highlight the GST implications at each stage of the flow of funds between government related entities.

This ruling is effective from 1 July 2012. Entities may continue to rely on GSTR 2006/11 for payments made before 1 July 2012.



Accounting Update

Australian Update

[ED 221 Government Loans](#)

This AASB exposure draft, which incorporates IASB ED/2011/5, proposes extending the relief, when accounting for a government loan with a below market rate of interest, to first time adopters of Australian Accounting Standards.

Comments are due to the ASSB and IASB by 5 December 2011 and 5 January 2012, respectively.

[AASB Meeting Highlights – 27 October 2011](#)

Topics discussed by the AASB at its meeting included:

- accounting for carbon tax
- service performance reporting
- revised ED on financial reporting by superannuation entities
- service concessions – once the IPSASB finalises the standard on accounting for service concession arrangements by grantors, the AASB will develop an Australian ED
- stripping costs – the AASB will vote out of session on issuing Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' in Australia.

International Update

The International Public Sector Accounting Standards Board (IPSASB) recently issued the following:

- Standard: IPSAS 32 Service Concession Arrangements: Grantor
- Improvements to IPSASs 2011
- Consultation Paper: Reporting Service Performance Information
- Exposure Draft ED 46: Recommended Practice Guideline, Reporting on the Long-Term Sustainability of a Public Sector Entity's Finances.

[IASB Meeting Highlights – 19 20 October 2011](#)

Topics discussed by the IASB at its joint meeting with the FASB included:

- IFRS 9: Financial Instruments: Amortised cost and impairment of financial assets
- Fair value measurement
- Insurance contracts
- Leases



- Revenue recognition
- Education session: Accounting for financial instruments: disclosures.

[IASB Meeting Highlights – 1 November 2011](#)

The main topic discussed related to the disclosure requirements for lessors that account for leases under the receivable and residual approach, transition requirements for sale and leaseback transactions and other transition considerations for the proposed leases guidance.

Auditing Update

New Guidance Statement:

[GS 007 Audit Implications of the use of Service Organisations for Investment Management Services](#)

This was revised and reissued on 25 October and is operative for reporting periods commencing 1 January 2012. The guidance statement provides guidance to auditors (user auditors) of a financial report of an entity (user entity) which uses a third party service to provide investment management services; and auditors (service auditors) of those service organisations who provide reports on controls or financial information which may be used as audit evidence in the audit of the user entity's financial report.

IAASB Developments – Clarity Project Post Implementation Review

The International Auditing and Assurance Standards Board (IAASB) is undertaking a post implementation review of the clarified International Standards on Auditing (ISAs) to determine whether the Clarity project (completed in 2009) to redraft and revise the ISAs has met its objective of ISAs that are consistently understood and implemented.

The IAASB welcomes input from all interested parties no later than 31 October 2012.

Ethics Update

The International Ethics Standards Board of Accountants (IESBA) released exposure draft 'Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code', which provides a framework for addressing a breach of an independence requirement.

The IESBA requests comments by 23 January 2012. It is expected that the APESB will also release an exposure draft

for the Australian context, which will impact APES 110 and ASCQ1.

Department of Premier and Cabinet

New Ministerial Memoranda and Circulars:

[M2011-18](#) Native Title and Indigenous Land Use Agreements – this memoranda supersedes M1999-23

[C2011-27](#) Guidelines for appearing before Parliamentary Committees

[C2011-28](#) Advice on establishment of the Public Service Commission

[C2011-29](#) Copying of Broadcasts – Screenrights Agreement

Department Of Finance and Deregulation

New Accounting Guidance Note:

[No. 2011/2](#) Accounting for Leases with a Land Component

NSW Treasury

New Treasury Circulars:

[TC 11/13](#) Machinery of government changes: Goods and Services Tax, Fringe Benefits Tax and income tax issues

The circular discusses the issues and provides guidance on the action needed by agencies to comply with changes in GST and FBT responsibilities resulting from administrative and machinery of government changes.

Australian Securities and Investments Commission

Recent ASIC reports released:

[Report 253](#) Market assessment report: Board of Trade of the City of Chicago Inc and Chicago Mercantile Exchange Inc

[Report 254](#) Response to submissions on CP 127 Schemes of arrangement: Statements under s. 411(17)(b)

[Report 255](#) Market assessment report: Reuters Transaction Services Limited

[Report 256](#) Consumer credit insurance: A review of sales practices by authorised deposit-taking institutions

[Report 257](#) Response to submissions on CP 166 Market integrity rules for non-AFS licensee foreign participants and consequential amendments

[Report 258](#) Response to submissions on CP 144 Giving a PDS in telephone sales of general insurance products





Australian Prudential Regulation Authority

Recent APRA releases:

- Consolidated prudential standards
- Discussion paper on prudential standards for superannuation
- Final package for refinements to the prudential framework for general insurance groups.

