

Professional update

Accounting and auditing developments |



August 2015

This edition includes:

- Auditors-General offer comments on Exposure Draft ED 261 Service Concession Arrangements: Grantor
- Managing the relationship between audit committee and auditor
- What is the future role of financial reporting?
- Digital currencies, are these the future?

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Hot Topics

Hot Topic 1: Auditors-General offer comments on Exposure Draft ED 261 Service Concession Arrangements: Grantor

The NSW Auditor-General contributed to the Australasian Council of Auditors-General (ACAG) submission on the Australian Accounting Standards Board's (AASB) Exposure Draft ED 261 Service Concession Arrangements: Grantor.

The [June 2015 edition of Professional Update](#) summarised the proposals put forward in the exposure draft when it was first released for comment.

Overall, ACAG was supportive of the proposed standard, which aims to address the gap in accounting for service concession arrangements from a grantor's perspective. The proposed standard also seeks to address the diversity in practice when accounting for such arrangements. Whilst supportive of the proposals, ACAG put forward several matters for consideration by the AASB. In particular, ACAG has recommended the AASB:

- clarify the scope of the application of the proposed standard. ACAG noted many issues that may arise should the standard apply to for-profit public sector entities
- clarify the concept of control. ACAG noted the diversity of service concession arrangements and drew the AASB's attention to potential application issues
- revisit several definitions within the standard and consider providing application guidance around how key definitions are to be applied in practice.

A copy of ACAG's response to ED 261 can be located [here](#).

Hot Topic 2: Managing the relationship between audit committee and auditor

Previous editions of Professional Update reported on the results of a KPMG global [survey of audit committee members](#), findings about [audit committee effectiveness](#) and suggestions on how to [keep a lid on audit costs](#).

This issue summarises research on how audit committees can better manage their relationship with their external auditor at key phases throughout the audit.

Meeting the auditor

Audit committees can prepare by:

- reading public reports issued by ASIC and the professional accounting bodies regarding audit quality and systemic audit issues to discuss with the auditor, where relevant
- inform the auditor prior to the meeting of the matters to be discussed and provide them with the relevant papers
- arranging for the Chair of the audit committee to meet separately with the auditor.



The pre-audit meeting

Discuss the overall audit strategy focussing on the rationale for critical audit planning decisions, the timing of major audit activities and key audit deliverables. The audit committee should:

- share knowledge about business risks to ensure views are consistent and risks are adequately addressed
- identify significant financial reporting risks and understand how audit procedures will address them
- understand the intended reliance and testing of internal controls
- establish how the agency will meet key deliverables detailed in the client assistance schedule.

The post-audit meeting

At the completion of fieldwork, the auditors will present the results of the audit and draft reports to the audit committee for review and discussion. The audit committee should:

- compare the actual and anticipated results of the audit
- consider the reasons why auditors focussed their attention or performed additional unplanned procedures
- understand why issues that arose were not anticipated
- consider the capability of agency personnel preparing and reviewing financial information
- review the timeliness with which the agency delivered key documentation.

Annual auditor assessment

The Audit Office seeks feedback on the effectiveness of the audit team each year. To assist with the effectiveness of this process, audit committees should consider formally evaluating:

- the experience and performance of the audit team
- the quality and candour of the auditor's communications with the committee and the agency
- the auditor's independence, objectivity, and professional scepticism.

The audit committee might also seek the views of management and internal audit. However, in assessing those views, the audit committee should be alert to both a strong preference for, and a strong opposition to the auditor by management.

Hot Topic 3: What is the future role of financial reporting?

Chartered Accountants Australia and New Zealand's (CAANZ) recent paper [Noise, Numbers and Cut-Through](#) further explores the relevance of current financial reporting and examines the experiences of two leading companies, Flight Centre and Chorus, and their stand against disclosure overload.

CAANZ surveyed over 825 listed entities in Australia and New Zealand about the effort they are directing to improve their disclosure effectiveness. Survey results showed a wide range in approaches. Whilst some entities are making incremental improvements to their financial reporting other entities have taken a more holistic approach to disclosure effectiveness.

Flight Centre and Chorus have taken the holistic approach. This involved:

- rewriting existing disclosures to remove boilerplate text
- disclosing additional information where relevant
- thinking of original ways to report existing information
- improving the quality of their financial reporting and remove duplication
- challenging information included in previous reports
- considering information that was most material for users and the best groupings for this information
- eliminating immaterial disclosures from its financial reports
- disclosing additional information in an effort to enhance their communication value.

Both companies received positive responses from the market demonstrating a desire for change. However, the companies found the accounting standards themselves to be the most significant constraint to further improvement.

The paper acknowledges the ability to take financial reporting to the next level will rely on the continued goodwill of standard setters, regulators and other interested parties. It will also require input from boards, investor relations teams and a host of other parties within an organisation.

Hot Topic 4: Digital currencies, are these the future?

The Chartered Accountants Australia and New Zealand (CAANZ), with the assistance of PriceWaterhouseCoopers, recently published an article on '[Digital Currencies: Where to from here?](#)'. The article looks at issues surrounding the emerging market for digital currency.





