

Professional update

Accounting and auditing developments |



July 2013

Hot topics

Standard setters move to prohibit external auditors 'directing' the work of internal auditors

The Financial Reporting Council (FRC) in the UK has announced it will **prohibit** direct assistance by internal auditors to external auditors on engagements beginning on or after 15 June 2014. After considerable discussion, the Auditing and Assurance Standards Board (AUASB) have indicated they will follow the UK approach, even though the International Auditing and Assurance Standards Board's (IAASB) recently revised International Standard on Auditing [ISA 610](#) Using the Work of Internal Auditors still allows direct assistance (with additional requirements and guidance).

Meeting notes from the 25 February meeting for the AUASB record:

The AUASB formed the view that the IAASB's amendments to ISA 610 to allow direct assistance by internal auditors on external audit engagements are inappropriate in the context of independent external audits undertaken in Australia. Accordingly, the AUASB agreed by majority vote, to not adopt the IAASB's direct assistance provisions in the recently issued ISA 610, but to incorporate the remaining revisions in ASA 610 (Revised).

The AUASB and the UK FRC feel direct assistance is a threat to auditor independence, as internal audit is employed by management and is therefore at least to some extent, subject to the direction and control of management. A number of other European jurisdictions, including France and Germany, have similar existing prohibitions on direct assistance.

The AUASB has deferred a final decision on this matter until its 29 July 2013 meeting. The AUASB expects that by this date the APESB and ASIC will have determined their positions on this matter and any potential impacts on ASA 610 from their decisions, particularly changes (if any) to APES 110 Code of Ethics for Professional Accountants.

If the AUASB follows the UK in prohibiting direct assistance by internal auditors to external auditors:

- it represents a significant difference between the ISAs and the ASAs (the *Corporations Act 2001* is currently the source of most existing differences. These are generally in the form of additional paragraphs)
- it rebuffs the commonly held belief that one of the goals of internal audit should be to, as far as possible, reduce the cost of the external audit.

External auditors will still be able to use the work of internal auditors, where that work happens to be in a form and of a nature suitable for that purpose, but they will no longer be able to direct the focus or output of the internal audit team.

IASB and FASB propose changes to lease accounting

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (US) (FASB) have published for public comment, Exposure Draft [ED 2013/6 Leases](#) (Revised) outlining proposed changes to accounting for leases.

This edition includes:

- **Standard setters move to prohibit external auditors to 'direct' work of internal auditors**
- **IASB and FASB propose changes to lease accounting**

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The proposal aims to improve the quality and comparability of financial reporting by providing greater transparency about leverage, the assets an organisation uses in its operations and the risks to which it is exposed from entering into leasing transactions.

Under the existing accounting standard, AASB 117 Leases, a majority of leases are not reported on a lessee's balance sheet. In some instances the leased assets are recorded on neither the lessee nor the lessor's balance sheet. This led to criticism of the existing standards for failing to provide a faithful representation of leasing transactions.

Existing models require lessees and lessors to classify leases as either finance leases or operating leases, based on a comparison of the lease term and the economic life of the underlying asset. For finance leases, a lessee recognises (and a lessor derecognises) lease assets and liabilities on balance sheet. For operating leases, a lessee does not recognise lease assets or liabilities on the balance sheet.

The Boards have developed an approach to lease accounting that would require a lessee to recognise assets and liabilities for the rights and obligations created by leases. A lessee would recognise assets and liabilities for leases of more than 12 months.

The most significant changes to the initial ED include:

- 'dual model' for lessees and lessors
- more consideration of options to extend leases, when measuring lease assets and liabilities
- simplified treatment of many types of variable lease payments
- new guidance on applying the concepts of 'identified asset' and 'control' when determining whether a contract contains a lease.

The Boards also propose disclosures to help investors and other users of financial statements understand the amount, timing, and uncertainty of cash flows from leases.

