

Professional update

Accounting and auditing developments |



April 2014

Hot Topics

ASIC guidance on audit quality: the role of directors and audit committees

The Australian Securities and Investment Commission (ASIC) has released Information Sheet 196 ([INFO 196](#)) which provides guidance to directors and audit committees on their role in ensuring the quality of the external audit of a financial report.

INFO 196 explains:

- why audit quality is important
- the responsibilities of the auditor
- the roles of directors and audit committees
- the responsibilities of directors for auditor independence
- who should manage the appointment of auditors
- what matters should be considered in setting audit fees
- what directors and audit committees can do to promote audit quality.

INFO 196 highlights actual and perceived independence from directors, management and the auditor underpins audit quality as well as the individual and the organisation's commitment to audit quality.

INFO 196 provides directors and audit committee members with guidance to promote audit quality when:

- recommending the appointment of an auditor to members
- assessing potential and continuing auditors
- facilitating the audit process
- establishing ongoing communications with the auditor
- maintaining auditor independence
- assessing the quality of audits conducted.

INFO 196 recognises the constant pressures in the current economic climate to reduce costs. The pressure to reduce audit fees increases the likelihood of audit quality being compromised. This should concern directors and audit committees whose primary focus should be on audit quality.

Audit committees need to raise audit quality issues not satisfactorily resolved with the auditor, with the board of directors.

Universities Regulatory Reforms Bill

The [Universities Legislation Amendment \(Regulatory Reforms\) Bill 2014](#) (The Bill) was introduced in the NSW Parliament in March 2014.

The Bill proposes removal of certain regulatory requirements relating to financial management, land dealings and governing body election procedures of New South Wales universities. The Bill specifically authorises and puts beyond doubt the universities' capacity to generate revenue for the purpose of funding the promotion

This edition includes:

- ASIC guidance on audit quality:
- ACNC – potential repeal of legislation
- leases – FASB and IASB part company
- Universities Regulatory Reforms Bill.

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of its objectives and the carrying out of its principal functions.

Upon assent, the Bill will amend:

- *Charles Sturt University Act 1989 No 76*
- *Macquarie University Act 1989 No 126*
- *Southern Cross University Act 1993 No 69*
- *University of New England Act 1993 No 68*
- *University of New South Wales Act 1989 No 125*
- *University of Newcastle Act 1989 No 68*
- *University of Sydney Act 1989 No 124*
- *University of Technology, Sydney, Act 1989 No 69*
- *University of Western Sydney Act 1997 No 116*
- *University of Wollongong Act 1989 No 127*
- *University of Wollongong By-Law 2005*

The Bill will give university councils more power to make financial management decisions without obtaining approval from the Governor, Treasurer and the Minister. University councils will have authority to:

- approve borrowings
- make investment decisions
- generate revenue to fund the promotion of objectives and carrying out principal functions
- approve fund managers
- approve guidelines for the university's commercial activities
- manage the sale, encumbrance or lease of land for periods greater than 21 years, except where the State granted or transferred the land to the university at nominal or less than market value, or the land is leased from the State for more than 21 years
- make rules concerning procedures for elections to the governing board of the university instead of having the rules prescribed by the by-laws.

The Bill replaces the current limitation on leasing certain land vested in the Crown, but under the university's control for a period of more than 21 years, with a requirement for approval by the Minister for Education where the leases exceed 21 years.

For the Universities of Wollongong and Newcastle this Bill gives their respective Vice-Chancellors authority to sub-delegate functions delegated to the Vice-Chancellor by the university council.

Australian Charities and Not-for-Profits Commission (ACNC) – potential repeal of legislation

A bill to repeal the *Australian Charities and Not-for-Profits Commission (ACNC) Act 2012*, titled [Australian Charities and Not-for-profits Commission \(Repeal\) \(No.1\) Bill 2014](#) (the Bill) was introduced into Parliament on 19 March 2014. The Bill, which is part of the Federal Government's red tape repeal activities, was referred to the Senate [Economics Legislation Committee for inquiry](#) with submissions due to the committee by **2 May 2014**.

