

Professional update

Accounting and auditing developments |



July 2012

Hot Topics

Current vs Non-Current Debt Classification

The recent Centro decision by the Federal Court found the Directors of the Centro Property Group had breached their duty of care and diligence because they were ultimately responsible for misclassifying billions of dollars of debt as non-current liabilities when it was actually current.

Although this was a balance sheet misclassification issue, with no financial impact on the 'bottom line', the ramifications were extremely serious, because it gave users of the financial statements the impression the company was more solvent than it was.

In the current economic climate preparers and auditors of 30 June 2012 financial statements should be mindful of the potential impact and consequences of such misstatements.

ASIC has identified the current vs non-current classification issue as an area of focus for 30 June 2012 financial reports.

AASB 101 'Presentation of Financial Statements' para. 69 states an entity shall classify a liability as current when any of the following apply:

- it expects to settle the liability in its normal operating cycle
- it holds the liability primarily for the purpose of trading
- the liability is due to be settled within twelve months after the reporting period
- it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Agencies should review debt agreements/covenants to determine if any of the following conditions exist:

- renewal of the agreement is subject to an annual review clause
- the financing facility expires within twelve months after year end
- a breach or default of any term or condition has occurred.

If one or more of these conditions exist, the entity may not have the unconditional right to defer settlement of the liability and must classify it as current.

Workers Compensation Amendments

The [Workers Compensation Legislation Amendment Bill 2012](#) received royal assent on 27 June 2012. Agencies should ensure staff are aware of the changes and they have internal processes in place to comply with new requirements.

Because the bill was substantively enacted at year end, agencies that self-insure must assess the impact of these amendments on their workers compensation provision and ensure this is reflected in the 30 June 2012 financial statements.

The bill includes the following amendments:

- journey claims are limited to those where there is a substantial connection

This edition includes:

- **Current vs non-current debt classification**
- **Workers compensation amendments**

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between the person's employment and the incident that caused the injury

- the amount and duration of weekly workers compensation benefit payments are dependent on the worker's pre-injury average weekly earnings, extent of incapacity and ability to return to work
- workers receiving weekly benefits will be subject to work capacity assessments throughout the life of their claim and at least every two years thereafter
- the injured worker's entitlement and the employer's liability for medical, hospital and rehabilitation expenses are capped after 12 months
- the eligibility criteria to receive lump sum compensation is limited
- injuries covered by the workers compensation scheme are limited
- new insurers are allowed to enter the workers compensation market
- new measures will ensure workers and employers comply with return to work obligations.

The changes affect all new and existing workers compensation claims, but exclude claims from:

- police officers, paramedics and firefighters
- workers injured while working in or around a coal mine
- emergency service volunteers (Rural Fire Service, Surf Life Savers, SES volunteers)
- dust disease claims under the *Workers Compensation (Dust Diseases) Act 1942*.

Useful fact sheets and FAQs about the reforms are available from the [WorkCover](#) website.

Accounting Update

Australian Update

The AASB recently approved the following standards:

- [AASB 2012-2](#) 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities', to require disclosure of netting arrangements
- [AASB 2012-3](#) 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities', to provide application guidance

- [AASB 2012-4](#) 'Amendments to Australian Accounting Standards – Government Loans', amends AASB 1 to require prospective application of requirements for certain government loans
- [AASB 2012-5](#) 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'
- [AASB 1048](#) 'Interpretation of Standards' (revised), to require application of the Interpretation that are within the scope of the standard.

AASB 2012-2, AASB 2012-4 and AASB 2012-5 apply to reporting periods beginning on or after 1 January 2013. AASB 2012-3 applies to reporting periods beginning on or after 1 January 2014. AASB 1048 applies to reporting periods ending on or after 30 June 2012.

[Staff Paper – Possible Financial Reporting Implications for the Fixed Price Phase of the Carbon Pricing Mechanism for Emitter Entities](#)

This paper identifies the key financial reporting issues that may arise for emitter entities during the fixed price phase of the carbon pricing mechanism, and possible ways to account for those issues under current Australian Accounting Standards.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 12 to 14 June 2012](#)

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

- the scope of the Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit and Loss (FVPL) measurement category for debt instruments
- accounting for an investment entity subsidiary by either an investment or non-investment entity parent
- measurement methods of aspects of insurance contracts
- lessee and lessor accounting.

Other topics discussed at the IASB meeting included:

- a review of the IFRS for Small to Medium-Sized Entities (SMEs)
- implications of the measurement method of aspects of insurance contracts
- consequential amendments to IAS 28 'Investment in Associates and Joint Ventures' proposed in the 'Investment Entities' exposure draft





- issues arising from the IFRS Interpretations Committee relating to IAS 28 'Investments in Associates and Joint Ventures' and IFRS 1 'First Time Adoption of IFRSs'
- the post-implementation review of IFRS 8 'Operating Segments'.