The article highlights challenges the accountants and auditors will face in determining the appropriate accounting treatment for digital currencies. For example, under International Financial Reporting Standards, Bitcoins do not meet the definition of:

- 'cash and cash equivalents' as they are not generally accepted as a currency due to the significant volatility in their value
- 'financial assets' as there is no contractual right to receive cash or another financial asset (similar to gold bullion which is a commodity).

The article focuses on Bitcoin, the most popular digital currency. Bitcoin is predominately used by retail because it is relatively safe, fast and carries low processing fees. Bitcoin operates in the following way:

- Buyers – enter the details which enable them to use Bitcoins from their virtual wallet, executing the transaction (similar to normal electronic transactions such as PayPal). Once executed, the transaction is added to a digital 'block' (i.e. a group of multiple Bitcoin transactions that are taking place around the same time)
- Miners - individuals or groups of people working together, using specialised hardware, to process the information contained in these transaction blocks (or batches)
- Recipients – receive the Bitcoin.

Bitcoin's value is created through their scarcity, as each block (or batch) of Bitcoin is processed, fewer Bitcoins are created, forming an artificial shortage which pushes up their value.

Globally, governments seem to harbour the same concerns about digital currencies – monetary policy and banking regulation, consumer protection, combatting organised crime and terrorist financing activities, and loss of government revenues (that is, tax).

The authors speculate that while users report growing dissatisfaction with current payment processes, until mainstream retailers fully accept and support digital currency, large scale adoption may take several years.

Audit Office of New South Wales

Tony Whitfield, Acting Auditor-General:

- presented at the CFO Forum on 13 August on the topic 'CFOs as Leaders'.

Auditor-General's Better Practice Guides

- [Monitoring and reporting on performance audit recommendations](#)
- [Risk Management Maturity Assessment Tool](#).

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The [AASB has issued:](#)

- ED 267 Clarifications to AASB 15 (1 August 2015)
- ED 268 Effective Date of Amendments to AASB 10 and AASB 128 (1 August 2015)
- ED 269 Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities (18 August 2015)
- ED 270 Reporting Service Performance Information (21 August 2015).

[Latest news from the AASB](#) includes:

- Accounting Standards Advisory Forum
- Proposed changes to income recognition for not-for-profit entities – What do the proposals mean?
- Navigating the ED 260 proposed changes to income recognition for not-for-profit entities
- International Edition (30-15)
- Conceptual Framework proposals: Where are the concerns?
- International Edition (31-15)
- Proposed amendments to AASB 15
- International Public Sector Accounting Standards Board (IPSASB) issues Consultation Paper Recognition and Measurement of Social Benefits
- the IASB offers you the chance to influence its next four-year agenda
- International Edition (32-15)
- IASB proposes to defer indefinitely the amendments related to the sale or contribution of assets between an investor and its associate or joint venture
- AASB webinar on ED 260 Income of NFP Entities
- proposed amendments to AASB 136.





International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 20, 22-23 July 2015](#)

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

- insurance contracts
- IFRS taxonomy
- IFRS implementation issue
- rate-regulated activities
- dynamic risk management
- revenue from contracts with customers
- provisions, contingent liabilities and contingent assets
- fair value measurement
- financial instruments with characteristics of equity
- agenda consultation.

International Update – IFRS Foundation (IFRS)

[IFRS Latest News](#)

Latest news from the IFRS includes:

- IFRS Advisory Council June meeting report (20 July 2015)
- IASB confirms one-year deferral of effective date of revenue Standard (22 July 2015)
- Issue 6 of the IASB Investor Update: our newsletter for the investment community (23 July 2015)
- IASB proposes clarifications to revenue Standard (30 July 2015)
- Podcast – Discussion of tentative decisions from July 2015 IASB meeting
- IASB proposes to postpone accounting changes for associates and joint ventures until completion of broader review (10 August 2015)
- 2015 IFRS - A Briefing for Chief Executives - now available (11 August 2015).

International Update – International Federation of Accountants (IFAC)

[Latest news from IFAC includes:](#)

- Sovereign Debt Crises – Accounting Matters (20 July 2015)
- IFAC Explains How Accountants Contribute to Meeting Organizations' Sustainability Challenges (29 July 2015)
- IPSASB eNews: August 2015 (18 Aug 2015).



[IFAC has issued:](#)

- Exposure Draft: Responding to Non-Compliance or Suspected Noncompliance with Laws and Regulations (23 July 2015)
- Exposure Draft: Proposed International Standard on Auditing (ISA) 810 (Revised) (3 August 2015).

International Update – Interpretations Committee

[IFRIC Meeting Highlights – 14 July 2015](#)

The committee discussed the following topics:

- deliberation of comments received on proposals for narrow scope amendments on IFRS 2 Share-Based Payment
- item recommended to the IASB for Annual Improvements
- Interpretations Committee tentative agenda decisions.

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

[IPSASB has recently issued the following:](#)

- Consultation Paper on Recognition and Measurement of Social Benefits (29 July 2015)
- Exposure Draft 56, The Applicability of IPSASs (30 July 2015).

