

# Professional update

Accounting and auditing developments |



April 2013

## Hot Topics

### Budget Controls – Labour Expense Cap

NSW Treasury has released [Treasury Circular NSW TC 13/03 – Budget Controls – Labour Expense Cap](#). This circular updates the previous Treasury Circular NSW TC 12/14 by specifying how the labour expense cap may be adjusted.

The minister of a cluster, supported by the principal department's Director-General, must ensure the labour expense cap for each agency within a cluster is managed within limits for that agency. However, additional expenditure needs in any agency can be met by reprioritising the labour expense cap between agencies within a cluster.

If the coordinating minister decides to reallocate the labour expense cap between agencies in a cluster, the principal department must write to Treasury detailing the reasons for the change when submitting its monthly monitoring data.

An adjustment to the labour expense cap may be necessary to support efficient service delivery. Where an agency has third party revenue sources, an adjustment will generally be approved if it does not increase Net Cost of Services and does not result in an ongoing underlying increase in labour-related expenses.

Clusters must continue to manage within the cost of services controls outlined in [NSWTC 12/08, Budget Controls – Net Cost of Services](#) as approval to exceed these controls will rarely be granted.

### Significant issues facing accountants globally in 2013

The International Federation of Accountants (IFAC) has released the findings of its sixth [annual survey of the global accountancy profession](#), conducted in late 2012. The 113 participating respondents expressed opinions about perceptions of the profession and the most significant issues facing global accountancy in 2013.

The main concerns included sovereign debt issues, improving the efficiency and management of public sector entities, improving the reliability of public sector financial reporting, public sector management, and maintaining credit ratings through control of public sector debt.

Respondents identified the following as the top five issues facing the global accountancy profession in 2013:

- the needs of small and medium practices (SMPs) and small and medium entities (SMEs)
- the reputation and credibility of the profession
- issues related to the European Union draft legislation addressing audit quality
- public sector financial management and sovereign debt issues
- the difficult global financial climate.

## This edition includes:

- Budget controls – labour expense cap
- Significant issues facing accountants globally in 2013
- Query of the month – How will assets be valued under AASB 13 Fair Value Measurement?

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Respondents identified the following five policy areas they believe IFAC needed to address in 2013:

- reputation and credibility of the profession
- needs of SMPs and SMEs
- public sector financial management and sovereign debt issues
- auditor independence
- global regulatory convergence.

### Query of the Month

**Query:** I work in a government department that has some unique, infrequently traded assets. How will these and other, more standard assets be valued under AASB 13 Fair Value Measurement?



#### Answer:

[AASB 13 Fair Value Measurement](#) applies to reporting periods beginning on or after 1 January 2013. AASB 13 does not require adjustment of comparative information.

#### AASB 13:

1. defines fair value
2. sets out in a single standard a framework for measuring fair value
3. sets out required disclosures about fair value measurements.

AASB 13 **defines fair value** as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To help preparers of financial statements, the standard sets out three **valuation techniques** that can be used to determine fair value:

- **Market Approach** – uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities, such as a business.

- **Cost Approach** – the amount required to replace the service capacity of an asset, often referred to as current replacement cost.
- **Income Approach** – convert future net cash flows (or income and expenses) to a single current (for example, discounted) amount. Valuation techniques include:
  - present value techniques (discounted cash flow models)
  - option pricing models (generally require the use of an expert)
  - the multi-period excess earnings method.

AASB 13 establishes a **fair value hierarchy** that categorises the inputs to valuation techniques used to measure fair value into three levels.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 inputs are unobservable inputs for the asset or liability.

In practice, determining fair value for assets or liabilities starts with independent market quoted prices (such as the Australian Securities Exchange and commodity markets). If this type of market information is not available, secondary markets (such as motor vehicle or heavy equipment dealers) may be useful.

Some assets are rarely or never traded. Others have only a 'shallow' market, that is, a limited number of buyers and sellers. In these cases, market evidence may not be available or may be out of date or unreliable. Agencies must exercise significant judgement in the valuation methods used in these instances and have regard to the hierarchy within AASB 13.