International Update – International Valuation Standards Council (IVSC)

The IVSC released [Exposure Draft: The Role of the Professional Valuer in the Audit Process](#) (comments close 15 September 2012) to help professional valuers better understand:

- the role of the auditor
- how they can help auditors and entities during the audit process.

International Update – International Federation of Accountants (IFAC)

IFAC has recently released:

- [video highlights](#) from The Sovereign Debt Crisis Seminar: a Matter of Urgency – From Lessons to Reform
- [Policy Position Paper 5: A Definition of the Public Interest](#)
- [International Good Practice Guidance: Evaluating and Improving Internal Control in Organisations](#).

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

The IPSASB released a Consultation Paper on [Public Sector Combinations](#) that presents possible accounting treatments for public sector combinations in the general purpose financial statements of public sector entities. Comments close 31 October 2012.

[IPSASB Meeting Highlight – 11 to 14 June 2012](#)

The Board discussed the following topics:

- Consultation Paper 'Public Sector Combinations'
- Consultation Paper 'IPSASs and Government Finance Statistics Reporting Guidelines'
- Conceptual Framework 'Phase 2 – Elements and Recognition in Financial Statements' and 'Phase 3 – Measurement of Assets and Liabilities in Financial Statements'
- requirements of entities applying accrual IPSASs for the first time
- impact of revisions and amendments IFRS that will flow

onto:

- IPSAS 6 'Consolidated and Separate Financial Statements'
- IPSAS 7 'Investments in Associates'
- IPSAS 8 'Interests in Joint Ventures'

- Consultation Paper 'Consultation on IPSASB Work Program 2013–2014'.

Auditing Update

Australian Update

The AUASB issued [ASAE 3410 'Assurance Engagements on Greenhouse Gas Statements'](#) applicable to reasonable or limited assurance engagements on greenhouse gas emissions statements. The new standard follows the release of its international equivalent ISAE 3410 of the same name, and is effective for reporting periods commencing on or after 1 July 2012.

[AUASB Meeting Highlights – 4 June 2012](#)

Topics discussed include:

- harmonisation with New Zealand auditing and assurance standards
- ASAE 3450 'Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information'
- ASAE 3420 'Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus'
- ASA 570 'Going Concern'.

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

This IAASB issued [Invitation to Comment \(ITC\): Improving the Auditor's Report](#) to seek feedback on its suggestions to improve auditor reporting. Comment period closes 8 October 2012.

[IAASB Meeting Highlights – 11 to 15 June 2012](#)

Topics discussed include the following:

- the ITC regarding auditor reporting
- ISRE 2400 (Revised) 'Engagements to Review Historical Financial Statements'
- ISAE 3000 (Revised) 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information'.





Ethics Update

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

APESB issued [Exposure Draft \(ED\) 02/12 APES 215 'Forensic Accounting Services'](#), with comments invited by 31 August 2012.

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

[IESBA Meeting Highlights – 18 to 20 June 2012](#)

The IESBA discussed specific items within the Code of Ethics for Professional Accountants such as:

- requirements relating to a suspected illegal act
- guidance to address conflicts of interest
- definition of 'Those Charged with Governance'
- comments from a previous exposure draft relating to breaches of the code
- how the structure of the code could be improved
- safeguards to reduce familiarity and self-interest threats, including changes to audit firm rotation requirements.

Legislative Update

[Corporations Legislation Amendment \(Audit Enhancement\) Bill 2012](#)

This bill, which received Royal Assent on 27 June 2012, amends the:

- *Corporations Act 2001* to address auditor rotation and transparency reporting requirements for audit firms in certain circumstances
- *Australian Securities and Investments Commission Act 2001* to revise the function of the Financial Reporting Council and increase the scope of ASIC's powers.

The Commonwealth Treasury also released [exposure draft regulations](#) that prescribe the information required in an auditor's Annual Transparency Report.

Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [C2012-12](#) Reserve Forces Day Parades
- [C2012-13](#) Consultative Arrangements: Policy and Guidelines (2012): updates previous policy and guidelines in C1997-53
- [M2012-06](#) Legislative Program – Spring Sitzings 2012
- [M2012-07](#) Reduction of accrued recreation leave balances: requires Directors General and Chief Executives to reduce balances to 30 days or less by 30 June 2015
- [M2012-08](#) Use of Biofuels: requires all NSW Government agencies, including State Owned Corporations, to use E10 and biodiesel blends where possible.

Australian Securities and Investments Commission (ASIC)

[12-140MR ASIC'S areas of focus for 30 June 2012 financial reports](#) include:

- revenue recognition and expense deferral policies
- asset values and the disclosure of associated assumptions
- off-balance sheet arrangements
- going concern assessments.