The Committee is expected to report back to parliament by **16 June 2014**. The reasons for the Bill's referral are to 'thoroughly consider the impacts on Australia's charitable sector of the repeal of the ACNC and ensure adequate stakeholder consultation'.

If passed, the Bill will effectively abolish the ACNC after the enactment of a later bill, the timing of which has not been communicated. The later bill, will provide details of arrangements for replacing the ACNC, including any transitional arrangements.

The [explanatory memorandum](#) accompanying the Bill indicates that regulatory functions previously transferred to the ACNC from the ATO and ASIC will return to those bodies, and support for the sector will be provided by a National Centre for Excellence.

Until the ACNC is abolished, agencies registered with it should continue to comply with the relevant requirements.

Leases – FASB and IASB part company

After years of trying and many meetings, the IASB and FASB have been unable to reach agreement on a converged standard on accounting for leases. At the most recent round of meetings in mid-March the boards committed to continue their efforts to achieve a converged standard. However, the boards cannot reach agreement on whether to restrict lessees to use only one method to account for leases, or to let them choose between two.

Hans Hoogervorst, chairman of the IASB, said 'we have been struggling with this standard for many years. There is no simple answer'.

The FASB proposes a dual lease accounting model. However, the IASB's proposals include:

- a single lease accounting model





- no lease classification test
- all leases on-balance sheet – leases to be treated as the purchase of an asset on a financed basis
- lessee exemption for small-ticket leases, even if material in aggregate.

Despite differences between the boards' views on accounting for leases, proposed standards in both jurisdictions represent a significant change from lease accounting today. Both boards' proposed standards will recognise significantly more leases on balance sheet.

- quoted prices for similar financial assets or financial liabilities in active markets
- quoted prices for identical or similar financial assets or financial liabilities in markets that are not active
- inputs other than quoted prices that are observable for the financial asset or financial liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads)
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs)
- Level 3 – unobservable inputs for the financial asset or liability which is developed using the best information available at the time. Guidance is provided how an entity may go about developing these inputs.

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

Query of the Month

Query: In the March Professional Update query of the month, you talked about the 'fair value hierarchy' in AASB 13. Is there specific guidance on how this applies to financial instruments?

Answer:

The Financial Reporting Council UK issued [Practice Note 23 – Special Considerations in Auditing Financial Instruments](#) in July 2013. Although this practice note is directed at auditors, it provides detailed background and guidance on:

- the purpose and risks of using financial instruments
- controls and process to determine the completeness, accuracy and existence of financial instruments
- valuation techniques for financial instruments, whether through observable or unobservable inputs
- presentation and disclosure requirements in an entity's financial statements.

The practice note provides examples of the fair value hierarchy for financial instruments into three levels:

- Level 1 – quoted prices in active markets for identical financial assets or financial liabilities that an entity can access at the measurement date
- Level 2 – inputs other than quoted prices that are observable such as:

Audit Office of New South Wales

Grant Hehir, NSW Auditor-General, attended the Australasian Council of Auditors-General and Canadian Council of Legislative Auditors, Public Sector Audit Forum in Toronto, Canada (7 to 11 April 2014).

Auditor-General's Financial Audit Reports to Parliament

- [Volume One 2014 Areas of Focus From 2013](#) (27 March 2014)

Auditor-General's Performance Audit Reports to Parliament

- On 1 April 2014, the Auditor-General released the report '[Fitness of Firefighters](#)'.

Firefighting is a demanding occupation both physically and psychologically. Along with the requirement to achieve their firefighting and rescue objectives, Fire and Rescue NSW and the NSW Rural Fire Service have a duty of care to protect the health and safety of their employees, including their volunteer members.

This audit examined whether Fire and Rescue NSW and the NSW Rural Fire Service know that their firefighters are fit for duty. It found Fire and Rescue NSW do not know whether all its firefighters are fit to perform their full range of operational





duties. Once they are employed, there are no formal checks on firefighters' health and fitness during their career.