#### Additional NSW public sector requirements

New South Wales entities are required to make additional disclosures to those required by AASB 13 if they hold assets that are not recognised in the financial statements because they cannot be measured reliably (see [TPP 2013-1](#)). In these cases, the following disclosures should be made in the notes to the financial statements:

- the reasons for the inability to obtain a reliable value
- the quantum, nature and functions of the assets, and their heritage significance, where applicable





- an estimate of the annual costs of maintenance or preservation, where applicable.

If you would like to raise a topic or issue please send an email to the Audit Office of New South Wales [Audit Support Team](#). This section will explain general principles. Client specific issues will not be addressed through Q&As.

## Audit Office of New South Wales

Peter Achterstraat, New South Wales Auditor-General:

- presented to the Crime Prevention Network 'A breakfast briefing with the Auditor-General' (21 March 2013)
- presented to the Public Sector Leadership class at the Graduate School of Government 'Issues surrounding public servants as leaders' (22 March 2013)
- attended the Annual Audit and Risk Committee Chairs meeting with the Treasurer, the Honourable Mike Baird (4 April 2013)
- presented at the Institute of Public Administration Australia – Private Sector Management Program 'Managing Up – the framework of public sector management' (8 April 2013)
- attended the Australian Council of Auditors-General meeting (10 April 2013)
- attended the Australasian Committee of Public Accounts Committees conference 2013 (11 April 2013)
- attended the Australian Council of Auditors-General Biennial Conference (12 April 2013).

## Auditor-General's Performance Audit Reports to Parliament

On 27 March 2013, the Auditor-General released the report '[Managing gifts and benefits](#)'. The audit examined five NSW public sector entities that perform licensing/regulatory functions, and found that all had gifts and benefits policies that could be improved. All five entities had registers in place for recording the details regarding each gift and benefit. However, none of the registers included sufficient information to gauge whether the decisions regarding the treatment of each gift and benefit were appropriate (for example, reason for the offer, relationship between giver and recipient, any conflict of interest).

The Auditor-General has recommended that the Public Service Commission, by December 2013, develop a set of minimum standards for gifts and benefits policies and registers which are to be followed by all NSW public sector agencies.

## Accounting Update

### Australian Update – Australian Accounting Standards Board (AASB)

The AASB has issued exposure drafts:

- [ED 237 Financial Instruments: Expected Credit Losses](#), the IASB's new impairment proposals contained in its ED 2013/3. The ED contains the IASB's plans to develop a more forward-looking provisioning model, which recognises expected credit losses on a timelier basis than is currently the case under IAS 39/AASB 139 Financial Instruments: Recognition and Measurement. Comments to the AASB close 10 May 2013.
- [ED 238 Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities](#) which aims to assist NFP entities to appropriately apply the new test for control introduced as part of the IASB and AASB's revisions to the consolidation suite of standards. Comments close 30 June 2013.
- [ED 239 Defined Benefit Plans: Employee Contributions](#) the IASB's limited scope amendments to IAS 19 Employee Benefits (see below). Comments close 24 June 2013.

The AASB has released:

- amending standard [AASB 2013-2 Amendments to AASB 1038 – Regulatory Capital](#). The amendments apply to annual reporting periods ending on or after 31 March 2013
- a compilation of [AASB 1049 Whole of Government and General Government Sector Financial Reporting](#). This incorporates amendments made to extend transitional relief relating to valuing defence weapons platforms for a further two years.

### International Update – International Accounting Standards Board (IASB)

#### [IASB Meeting Highlights – 19 to 21 March 2013](#)

Some sessions were jointly held with the FASB. Topics discussed included:

- revenue recognition
- defined benefit plans – employee contributions
- IFRS 13 fair value measurement
- IFRS for SMEs: Comprehensive Review 2012-2014
- The conceptual framework
- narrow scope amendment to IAS 1 regarding going concern.