The revised ED allows entities to apply a full retrospective approach or to elect certain reliefs to reduce the transition burden. Preparers will need to apply the guidance to all leases existing as of the beginning of the earliest comparative period presented (that is, no grandfathering).

The Boards are also proposing changes to how equipment and vehicle lessors would account for leases that are off-balance-

sheet. Those changes would provide greater transparency about such lessors' exposure to credit risk and asset risk.

The release of the revised ED on Leases represents the next stage in consultation on this complex area of accounting. However a final standard is not expected before 2014 and an effective date is unlikely before 2017.

Query of the Month



Current disclosure requirements regarding related party relationships, transactions and balances depend on the type of entity. Historically, public sector agencies have not had to make the extensive disclosures required of private sector not-for-profit and for-profit entities. Agencies must report certain information where required to by legislation, however, very little is required by [AASB 124 Related Party Disclosures](#). This is because:

- not-for-profit public sector entities are virtually exempt from all requirements
- for-profit public sector entities currently are allowed a partial exemption from disclosing transactions with the government that controls it or with another entity controlled by the same government. This partial exemption does not extend to disclosures of transactions with, and remuneration of, key management personnel and their close family members.

However, in Exposure Draft ED 214 Extending Related Party Disclosures to the Not-for-Profit Public Sector, the Australian Accounting Standards Board (AASB) has put the Public Sector on notice that for financial years ending on or after 30 June 2014 most existing exemptions will be removed. Significant related party disclosures will be required for all entities in the not-for-profit public sector if the ED is released as a standard in its current form. It is important for agencies to review their systems for capturing and reporting this information now, because comparative information about related party disclosures will be required in 30 June 2014 financial





statements. Systems must be able to:

- identify related parties such as key management personnel, their close family members and their business interests, agencies and entities which are part of the reporting entity, which they control, jointly control or over which they exert significant influence
- identify related party transactions, balances and commitments with those parties and summarise the information for reporting purposes.

Even though disclosure requirements for most NSW agencies are minimal, auditors are nonetheless required by auditing standards to perform certain procedures. The auditor must obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the financial report, insofar as it is affected by those relationships and transactions is:

- fairly presented and not misleading
- affected by one or more fraud risk factors, because fraud is more easily committed through related parties.

[ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report](#) acknowledges related parties are a particular fraud risk to which auditors must respond. [ASA 550 Related Parties](#) specifically deals with the auditor's required response. This involves:

- understanding the nature of related party relationships and transactions
- understanding the requirements of the financial reporting framework
- identifying, assessing and responding to the risks of material misstatement arising from the application of the disclosure requirements in the framework.

Auditors must perform, and clients should therefore expect, a certain level of work to obtain the audit evidence necessary to comply with standards, and respond to fraud and non-disclosure risks appropriately. This may involve inspecting the client's own systems for capturing and recording this information, and/or obtaining specific representations from KMPs within agencies.

Resources and references:

[ED 214 Extending Related Party Disclosures to the Not-for-profit Public Sector](#) including the Basis for Conclusions

[KPMG Reporting Update 11RU-014 Extending Related Party Disclosures to the Not-for-Profit Public Sector](#)

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.

Audit Office of New South Wales

Peter Achterstraat, New South Wales Auditor-General:

- spoke at the Department of Family and Community Services Workshop on Public Sector Governance – 'Governance in Government Entities' (4 June 2013)
- presented to the State Audit Office of Vietnam on the role of the Auditor-General (5 June 2013)
- attended the Australian Business Economists lunchtime briefing – The Treasurer's post-Budget lunch: 'Delivering on our promises in a challenging fiscal environment' (19 June 2013)
- presented at the Department of Finance and Services on 'NSW Information Security Community of Practice – Taking Security Further' (19 June 2013)
- presented at the IIR Conference - 13th Annual Fraud Summit on 'Fraud in the Public Sector' (24 June 2013)
- presented 'What today's leaders want in tomorrow's leaders' at the Roads and Maritime Services Leaders Forum (26 June 2013)
- attended the Australian Council of Auditors-General business meeting in Brisbane (11 July 2013).