The Auditor-General recommends that Fire and Rescue NSW implement regular mandatory health and fitness assessments for firefighters and the NSW Rural Fire Service should undertake a risk analysis on the current approach to managing the health and fitness of volunteer members, particularly those who actively fight fires.

- On 15 April 2014, the Auditor General released the report '[Management of Volunteers – NSW State Emergency Services](#)'.

The audit examined whether the State Emergency Service (SES) has a volunteer workforce capable of responding to natural disasters and whether there are effective strategies in place to attract, retain and train volunteers. It found the SES required better planning for its volunteers to address the current skills and capacity of its volunteers and effectiveness of its training programs.

The Auditor-General recommends the SES need to better understand the location, availability and skills of its volunteers so it can properly plan for emergency events. The SES needs to improve how it selects and retains the right volunteers and provide more up to date and focused training.

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The AASB has [released](#):

- exposure draft ED 249 Disclosure Initiative (Proposed amendments to AASB 101) – comments close 30 June 2014
- exposure draft – Tier 2 Supplement to ED 249 Disclosure Initiative (Proposed amendments to AASB 101) – comments close 30 June 2014
- Research Centre Staff Paper on Transitioning to and Between Tiers of General Purpose Financial Reporting
- Submission to the IPSASB Governance Review Group
- Essay 2014-1 'The Critical Role of the Reporting Entity Concept in Australian Financial Reporting'

[AASB Meeting Highlights – 8 to 9 April 2014](#)

Topics discussed by the AASB at its meeting included:

- superannuation entities

- equity method: share of other new asset changes
- service performance reporting
- insurance
- financial instruments
- IPSASB
- emerging issues
- annual improvements
- leases.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 13 to 21 March 2014](#)

Topics discussed by the IASB at its meeting included:

- insurance contracts
- leases
- conceptual framework
- IAS 1 Presentation of Financial Statements
- accounting for acquisitions of interests in joint operations (amendments to IFRS 11)
- equity method: share of other net asset changes
- narrow-scope amendments – IFRS 10 and IAS 28
- sale or contribution of assets between an Investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)
- equity method in separate financial statements
- agriculture: bearer plants
- disclosure initiative.

[IASB Speeches and Presentations](#)

Recent speeches and presentations published by IASB include:

- IASB publishes proposals as part of disclosure initiative (25 March 2014)
- March 2014 IFRS Interpretations Update (3 April 2014)
- Speech by Hans Hoogervorst: '[Accounting and moral hazard](#)' (10 April 2014).

[IASB Podcasts](#)

Recent podcasts released by IASB include:

- Insurance Contracts, Conceptual Framework, Leases, Disclosure Initiative (March 2014).





International Update – International Federation of Accountants (IFAC)

IFAC has recently released:

- [Presentation](#) – Integrated Reporting the Next Frontier (11 March 2014)
- [European Audit Legislation Creates Potential for Regulatory Divergence](#) (3 April 2014)

International Update – Interpretations Committee

[IFRIC Meeting Highlights – 25 March 2014](#)

The committee discussed the following topics:

- IFRS 11 Joint Arrangements – analysis of implementation issues
- IAS 12 Income Taxes – recognition of deferred tax assets for unrealised losses
- IAS 16 Property, Plant and Equipment and IAS 2 Inventories – ‘core investments’
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – distinction between a change in accounting policy and a change in accounting estimate
- IFRS 10 Consolidated Financial Statements: Investment Entities Amendments – the definition of investment-related services or activities
- IAS 17 Leases – meaning of ‘incremental costs’
- IAS 1 Presentation of Financial Statements – disclosure requirements relating to assessment of going concern.

International Update – Advisory Council

[IFRS Advisory Council Meeting Highlights – 24 to 25 February 2014](#)

The council discussed the following topics:

- IASB and Trustees’ activities
- IPSASB governance review
- leases project
- future of corporate reporting
- update of the education initiative
- investor engagement strategy

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

IPSASB has recently issued:

- [Strategy Consultation 2015 Forward](#) (31 March 2014).

