

Professional update

Accounting and auditing developments | August 2016

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This edition includes:

- Simplified impairment requirements for not-for-profit entities
- Accounting for leased assets
- TPP 16-02 Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees
- Cyber-attacks defraud government agencies

Hot Topics

Simplified Impairment Requirements for Not-for-Profit Entities

The Australian Accounting Standards Board (AASB) recently released [AASB 2016-4 Amendments to Australian Accounting Standards - Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities](#). The Standard has an effective date of 1 January 2017, with early application permitted (TC 16/02 prevents NSW public sector entities from early adopting accounting standards).

The amending Standard simplifies the impairment requirements in AASB 136 Impairment of Assets by:

- removing references to depreciated replacement cost (DRC) as a measure of value-in-use for not-for-profit (NFP) entities
- clarifying that the recoverable amount of primarily non-cash generating assets of NFP entities, typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 Fair Value Measurement.

Consequently, NFP entities with primarily non-cash generating specialised assets that:

- regularly reassess the fair value of such assets using the revaluation model will no longer need to apply AASB 136
- value such assets using the cost model will continue to apply AASB 136.

In practice, DRC and current replacement cost (CRC) have been used interchangeably. The amendments acknowledge that DRC as a measure of value-in-use for specialised non-cash generating assets of NFP entities under AASB 136, and CRC as a measure of fair value for those same assets under AASB 13 are virtually the same. The AASB noted that a separate impairment test is not required for assets that are regularly revalued because CRC reflects physical deterioration, functional and economic obsolescence and is broader than just depreciation of assets. It also includes consideration of an entity's intention to scrap assets.

The proposed amendments were originally exposed in ED 269 Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities. The [November 2015](#) edition of Professional Update summarises the main points included in the Australasian Council of Auditors General's (ACAG) submission to the AASB. ACAG was pleased to note the final Standard incorporated its feedback, specifically limiting the use of CRC in an impairment test on specialised assets to only not for-profit entities.

Agencies should familiarise themselves with the changes to the Standard and assess the potential impacts on the financial statements.

As a Standard issued and not yet effective, agencies will need to disclose the potential impact of AASB 2016-4 in their 30 June 2016 financial statements.



Accounting for leased assets

Accounting for assets acquired under finance leases has always presented challenges to accountants and continues to do so in the lead up to the implementation of AASB 16 Leases.

Fair value content included in AASB 16 Property, Plant and Equipment was moved to AASB 13 Fair Value Measurement on the release of that Standard. The scope paragraphs of AASB 13, TPP 14-01 Valuation of Physical Non-current Assets at Fair Value and the definition paragraphs of AASB 17, limit the application of fair value measurement to 'lease transactions'.

A 'lease transaction' is not the underlying 'leased asset'. Following initial recognition of a lease transaction, the provisions of AASB 116 Property, Plant and Equipment apply to the underlying leased asset. AASB 116 prescribes the accounting treatment for leased property, plant and equipment, which means these assets are subject to depreciation, impairment and revaluation over their useful lives.

Judgements made on initial recognition of a lease transaction continue to impact the subsequent accounting treatment of leased assets. These judgements may not remain appropriate as time progresses or circumstances change.

When applying AASB 116 depreciation, revaluation or impairment concepts to leased assets, lessees should consider:

- whether the asset reverts to the lessor or the lessee at the end of the lease. If it reverts to the lessor, then the useful life of the asset cannot exceed the term of the lease
- the expected pattern of use of the asset, as this is an appropriate basis of depreciation
- whether the lessee will use all the asset's service capacity. If not, and unless appropriate adjustments are made throughout the asset's life, excessive depreciation or a write-off may be incurred in the final year(s) of the lease. This may arise if the original estimate was inaccurate or if the useful life of the asset has been extended through good maintenance or refurbishment
- whether land assets revert to the lessor at the end of the lease. If they do, they need to be 'depreciated' to achieve a nil balance by the end of the lease. If revalued during the lease term, the valuation needs to be adjusted to reflect the stage of the lease
- terms and conditions renegotiated during the lease term or

options that have been exercised

- terms and conditions that entitle one party or the other to an accretion in the value of the asset
- residual value guarantees
- indicators of commercial, functional or technical obsolescence of the asset, including any intention to dispose of it
- legal or contractual restrictions on the use of the asset.

AASB 16 Leases, which is issued, but not yet effective, will apply to all leases except those with a term of less than 12 months or a low value. It will allow lessees who apply the revaluation model in AASB 116 to a class of property, plant and equipment to apply that model to all 'right-of-use assets' in that class.

