

# Professional update

Accounting and auditing developments |



April 2015

## Hot Topics

### Hot Topic 1: Getting ready for changes to the Related Parties Standard

The Australian Accounting Standards Board has released the much anticipated [AASB 2015-6](#) Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities' effective from 1 July 2016.

The amending standard extends the scope of AASB 124 to the not-for-profit public sector and updates the Standard to include implementation guidance (including illustrative examples) to help not-for-profit public sector entities apply the new requirements.

In summary, the implication guidance and basis for conclusions to AASB 2015-6 clarifies that:

- when assessing whether a person is a member of the Key Management Personnel (KMP) of an entity, not-for-profit public sector entities should consider the facts and circumstances, including the terms of the relevant enabling legislation. A person is only a KMP if he or she has the authority and responsibility for directly or indirectly for planning, directing and controlling the activities of the entity
- where a KMP Minister is compensated through one or more central government agencies or authorities, disclosure of KMP compensation is not required for the Minister(s)
- unless the entity has to reimburse the central government agency or authority for its KMP services, it does not have to make disclosures about services provided by a separate management entity
- only material related party transactions with Ministers need be disclosed. Judgment is used to assess whether a transaction is material. Related party transactions occurring during the course of delivering a public sector entity's objectives which occur on the same terms as those provided to the general public may not be considered material for the purposes of disclosure in the financial statements. The AASB anticipates taxes and rates paid by KMP, or their use of public transport, would generally not need to be disclosed. However, commercial contracts entered into for services may need to be disclosed
- Ministers who are members of the KMP for their government are also related parties not only of the government, but also of each controlled entity of that government. As a consequence, each controlled entity may, where the transaction is material, have to disclose the transactions with a Minister who has no responsibility for the entity
- related party transactions between an entity and its government-related entities need only be quantified where they are individually or collectively significant.

Affected entities should familiarise themselves with the new requirements, start identifying related parties (including KMP) and ensure their systems can capture related party transactions.

The AASB has signalled its intent to hold education sessions to help affected entities implement the requirements.

### This edition includes:

- Getting ready for changes to the Related Parties Standard
- Amended standard for the sale or contribution of assets between an investor and its associate or joint venture
- Preparing for Annual Impairment Testing
- Audit and Risk Committee Effectiveness
- Cybersecurity

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## Hot Topic 2: Amended standard for the sale or contribution of assets between an investor and its associate or joint venture

The Australian Accounting Standards Board (AASB) has released [AASB 2014-10](#) 'Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' effective 1 January 2016.

The amendments clarify the accounting treatment where a parent loses control of a subsidiary by selling all or part of its interest in that subsidiary to an associate or a joint venture that is accounted for using the equity method. The amendments address a long standing inconsistency between the requirements in AASB 10 'Consolidated Financial Statements' and those in AASB 128 'Investments in Associates and Joint Ventures'. In summary:

- under AASB 10, the parent recognises the full gain or loss on the loss of control
- under AASB 128, the parent recognises a partial gain or loss restricted to the extent of the interest attributable to the other investors in the associate or joint venture.

The amendments also address the accounting treatment for the sale or contribution of assets by an investor to its associate or joint venture. AASB 2014-10 clarifies that where the sale or contribution of assets:

- comprises a business (as defined in AASB 3 'Business Combinations'), the full gain or loss is recognised
- does not comprise a business (as defined in AASB 3), a partial gain or loss is recognised to the extent of the interest attributable to the other investors.

Further information and practical examples can be found in [AASB 2014-10](#)

## Hot Topic 3: Preparing for Annual Impairment Testing

The following Accounting Standards require formal impairment assessments to be conducted and recorded in the financial records annually:

- AASB 136 'Impairment of Assets'
- AASB 139 'Financial Instruments: Recognition and Measurement'
- AASB 6 'Exploration for and Evaluation of Mineral Resources'.

Annual impairment testing of assets is challenging for many agencies. They often respond to questions about impairment testing with comments like: "We don't do impairment testing because we don't have any impaired assets".