New South Wales Auditor-General's Reports

Financial Audit

The Auditor-General recently issued two reports to parliament, Volumes Three and Four.

Volume Three: Total State Sector Accounts

The Auditor-General issued a qualified independent auditor's report as the State could not quantify the value of its total land and infrastructure holdings as at 30 June 2011.

Other key highlights of the report included:

- Budget Result for the General Government Sector
- Financial Analysis
- Quality and Timeliness of Financial Reporting
- Compliance with the *Fiscal Responsibility Act 2005*.

Volume Four: Focus on Electricity

The audits of the government-owned corporations' financial statements for the year ended 30 June 2011 all resulted in unmodified audit opinions within the Independent Auditor's Reports.

Performance Audit

Improving Road Safety: Young Drivers

The audit assessed the effectiveness of the Roads and Traffic Authority's (RTA) driver licence testing and regulation in ensuring young people (drivers under 26 years of age) drive safely. Overall, the audit concluded that the RTA's licence testing and regulation has been generally effective, however, it noted that crash and fatality rates involving young drivers remain disproportionately high, further refinements can be made to areas that have not been successful, and behavioural adjustments of a minority of young drivers who drive recklessly will not change unless there is a perceived risk of being caught and penalised.

The Auditor-General made ten recommendations to the RTA to further improve the regulation and testing of young drivers.

Responding to Domestic and Family Violence

In this report, the Auditor-General recommended that government and non-government organisations adopt a common framework to identify domestic and family violence, assess risk, prioritise need and refer people to services, so victims and perpetrators can receive the help that they need.

Special Report

Solar Bonus Scheme

Under section 194(1) of the *Electricity Supply Act 1995*, the Auditor-General reported on the following aspects of the NSW Solar Bonus Scheme:

- the number of small retail customers that have installed and connected complying generators
- the costs of the scheme including the total amount credited to small retail customers under the scheme
- any other matter that the Auditor-General considers to be relevant.

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Opinions Spring 2011
- Report 9: Indigenous Secondary Student Accommodation Initiatives

Victorian Auditor-General's Office (VAGO)

- TAFE Governance
- Procurement Practices in the Health Sector

Office of the Auditor-General for Western Australia (WA OAG)

- Use of CCTV Equipment and Information

Government of South Australia Auditor-General's Department (SAAG)

- Report of the Auditor-General for the year ended 30 June 2011

Northern Territory Auditor-General's Office (NT AO)

- October 2011 Report to the Legislative Assembly

Tasmanian Audit Office (TAS AO)

- Annual Report 2010–11





Miscellaneous Resources

Review of NSW Tribunals

Minister for Finance and Services, the Attorney-General and Minister for Fair Trading announced on 21 October 2011 that [NSW Tribunals](#) would be put under the microscope, in an attempt to achieve efficiencies across NSW Government.

Australian Charities and Not for Profits Commission (ACNC)

The Federal Government announced in its May Budget the creation of the Australian Charities and Not for Profits Commission. The implementation task force commenced work on 1 July 2011.

Commonwealth Government Treasury Economic Roundup:

[Issue 3, 2011](#)

This issue includes three recent speeches by members of the Treasury's Executive Board: Compulsory superannuation and national saving; Sustainable wellbeing – an economic future for Australia; and Wellbeing, living standards and their distribution.

Independent Commission Against Corruption

[New publications](#)

- Fact sheets: Blowing the whistle and Acknowledging your section 11 report
- Section 11 report guidelines for principal officers: reporting corrupt conduct to the ICAC and reporting template
- Annual Report 2010–11.

Australian Institute of Company Directors

[Media releases](#)

- Charting pitfalls and opportunities in public sector boards
- Research spotlights links between directors, shareholders and proxy advisers
- NFP sector governance under the microscope.

Department of Climate Change and Energy Efficiency

[Commercial Building Disclosure Program](#)

Applicable from 1 November 2011, full disclosure arrangements for large commercial office buildings under the Commercial Building Disclosure Program is required for commercial office space over 2,000 square metres to potential buyers and lessees.

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