The IASB has released:

- [ED 2013/4](#) proposing a narrow scope amendment to IAS 19 Employee Benefits that will simplify the accounting for employee or third party contributions to defined benefit plans. Comments close 25 July 2013
- [International Financial Reporting Standards Taxonomy 2013](#), the translation of IFRSs into eXtensible Business Reporting Language (XBRL). It is consistent with the IASB standards and interpretations on issue at 1 January 2013.

### International Update - International Valuation Standards Council (IVSC)

Recent [publications](#) include:

- IVSC Annual Report 2011-2012 (25 February 2013)
- Comment to IASB on proposed amendments to IAS 36 (21 March 2013)
- 'Valuation: refocusing the rules' by Sir David Tweedie (26 March 2013)

### International Update – International Federation of Accountants (IFAC)

IFAC has recently released:

- a new International Good Practice Guidance (IGPG) titled [Principles for Effective Business Reporting Processes](#)
- an updated second edition of its [Good Practice Checklist for Small Business](#).

### International Update – Interpretations Committee

- [IFRIC Meeting Highlights – 12 to 13 March 2013](#)

The committee discussed the following topics:

- variable payments for the separate acquisition of PPE and intangible assets
- interpretation on levies (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – change in a disposal method from a plan to sell to a plan to distribute a dividend in kind
- IAS 19 Employee Benefits – actuarial assumptions: discount rate – a limited scope amendment to IAS 19 to be recommended to the IASB
- IAS 28 Investments in Associates and Joint Ventures – elimination of gains arising from a transaction between a joint venturer and its joint venture.

### International Update – International Public Sector Accounting Standards Board (IPSASB)

#### [IPSASB Meeting Highlight – 11 to 14 March 2013](#)

The board discussed the following topics:

- the Conceptual Framework
- criteria for determining the status of a pronouncement
- financial discussion and analysis
- reporting on the long-term sustainability of an entity's finances
- an update of IPSASs 6-8
- public sector combinations
- consultation on the IPSASB's work program 2013–14
- first-time adoption of accrual basis IPSASs
- government business enterprises
- the recently released Eurostat Study report.

The European Commission is calling for the adoption of accrual accounting, based on international public sector accounting standards (IPSASs) by all member states in the European Union. Its report, titled '[Towards implementing harmonised public sector accounting standards in the Member States](#)' is a response to the sovereign debt crisis in Europe which highlighted the need for more rigorous, transparent and comparable reporting of fiscal information by governments. The report proposes that almost half of the existing IPSASs could be implemented in Europe with little or no adaptation.

### Auditing Update

#### Australian Update – Auditing and Assurance Standards Board (AUASB)

##### [AUASB issues revised review engagement standards](#)

The AUASB has issued a revised suite of standards providing improved guidance on review engagements. The suite of revised standards applies from 1 July 2013, and includes:

- [ASRE 2400](#) Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity
- [ASRE 2415](#) Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation
- [ASA 2013-1](#) Amending Standard to ASRE 2415.

The AUASB has published the tenth edition of its [Independence](#) newsletter.





## International Update – International Auditing and Assurance Standards Board (IAASB)

### [ISA 610 \(Revised 2013\) Using the Work of Internal Auditors](#)

The IAASB has revised guidance in ISA 610 on the provision of direct assistance by internal audit services to external auditors. This follows the IESBA resolving concerns around the definition of the term 'engagement team'. The AUASB is reviewing ASA 610 in light of these developments.

## Ethics Update

### Australian Update – Accounting Professional and Ethical Standards Board (APESB)

The APESB have revised the following:

- [APES 305 Terms of Engagement \(Revised March 2013\)](#). APES 305 sets out the requirements practitioners have to document and communicate with their clients regarding the terms of an engagement. The main change clarifies the circumstances in which 'recurring engagements' occur and therefore when new engagement documents are, and are not, required.

The APESB have released:

- [GN 30 Outsourced Services](#) – a new guidance note on outsourced services to help professional accountants manage the risks associated with providing or utilising outsourced services.