This media release also provides details of ASIC's review of financial reports for the financial reporting period ending 31 December 2011.

Some recent consultation papers and reports released:

- [CP 179](#) Australian market structure: Draft market integrity rules and guidance. Comments close 6 August 2012
- [Report 290](#) Response to submissions on CP 168 Australian equity market structure: Further proposals

Australian Prudential Regulation Authority (APRA)

APRA released discussion paper [Implementing Basel III capital reforms in Australia: reporting requirements](#) and two draft supporting standards to reflect the changes to APRA's capital requirements necessary to adopt the Basel III capital reforms. The documents are open for comment until 3 August 2012.

APRA also released discussion paper [Review of capital standards for general insurers and life insurers – proposed revisions to reporting requirements](#) for comment until 17 August 2012.





Audit Office of New South Wales

Peter Achterstraat, New South Wales Auditor-General:

- presented on ICT Portfolio Implementation and Governance as the closing keynote speaker at the FutureGov Forum (21 June 2012)
- briefed new parliamentarians' electorate staff with a Vital Information Session (26 June 2012)
- presented 'Implementing and delivering good corporate governance – the lighthouse framework' as part of the Ernst & Young Director Briefing Series Forum (28 June 2012).

Auditor-General's Performance Audit Reports to Parliament

[Managing Overtime: RailCorp and Roads and Maritime Services](#)

The audit examined how well RailCorp and Roads and Maritime Services managed overtime and concluded that more needed to be done to reduce the levels of overtime to an acceptable level for operational purposes.

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Report 55: Administration of the Digital Television Switchover Household Assistance Scheme
- Report 54: The Engagement of External Debt Collection Agencies
- Report 53: Records Management in the Australian Public Service
- Report 52: Gate Reviews for Defence Capital Acquisition Projects
- Report 51: Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2012
- Report 50: Processing and Risk Assessing Incoming International Air Passengers
- Report 49: Security Assessments of Individuals
- Report 48: Administration of Mental Health Initiatives to Support Younger Veterans
- Report 47: Small Business Superannuation Clearing House
- Report 46: Administration of the Northern Australia Quarantine Strategy
- Report 45: Administration of the Health and Hospitals Fund

- Report 44: Administration of the Primary Care Infrastructure Grants Program
- Report 43: National Partnership Agreement on Remote Service Delivery

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

- Reviewing financial management in central government
- Realising benefits from six public sector technology projects
- Annual Plan 2012/13
- District health boards: Quality annual reports
- Fraud awareness, prevention, and detection in the public sector

Queensland Audit Office (QAO)

- Report 5: 2012 – Results of audits – Internal control systems
- Report 4: 2012 – Managing employee unplanned absence

Tasmanian Audit Office (TAS AO)

- Report of the Auditor-General No. 1 of 2012–13 – Sale of TOTE Tasmania
- Report of the Auditor-General No. 12 of 2011–12 – Follow up of Special Reports 75–81
- Report of the Auditor-General No. 11 of 2011–12 – Updating the Motor Registry System
- Report of the Auditor-General No. 10 of 2011–12 – Public Trustee: management of minor trusts
- Report of the Auditor-General No. 9 of 2011–12 – Volume 6: Other State entities 30 June 2011 and 31 December 2011

Victorian Auditor-General's Office (VAGO)

- Obsolescence of Frontline ICT: Police and Schools (2011 – 12:35)
- Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm (2011 –12:34)

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

- Information Systems Audit Report (items covered: security of online transactions, follow-up audit on cyber security in government agencies) (10/2012)
- Public Sector Performance Report 2012 (regional procurement; Department of Commerce support to the Plumbers Licensing Board; and ministerial decision not to provide information to parliament on the amount of funding Tourism WA provided for the Perth International Arts Festival)(9/2012)





- [New Recruits in the Western Australia Police \(8/2012\)](#)
- [Pharmaceuticals: Purchase and Management of Pharmaceuticals in Public Hospitals \(7/2012\)](#)

Miscellaneous Resources

Institute of Chartered Accountants Australia (ICAA)

- [Essential Guidance Note](#): to assist financial statement preparers, auditors and directors for the 30 June 2012 financial reporting season
- [Governance, Risk and Compliance](#): a paper that examines how a strategic approach to governance, risk and compliance provides organisations with a framework that supports the corporate strategy and helps senior management to manage risks when it arises.

Certified Practising Accountants Australia (CPA Australia)

CPA Australia released these flowcharts which summarise the new not-for-profit reporting and auditing requirements that will affect charities when they come into effect on 1 July 2013:

- [Financial Reporting Flowchart](#)
- [Auditing and Reporting Flowchart.](#)

Independent Pricing & Regulatory Tribunal (IPART)

IPART has released [new publications](#) relating to the Water, Electricity, Gas, Transport and Local Government Industries.

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