Misunderstanding this requirement may result in quick and/or rushed assessments to meet approaching reporting deadlines, which increases the risk of error. Ideally, agencies should keep their audit teams apprised of major developments throughout the year. Suggestions include:

- developing internal procedures to identify when impairment indicators are triggered or how an impairment charge is to be determined
- ensuring management and governance reporting systems consider the risk of impairment, and monitor, report and action the risk on a timely basis
- reviewing previous impairment determinations, as external and internal factors may change at each reporting date
- understanding how major business decisions (such as changes to and discontinuation of business operations) can impact impairment. Depreciated Replacement Cost valuations are only valid where an entity would replace the economic benefits embodied in an asset, if deprived of that asset.

The February issue of [GAAP Alert](#) newsletter provides some good suggestions for getting on the front foot as regards the annual impairment testing.

## Hot Topic 4: Audit and Risk Committee Effectiveness

Continuing our review of the recent [KPMG survey of Audit Committee Members](#), this month we look at findings about Audit Committee effectiveness. The survey found committee members say they would be more effective if they had:

- better understanding of the organisation's strategy and risks
- more time on the agenda for open dialogue
- greater diversity of thinking, perspectives and experiences, and technology expertise on the committee.

The Survey concluded effectiveness is increased where:

- meeting agendas allow the committee to make the most of its time. Tips include:
  1. limiting (or excluding) PowerPoint in favour of quality discussion





- 2. ensuring meeting papers are concise and have been pre-read
- 3. having a comfortable relationship with management and auditors, so financial reporting and compliance activities can be addressed efficiently
- time is spent outside of the boardroom with management and auditors. Informal meetings help the Chair and committee members stay aware of issues and sharpen formal meeting agendas
- available resources are leveraged to support the committee's work (internal auditors, external auditors, senior executives, outside experts)
- the committee's workload is spread by allocating oversight duties to each committee member
- the committee's composition and diversity support independence and leadership.

#### Hot Topic 5: Cybersecurity

Audit committees recognise the need to devote more time to cybersecurity risks and the pace of technological change. Cybersecurity has been a key concern for some time, but the proliferation of major cyber breaches has intensified the spotlight.

The Committee of Sponsoring Organisations of the Treadway Commission (COSO) provides thought leadership to executive management and those charged with governance on critical aspects of organisational governance, internal control, risk management, fraud, and financial reporting. Its 2015 research paper on "[COSO in the Cyber Age](#)" suggests effective organisations:

- focus on the right things. They understand how value is created in their organisations, where their critical assets are and how they are vulnerable to key threats
- are proactive rather than reactive. They build security upfront in management processes, applications and infrastructure. They ensure proper controls are in place from a proactive and detective standpoint
- adapt to change. Policy reviews, assessments, and rehearsals of crisis response processes are part of a culture of perpetual adaptation to the threat and risk landscape

- can articulate their cyber risks and explain their approach and response to such risks. Having well-defined processes to identify and respond to risks makes it easier for executives to understand the organisation's approach.
- promote openness and collaboration. Build strong relationships with partners, regulators and suppliers. Foster internal cooperation to ensure that people aren't hiding risks.

### Audit Office of New South Wales

#### Grant Hehir, NSW Auditor-General:

- presented at the Institute of Internal Auditors - SOPAC Conference '[Contestability - the public sector business model of the future](#)' - [IIA-SOPAC presentation](#). (16 March 2015)

attended the Biennial Conferences of the [Australasian Council of Public Accounts Committees](#) and the [Australasian Council of Auditors-General](#) in Adelaide (15-17 April 2015).

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

- [Managing length of stay and unplanned readmissions in NSW public hospitals](#). (23 April 2015).

### Accounting Update

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

The AASB has issued:

- [amendments to extend the scope of AASB 124](#) (related-party disclosures) to include not-for-profit public sector entities (1 April 2015).