### [APESB Meeting Highlights – 25 February 2013](#)

Topics discussed by APESB at its meeting included:

- APES 215 Forensic Accounting Services
- Code of Ethics revision exposure draft
- G100 Code refresh project
- Revision of the APESB due process and working procedures
- post implementation reviews.

### International Update – International Ethics Standards Board for Accountants (IESBA)

The IESBA has:

- announced revisions to its [Code of Ethics for Professional Accountants](#) (the Code) to address conflicts of interest and a breach of a requirement of the Code. The changes also include amendments to the definition of the term 'engagement team' in line with the IAASB's release of amendments to ISA 610 Using the Work of Internal Auditors (see above). The

APESB will be considering equivalent revisions to APES 110 Code of Ethics for Professional Accountants.

### [IESBA Meeting Highlights – 11 to 13 March 2013](#)

Topics discussed by IESBA at its meeting included:

- Responding to a Suspected Illegal Act
- Those Charged with Governance
- a project to review Part C of the Code
- project on this issue of long association with a client
- non-assurance services.

## Financial Reporting Council (FRC)

### [FRC Meeting Highlights – 15 March 2013](#)

At its meeting, the FRC discussed:

- the FRC strategic plan
- oversight of Australian standards-setting arrangements
- a report from the Audit Quality Committee
- a report from the Integrated Reporting Task Force
- a report from the Public Sector Task Force.

## The Treasury – NSW Government

### New Treasury Policy Papers, Circulars and Research Papers

- [NSW TC13/03 Budget Controls – Labour Expense Cap](#) (14 March 2013)

## Public Service Commission (PSC)

The PSC has released the following [circulars](#):

- PSCC 2013-01: Premier's Awards for Public Service (4 April 2013)
- PSCC 2013-02: Executive Interim Arrangements (8 April 2013).

## Public Accounts Committee

### Inquiries

The NSW Parliament's Public Accounts Committee has commenced:

- [Follow up of the Auditor-General's Performance Audits October 2011 to March 2012](#) (27 March 2013)





## Reports

[Reports tabled](#) in NSW Parliament:

- Budget Estimates 2012/13 (21 February 2013)
- Amendments to the Sessional Orders regarding Community Recognition Notices and Related Matters (27 February 2013)
- Report No 67: Citizen's Right of Reply (Mr Heath Aston) (27 March 2013)
- Report on Driver and Road User Distraction (27 March 2013)

## Australian Securities and Investments Commission (ASIC)

Recent [regulatory guides](#) released:

- RG 247 Effective disclosure in an operating and financial review.

Recent [consultation papers](#) released:

- CP201 Derivative trade repositories
- CP202 Dark liquidity and high-frequency trading: Proposals
- CP203 Age pension estimates in superannuation forecasts: Update to RG 229
- CP204 Risk management systems of responsible entities
- CP 205 Derivative transaction reporting.

Recent [reports](#) released:

- Report 330: Review of licensed credit assistance providers' monitoring and supervision of credit representatives (13 March 2013)
- Report 331: Dark liquidity and high-frequency trading (18 March 2013)
- Report 332: Response to submissions on CP181 Retail trading in Commonwealth Government Securities (27 March 2013)
- Report 333: Market assessment report: Yieldbroker Pty Limited (26 March 2013)
- Report 334: Response to submissions on CP187 Effective disclosure in an operating and financial review (27 March 2013)
- Report 335: Market assessment report: Mercari Pty Limited (4 April 2013)
- Report 336: ASIC enforcement outcomes: July to December 2012 (9 April 2013)

Recent [speeches](#) and other releases:

- ASIC Annual Forum 2013 – opening address by ASIC Chairman, Greg Medcraft (25 March 2013)
- [Issue 6 of its Self-Managed Superannuation Fund audit registration newsletter](#). It focuses on the educational requirements practitioners must meet to obtain registration under this scheme.