TPP 16-02 Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees

NSW Treasury has issued [TPP 16-02 Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees](#) (the Guidance), to help agencies implement the Audit and Risk Committee Core Requirements in [TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector](#).

The Guidance is effective 1 July 2016 and supersedes TPP 12-04. TPP 16-02 applies to all agencies (with the exception of the Universities) listed in schedules 2 and 3 of the *Public Finance and Audit Act* (PF&A Act). The Guidance is in two parts:

- Part 1: Guidance on Shared Arrangements
- Part 2: Guidance on the operation of subcommittees of an Audit and Risk Committee (ARC).

Part 1 of the Guidance sets out the principles for agencies to use a shared arrangement. These are:

- to ensure compliance costs are commensurate with the agency's risk profile and benefit
- the agency does not have a role that requires independence from other agencies
- the agency has a total annual expenditure of less than \$100 million, and its risk profile does not warrant stand-alone arrangements
- arrangements are supported by the agency heads of all statutory bodies entering into the arrangement
- arrangements are subject to Treasury approval





- arrangements may be a collaborative or principal department-led arrangement
- a Shared Arrangement Agreement outlining the responsibilities of individual agencies must be signed by the department head or governing board of a statutory body entering into the arrangement
- the charter of the shared ARC should align with the model ARC charter
- remuneration of the Chair and members of the shared ARC must be in accordance with those prescribed for multi-agency arrangements in the Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members.

Part 2 of the Guidance aims to help ARCs overseeing very large departments to establish subcommittees.

To help agencies comply with this Guidance, the annexure includes the following templates:

- Model Audit and Risk Committee Charter (Collaborative Shared Arrangement)
- Model Audit and Risk Committee Charter (Principal Department Led Arrangement)
- Model Subcommittee Charter
- Attestation Statement Template (Internal Audit and Risk Management Policy Compliance)
- Ministerial Determination Template.

Cyber-attacks defraud government agencies

Rapid advances in technology bring many benefits, but also expose organisations to greater risk of cybersecurity attack. A recent article in [itnews](#) reported Queensland's Department of Premier and Cabinet falling victim to a suspected email spoofing scam. Bogus emails appeared to have been sent from the email account of the Director-General.

This attack is not an isolated incident. It follows last year's attack on the websites of Queensland's Department of Education and Queensland TAFE, where hackers gained access to data submitted via online feedback and enquiry forms. In response to these attacks, the [Queensland Government](#) will spend \$12.5 million over four and a half years to form a Cyber Security Unit to combat cyber threats and attacks on the public sector's networks.

Key risks for agencies are:

- operational disruption

- financial loss
- reputational damage
- loss of data and privacy.

In ASIC's [Report 429](#) 'Cyber resilience: Health check', cyber resilience is defined as the ability to prepare for, respond to and recover from a cyber attack. Resilience is more than just preventing or responding to an attack, but takes into account the ability to adapt, recover and learn from it.

Agencies may find ASIC's 'Health check prompts' useful to assess the cyber risks they are exposed to and improve their cyber resilience. The self-assessment asks preparers to consider cyber-risk in the context of:

- governance
- identification
- protection
- detection
- response
- recovery
- the regulatory context.

Preparedness helps agencies minimise the risks from cyber-attack and respond effectively.

Audit Office of New South Wales

Margaret Crawford, NSW Auditor-General:

- presented at NSW Treasury's Finance Leadership Committee: Auditor-General's focus and expectations (21 July 2016)
- guest panel speaker at the Public Service Commission's leadership symposium: Future leaders in the public sector (25 July 2016)
- attended a panel discussion at ANZSOG's: Managing complexity (1 August 2016)
- attended CEDA Women in Leadership: Business practices that address workplace inequality (5 August 2016)
- attended Deloitte's Senior Leadership Forum: Public sector leaders as agents of change (8 August 2016)
- attended IPAA NSW Women's Executive luncheon (16 August 2016)
- attended CEDA luncheon NSW State of the State: Keynote address by the Premier (19 August 2016).





Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

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

- Public sector specific financial instruments (28 July 2016)
- Australia and Korea take lead role in improving consistency of global accounting (3 August 2016).

International Update – International Federation of Accountants (IFAC)

[Recent releases from IFAC](#) included:

- Engaging Professional Accountants in Business (27 July 2016).