#### [AASB Meeting Highlights – 15 April 2015](#)

The AASB Board met on 15 April 2015 and made key decisions relating to:

- Fair Value Disclosures for Not-for-Profit Public Sector Entities
- Fair Value Measurement of Defence Weapons Platforms

The Board also discussed:

- Reporting Service Performance Information.





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

### [IASB Meeting Highlights – 17-19 March 2015](#)

Topics discussed included:

- Leases
- Revenue from Contracts with Customers
- Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value
- Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging
- Insurance Contracts.

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

IPSASB published:

- [Recommended Practice Guideline on Reporting Service Performance Information](#) (31 March 2015).

## Auditing Update

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

Topics discussed at the AUASB's meeting on 20 April 2015 included:

- The Auditor's Responsibilities Relating to Other Information
- Auditor Reporting
- AUASB Bulletin on Internal Audit.

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

The IAASB has issued:

- International Standard on Auditing (ISA) 720 (Revised), [The Auditor's Responsibilities Relating to Other Information](#). (8 April 2015).
- Recommended Practice Guideline 3 [Reporting Service Performance Information](#).

### [IAASB Meeting Highlights - 16-20 March 2015](#)

Items discussed included:

- disclosures

- quality control and efficiencies
- financial institutions
- group audits
- auditor reporting included ISA 810 update.

## The Treasury - NSW Government

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

- [Agency Carry Forwards NSW TC 15-08](#) (20/03/2015)
- [Accounting for Long Service Leave and Annual Leave NSW TC 15-09](#) (16/04/2015).

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

Recent ACNC releases:

- [Final warning to 6,000 charities prior to deregistration for failing to meet reporting obligations.](#)

## New Publications by Other Audit Offices

### Australian National Audit Office (ANAO)

- Management of Interpreting Services (15 April 2015)
- Funding and Management of the Nimmie-Caira System Enhanced Environmental Water Delivery Project (21 April 2015)
- Materiel Sustainment Agreements (22 April 2015)
- Administration of the Australian Apprenticeships Incentives Program (23 April 2015)
- Administration of the Fair Entitlements Guarantee (23 April 2015)
- Guidelines for the Conduct of Performance Audits (16 April 2015).

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

- Report 2: The Rehabilitation of male detainees at the Alexander Maconochie Centre (15 April 2015).





### Queensland Audit Office ([QAO](#))

- Report 11 Maintenance of public schools (26 March 2015)
- Report 12 Oversight of recurrent grants to non-state schools (26 March 2015)
- Report 13 Procurement of youth boot camps (9 April 2015).

### Tasmanian Auditor-General's Office ([TAO](#))

- Accounting and Auditing Developments newsletter (25 March 2015)
- Performance Audit Services - Audit Planning Memorandums (25 March 2015)
- Report of the Auditor-General No. 8 of 2014-15: Security of information and communications technology (ICT) infrastructure (25 March 2015)
- Report of the Auditor-General No. 9 of 2014-15: Tasmanian Museum and Art Gallery: compliance with the National Standards for Australian Museums and Galleries (26 March 2015)
- Accounting and Auditing Developments newsletter – April (21 April 2015).

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

- 2014–15:26 Palliative Care (15 April 2015)
- 2014–15:25 Digital Dashboard: Status Review of ICT Projects and Initiatives (15 April 2015)
- 2014–15:24 Emergency Service Response Times (19 March 2015).

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

- Main Roads Projects to Address Traffic Congestion (25 March 2015)
- Asbestos Management in Public Sector Agencies (22 April 2015)
- SIHI: District Medical Workforce Investment Program (23 April 2015).

## Useful Resources

### Productivity Commission

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

- Efficiency in Health (23 April 2015)
- Housing Assistance and Employment in Australia (9 April 2015)
- Examining Barriers to More Efficient Gas Markets (31 March 2015).

### Independent Pricing & Regulatory Tribunal (IPART)

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

- Fact Sheet - Part A - NSW Public Water Utilities regulated by IPART - 2013-14 Performance Data (March 2015)
- Fact Sheet - Final Decision - Financeability ratios (April 2015).





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