ASIC [Media Releases](#):

- 13-046MR ASIC review sharpens credit licensees' supervision of representatives engaged in mortgage broking
- 13-057MR ePayments code: New era in electronic payment protection
- 13-059MR ASIC consults on risk management for responsible entities
- 13-063MR Public warned about scams impersonating ASIC and Sydney Credit Union
- 13-064MR ASIC releases guidance for operating and financial reviews
- 13-065MR ASIC finalises regulatory framework for retail trading of Commonwealth Government Securities.

## Australian Prudential Regulation Authority (APRA)

[Recent APRA releases](#):

- APRA releases final reporting requirements for superannuation (28 March 2013)
- APRA releases consultation package on disclosure of composition of capital and remuneration by ADI's in Australia (9 April 2013).

## Australian Charities and Not-for-profits Commission (ACNC)

[Recent ACNC releases](#):

- a sample [2013 Annual Information Statement](#) (AIS) setting out the information the ACNC plans to collect from charities this financial year
- a [consultation paper](#) seeking feedback on the new parts of the AIS that will be introduced in 2014.





## New Publications by Other Audit Offices

### Australian National Audit Office (ANAO)

- Report 26: Remediation of the Lightweight Torpedo Replacement Project (28 February 2013)
- Report 27: Administration of the Research Block Grants Program (9 April 2013)
- [AUDITFocus February 2013](#) (13 March 2013)

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

- Transport sector: Results of the 2011/12 audits (March 2013)
- Local government: Results of the 2011/12 audits (March 2013)
- Draft statement of intent 2013-2015 (March 2013)
- Crown Research Institutes: Results of 2011/12 audits (March 2013)
- Inquiry into the decision by Hon Sharon Jones to grant citizenship to Mr Yang Liu (March 2013)

### Tasmanian Audit Office (TAS AO)

- Report No. 8: National Partnership Agreement on Homelessness (March 2013)
- Report No. 9: Royal Derwent Hospital: site sale (March 2013)

### Victorian Auditor-General's Office (VAGO)

- Management of Freshwater Fisheries (2012-13:24)

### Queensland Auditor-General's Office (QAO)

- Report 8: Online service delivery (19 March 2013)
- Report 9: Fraud risk management (19 March 2013)

### Northern Territory Auditor-General's Office (NTAGO)

- March 2013 Report to the Legislative Assembly (March 2013)

## Useful Resources

### Commonwealth Government Treasury

- speech given: [Social inclusion and healthy ageing](#) – address to the Chain Reaction Foundation Breakfast Café (26 February 2013)

### Commonwealth Government Department of Climate Change and Energy Efficiency

- Heating Ventilation and Air Conditioning (HVAC) High Efficiency Systems Strategy (HESS) [factsheets](#) released (20 February 2013)



### Climate Disclosure Standards Board (CDSB)

- the CDSB and Promethium Carbon have jointly released a report on climate change and integrated reporting titled '[Climate Change – Your Journey to Integrated Reporting](#)'.

### Australian Stock Exchange (ASX)

- released final [Guidance Note](#) (GN 8) on continuous disclosure (13 March 2013)

### Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- The COSO Board has announced it will issue its updated [Internal Control - Integrated Framework: 2013](#) on 14 May 2013 (20 March 2013)

### Independent Commission Against Corruption (ICAC)

- published [investigation report](#): Investigation into allegations that a Manager at the UTS solicited and accepted money, gifts and other benefits from UTS contractors (27 March 2013)

### Productivity Commission

- [media release](#): Strong labour earnings growth moderates income inequality in Australia (27 March 2013)

### Independent Pricing & Regulatory Tribunal (IPART)

IPART has released [new publications](#) relating to the electricity, water and transport Industries.

IPART has released the following [information/fact sheets](#):

- final report – annual taxi licence release for Sydney 2013/14 – February 2013 (27 March 2013)
- information sheet – Sanctuary Energy audit findings – March 2013 (4 April 2013).

### Australian Competition & Consumer Commission (ACCC)

- [ACCC directs Telstra](#) to amend further measures developed under the migration plan (5 April 2013).

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