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB has recently released:](#)

- invitation for comments on IAASB Exposure Drafts ISA 250 & ISA 810 (12 August 2015).

[AUASB Meeting Highlights – 28 July 2015](#)

Topics discussed by the AUASB at its meeting included:

- Auditor Reporting Project
- GS 003 Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001
- ASAE 3500 Performance Engagements
- ASAE 3100 Compliance Engagements
- Service Performance Information.



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

Latest news from the IAASB:

- finalises amendments to auditing standards to promote greater focus on financial statement disclosures (15 July 2015)
- acknowledges call to action on integrated reporting; highlights ongoing and planned actions relating to developments in external reporting (16 July 2015)
- proposes limited changes to auditing standards in response to the IESBA's project addressing noncompliance with laws and regulations (23 July 2015)
- proposes changes for reporting on summary financial statements (3 August 2015)
- comments on PCAOB staff consultation paper on 'The Auditor's Use of the Work of Specialists'.

IAASB has issued:

- ED Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulations (23 Jul 2015).

It also issued the following guides:

- Addressing Disclosures in the Audit of Financial Statements (15 July 2015)
- Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting (16 July 2015)
- Accounting for Sustainability. From Sustainability to Business Resilience (29 July 2015).
- Staff Audit Practice Alert Responsibilities of the Engagement Partner in Circumstances when the Engagement Partner is not Located where the Majority of the Audit Work is Performed (14 Aug 2015).

Treasury – NSW Government

New Treasury Policy Papers, Circulars and Research Papers

NSW Treasury has released the following pronouncement:

- [TC15/15](#) Industrial Relations: Crown Employees Wages Staff (Rates of Pay) Award 2015.

Public Service Commission (PSC)

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

- PSCC 2015-07 Determinations by the Statutory and Other Offices Remuneration Tribunal (31 July 2015)



- PSCC 2015-08 Declaration of private interests – supplementary information (20 August 2015)
- Finance Professionals Capability Set
- Procurement Professionals Capability Set.

NSW Procurement Board

NSW Procurement Board has recently issued:

- Accessing information about agency procurement arrangements (10 August 2015)
- Devolution of Contract 9698 Government Waste Management (10 August 2015)
- New policy documents on ProcurePoint: Procurement Policy Framework and Market Approaches Guide (10 August 2015)
- New Procurement Board Directions (11 August 2015)
- Extension of Contract 2310 Microsoft (13 August 2015).

Australian Securities and Investments Commission (ASIC)

ASIC has recently released consultation papers:

- [CP 232](#) Remaking ASIC class orders on superannuation: [CO 04/1574] and [CO 06/636]
- [CP 233](#) Remaking ASIC class orders on financial reporting.

ASIC has recently released [regulatory documents](#):

- FS71 Australian financial services licensee audit report (30 June 2015)
- RG 166 Licensing: Financial requirement (1 July 2015).

Australian Prudential Regulation Authority (APRA)

Recent APRA releases:

- results of 2015 Stakeholder Surveys (30 July 2015)
- superannuation statistics for June 2015 (20 August 2015).

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

Recent ACNC releases:

- over 300 charities risk losing charity status (7 August 2015)
- 4000 charities receive red-mark on ACNC Charity Register (14 August 2015).



New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Regulation of Great Barrier Reef Marine Park Permits and Approvals (13 August 2015).

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

- New Zealand Police: Enforcing drink-driving laws (July 2015)
- Consulting the community about local authorities' 10 year plan (August 2015).

Queensland Auditor-General's Office (QAO)

- Report 1: Results of audit: Internal control systems 2015–16.

Tasmanian Audit Office (TAS AO)

- Report of the Auditor-General No.1 of 2015-16: Absenteeism in the State Service (28 July 2015)
- Accounting and Auditing Developments newsletter – July 2015 (28 July 2015)
- Report of the Auditor-General No. 2 of 2015-16: Capital works programming and management (18 August 2015).

Victorian Auditor-General's Office (VAGO)

- Follow up of Collections Management in Cultural Agencies (August 2015)
- Follow up of Managing Major Projects (2015-16:2) (August 2015)
- Follow up of Management of Staff Occupational Health and Safety in Schools (2015-16:3) (August 2015).

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

- Pilbara Underground Power Project (12 August 2015).

Useful Resources

Productivity Commission

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

- The Case for Infrastructure Pricing Reform – What water can teach roads – Speeches (27 July 2015).

Independent Pricing & Regulatory Tribunal (IPART)

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

- Media Release – Fit for the Future Public submissions consideration (4 August 2015)
- Mid-year review of fuel costs for private ferries in NSW in 2015 – August 2015 (5 August 2015).

Association of Superannuation Funds of Australia (ASFA)

- Key to Super Governance is Getting the Details Right: ASFA (24 July 2015)
- The Super System is Not Broken But Can Be Improved: ASFA (27 July 2015)
- It's Time to Quantify the Goals of Superannuation (6 August 2015)
- Retirees and Super Savings Would Be Hit Hardest by Changes to Dividend Imputation: ASFA (10 August 2015).

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