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB Meeting Highlights – 7 April 2014](#)

Topics discussed by the AUASB at its meeting included:

- Revised Assurance Framework and ASAE 3000 and consequential amendments to ASAEs 3402, 3410 and 3420
- assurance on controls
- GS 003 audit of AFSL licensees
- assurance engagements to report on combined reporting frameworks
- emissions reduction fund and CER assurance
- Trans-Tasman harmonisation.

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

[IAASB Meeting Highlights – March 17 to 21 2014](#)

Topics discussed included:

- the auditor’s responsibilities relating to other information – proposed ISA 720
- auditing disclosures
- auditor reporting
- innovation, needs and future opportunities
- report back on efficiencies break-out sessions
- status of due process from proposed IAS 720 (revised).

Ethics Update

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

The APESB have released:

- [Submission](#) to IESBA on Proposed Strategy and Work Plan 2014-2018.

[APESB Meeting Highlights – 4 April 2014](#)

Topics discussed by APESB at its meeting included:

- proposed ED 02/14 revised APES 330 Insolvency Services
- proposed ED 01/14 APES 315 Compilation of Financial Information
- APES 230 Financial Planning Services – six month review.





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

[IESBA Meeting Highlights – 7 to 9 April 2014](#)

Topics discussed include:

- audit quality
- status of global adoption of IESBA Code
- non-assurance services
- review of Part C of the IESBA Code
- structure of the IESBA Code
- emerging issues and outreach
- long association of senior personnel (including partner rotation) with an audit client
- Strategy and Work Plan, 2014-2018
- auditor reporting – independence and ethical requirements.

Treasury – NSW Government

New Treasury Policy Papers, Circulars and Research Papers

- [NSW TC 14/05](#) Accounting for Superannuation
- [NSW TC 14/06](#) Funding Arrangements for Long Service Leave and Transferred Officers Leave Entitlements.

Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [M2014-02](#) Ministerial Arrangements During Absences.

Public Service Commission (PSC)

The PSC has released the following circulars:

- [PSCC 2014-05](#) 2014 Premier's Awards for Public Service (3 April 2014).

Public Accounts Committee

Reports

[Reports tabled](#) in the NSW Parliament:

- Non-Registered Motorised Vehicles (18 March 2014)
- Inter-Regional Public Transport (19 March 2014)
- Skill Shortages in New South Wales (26 March 2014)

- Inquiry into the 2012 Local Government Elections (27 March 2014)
- Polygeneration in New South Wales (27 March 2014)
- Greyhound Racing in New South Wales – First Report (28 March 2014).

Australian Securities and Investments Commission (ASIC)

Recent [regulatory guides](#) released:

- [INFO 87](#) Fee waivers (reissued)
- [INFO 107](#) Guidelines for managing allegations of misconduct against ASIC staff members (reissued)
- [INFO 183](#) Directors and financial reporting (reissued)
- [INFO 196](#) Audit quality: The role of directors and audit committee

Recent [reports](#) released:

- [Report 386](#) ASIC supervision of markets and participants: July to December 2013 (19 March 2014)
- [Report 387](#) Penalties for corporate wrongdoing (20 March 2014)
- [Report 388](#) Market assessment report: Yieldbroker Pty Limited (2 April 2014)
- [Report 389](#) ASIC regulation of registered liquidators: January to December 2013 (8 April 2014).

Recent [speeches](#) released:

- ASIC Forum 2014 – Opening address: Regulating for real people and markets and globalisation (24 March 2014).

ASIC [Media Releases](#):

- [14-071MR](#) ASIC's submission to the 2014 Financial System Inquiry.

Australian Prudential Regulation Authority (APRA)

[Recent APRA releases](#):

- APRA welcomes assessment of the Basel capital framework in Australia (18 March 2014).