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

[Latest new from IPSASB](#) included:

- IPSASB publishes SB Publishes Consultation Paper on Public Sector Specific Financial Instruments (27 July 2016)
- IPSASB issues Impairment of Revalued Assets (28 July 2016)
- IPSASB publishes IPSAS 39, Employee Benefits (28 July 2016).

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB has recently released:](#)

- Exposure Draft 04/16 Proposed Standard on Assurance Engagements ASAE 3100 Compliance Engagements (22 August 2016).

Comments are requested by 19 October 2016.

[AUASB Meeting Highlights – 26 July 2016:](#)

Topics discussed included:

- Presentation by the Institute of Internal Auditors Australia
- ASA 3100 Compliance Engagements
- Auditor Reporting Implementation
- Auditor Reporting – Special Purpose Reports – ED ASAs 800/805 and 810

- Revision of Audit Committees – A Guide to Good Practice – 2nd Edition
- Retiring AUASB Chairman.

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

[IAASB has recently released:](#)

- IAASB's Work Plan for 2017–18 and Continuing Relevance of Its Strategic Objectives (25 July 2016)
- Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements (15 August 2016).

[Highlights of IAASB Conference Call – 26 July 2016](#)

- The Audit Implications of External Assistance in Making an Accounting Estimate.

Treasury – NSW Government

The Treasury has recently issued the following circulars

- [TC16-09](#) Infrastructure Investor Assurance Framework (IIAF) (25 July 2016)
- [TC 16-10](#) Industrial Relations – Review of Meal, Travelling and other Allowances (2 August 2016)
- [TC 16-11](#) Mandatory principal arranged insurance (PAI) for all major capital works projects (15 August 2016).

Department of Premier and Cabinet

New ministerial circulars issued:

- [C2016-05](#)-Changes Affecting Government Lawyers (22 June 2016).

Public Service Commission (PSC)

The PSC has released the following Circular:

- [PSCC-2016-05](#) Determinations by the Statutory and Other Offices Remuneration Tribunal 2016 (1 August 2016).

NSW Procurement Board

[NSW Procurement Board recent Procurement alerts:](#)

- Now live: NGO registration scheme – human services (8 August 2016)





- Devolution of Contract 1002676 Waste audit services (12 August 2016).

Public Accounts Committee

The Public Accounts Committee has recently commenced [inquiries](#):

- Off-protocol prescribing of chemotherapy in New South Wales (11 August 2016)
- Enrolment capacity in inner city public primary schools (17 August 2016)
- Provision of education to students with a disability or special needs in government and non-government schools in New South Wales (24 August 2016).

The Public Accounts Committee recent [reports](#):

- Economic development in Aboriginal communities (7 July 2016)
- First Review of the Compulsory Third Party insurance scheme (19 August 2016).

Australian Securities and Investments Commission (ASIC)

Recent [speeches](#) included:

- The importance of corporate culture in improving governance and compliance (28 July 2016)
- Future priorities for ASIC and the financial system: Building trust and confidence in our financial markets (29 July 2016).

ASIC [media releases](#) included:

- 16-243MR ASIC consults on communicating audit findings to directors, audit committees or senior managers (25 July 2016).

Australian Prudential Regulation Authority (APRA)

Recent [media releases](#) included:

- APRA releases superannuation statistics for June 2016 (23 August 2016).

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

Recent ACNC [releases](#) included:

- A win for the ACNC is a win for charities (28 July 2016).

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Annual Audit Work Program 2016: Introduction (29 July 2016)
- ANAO 2016-20 Corporate Plan (29 July 2016)
- Opinions Winter 2016 (5 August 2016).

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

- Health sector: Results of the 2014–15 audits (3 August 2016).

Victorian Auditor-General's Office (VAGO)

- Enhancing Food and Fibre Productivity (17 August 2016).

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

- Opinions on Ministerial Notifications (11 August 2016)
- Annual Report 2015–2016 (16 August 2016)
- Information and Communication Technology (ICT) in Education (17 August 2016).

Useful Resources

Commonwealth Government Treasury

- Tax reform and policy for an economy in transition (18 August 2016).

Productivity Commission

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

- How to assess the superannuation system's performance (2 August 2016).

Australian Competition & Consumer Commission (ACCC)

ACCC [media releases](#) included:

- Privatisation needs smarter regulation (4 August 2016).

Association of Superannuation Funds of Australia (ASFA)

- [Media Release](#) – Equity, sustainability and adequacy are key to super (18 August 2016).

Water Accounting Standards Board (WASB)

[Latest news from WASB](#) included:

- Accounting for valuable water resources (11 August 2016).





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