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

[Recent ACNC releases:](#)

- Senate inquiry into the ACNC Repeal Bill (3 April 2014)
- The Commissioner's latest column (7 April 2014)
- Regulation necessary for good governance – international charity regulators (11 April 2014)
- Good governance a priority for new charities – regulator (17 April 2014)

New Publications by Other Audit Offices

Australian National Audit Office ([ANAO](#))

- Report 23: Policing at Australian International Airports (13 March 2014)
- Report 24: Emergency Defence Assistance to the Civil Community (16 April 2014)
- Report 25: Management of the Building Better Regional Cities Program (17 April 2014).

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

- The Auditor-General's Auditing Standards 2014 (March 2014)
- Inquiry into property investments by Delta Utility Services Limited at Luggate and Jacks Point (March 2014)
- Draft Annual Plan 2014-15 (April 2014)
- Central Government: Results of 2012-13 Audits - Volume 2 (April 2014).

Tasmanian Audit Office ([TAO](#))

- Annual report supplementary TAO Strategic Plan 2012-15 (27 March 2014).

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

- 2013-14:24 Residential Care Services for Children (March 2014)
- 2013-14:25 Access to Education for Rural Students (April 2014).

South Australian Auditor-General's Department ([SA AGD](#))

- Report on Adelaide Oval Redevelopment – update (March 2014).

Western Australia Office of the Auditor-General ([WA OAG](#))

- Opinion on Ministerial decision not to provide information to

Parliament about funding for some tourism events (18 March 2014).

- Behaviour Management in Schools (19 March 2014)
- Purchasing cards, Debtor management and Timely payments to suppliers (1 April 2014).

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

- Report 14: Results of audit: Local government entities 2012-13 (18 March 2014)
- Report 15: Environmental regulation of the resources and waste industries (1 April 2014).

Australian Capital Territory Auditor-General's Office ([ACT AGO](#))

- Report 1: Speed Cameras in the ACT (20 March 2014)
- Report 2: The Water and Sewerage Pricing Process (2 April 2014).

Useful Resources

Commonwealth Government Treasury

- [Presentation](#): A Treasury for the Future: Organisational Change and Treasury's Capability (20 March 2014)
- [Presentation](#): Fiscal Sustainability and Living Standards – the decade ahead (2 April 2014)
- The Department of Treasury's [submission](#) to the Financial System Inquiry (4 April 2014).

Independent Pricing & Regulatory Tribunal (IPART)

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

- Our role in local government rate setting and special variations – April 2014 (9 April 2014).

Australian Stock Exchange ([ASX](#))

The ASX has released:

- Corporate Governance Principles and Recommendations – third edition (27 March 2014)
- Submission to the Financial System Inquiry (31 March 2014).

NSW Procurement Board

NSW Procurement Board has released the following directions:

- [Direction 2014 - 01: Dishonest, unfair, unconscionable, corrupt or otherwise illegal conduct by suppliers](#)

This Direction requires agencies and service providers to conduct





their business relationships in accordance with law and accepted standards of behaviour at all times

• [Construction Procurement Direction C2014 - 01: Construction procurement policies and procedures – interim arrangements](#)

The NSW Procurement Board agreed to review, consolidate and update all sector-wide relevant construction procurement policies and procedures

• [Construction Procurement Direction C2014 - 02: Construction procurement prequalification schemes – interim arrangements](#)

The NSW Procurement Board agreed to review the operation of construction contractor prequalification schemes operated by NSW Government agencies to reduce red tape associated with prequalification of contractors.

Productivity Commission

The Productivity Commission's [recent releases](#):

- Regulator Audit Framework (19 March 2014).

Australian Competition & Consumer Commission (ACCC)

ACCC [media releases](#):

- Court confirms ACCC jurisdiction to arbitrate disputes (12 March 2014)
- AGL to seek Australian Competition Tribunal decision on Macquarie Generation (24 March 2014)
- ACCC grants interim authorisation to Sydney councils for joint waste tender (2 April 2014)
- EnergyAustralia ordered by consent to pay \$1.2 million for unlawful sales tactics (8 April 2014).

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