Auditor-General's Performance Audit Reports to Parliament

- On 17 July 2013 the Auditor-General released the report '[Managing operating theatre efficiency for elective surgery](#)'.

This audit examined how well elective surgery is being managed in the NSW public health system. It found that NSW public hospitals are performing more elective surgery than in previous years and are treating patients substantially within national clinical timeframes. However, more operations will be needed as targets are getting tighter and demand is growing. 'The hospital's engine room needs a tune up. With more efficient management practices, more elective surgery can be





achieved,' said the Auditor-General.

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

- The AASB has issued:
 - [AASB 2013-3](#) Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets
 - [ED 243](#) Withdrawal of AASB 1031 Materiality – comments close 23 August 2013
 - the [second batch of compiled versions of standards](#) that apply to financial years beginning on or after from 1 January 2013
 - [Interpretation 21 Levies](#)
 - [ED 244](#) a limited scope on accounting for insurance contracts
 - [ED 245](#) Agriculture: Bearer Plants – comments close 1 October 2013
 - [Tier 2 Supplement to ED 237](#) Financial Instruments: Expected Credit Losses
 - [Tier 2 Supplement to ED 230](#) Classification and Measurement: Limited Amendments to AASB 9.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 18-19 June 2013](#)

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

- financial instruments: classification and measurement
- comprehensive review of IFRS for SMEs
- IFRIC update
- annual improvements to IFRSs 2011 to 2013 cycle.

The IASB has [released/published/issued](#):

- a Discussion Paper on the Conceptual Framework
- IFRS for SMEs Fact Sheet has been updated.

[IASB Podcasts](#).

Recent podcasts released by IASB:

- financial instruments (June 2013).

International Update – International Valuation Standards Council (IVSC)



IVSC has released:

- Exposure Draft: [The Valuation of Equity Derivatives](#)
Comments close 30 September 2013.

International Update – International Federation of Accountants (IFAC)

IFAC has recently [released](#):

- Good Governance in the Public Sector (17 June 2013)
- IAESB Strategy and Work Plan (3 July 2013)
- [Boosting the Quality and Efficiency of Smaller Entity Audits](#) (10 July 2013).

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

[IPSASB Meeting Highlight – 17 to 20 June 2013](#)

The Board discussed the following topics:

- an update on Conceptual Framework elements
- Recommended Practice Guidelines (RPG), Reporting on Long-term Sustainability of Public Finances
- RPG, Financial Statement Discussion and Analysis.

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

AUASB has released:

- [Amending Standard ASA 2013-3](#) comprising minor amendments to the Auditing Standards relating to typographical errors and other editorial corrections, along with the relevant compiled standards, and Amended Standard on Related Services, ASRS 4400 Agreed upon Procedures Engagements to Report Factual Findings.

[AUASB Meeting Highlights – 17 June 2013](#)

Topics discussed by the AUASB at its meeting included:

- ASA 610 Using the Work of Internal Auditors
- assurance engagements on controls
- explanatory guide to review engagement standards
- the integrated reporting framework
- international matters
- GS 009 Auditing Self-Managed Superannuation Funds – the Board approved the project plan to update this guidance statement.



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

[IAASB Meeting Highlights – 24 to 28 June 2013](#)

Topics discussed by the IAASB at its meeting included:

- the IAASB approved the following proposed new and revised International Standards on Audit (ISAs) for exposure – ISAs 260, 570, 700, 701, 705, 706
- comment letter responses on the exposure draft of proposed ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon.

Ethics Update

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

The APESB has issued:

- revised [APES 310 Dealing with Client Monies](#) (12 July 2013)

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

[IESBA Meeting Highlights – 10 to 12 June 2013](#)

Topics discussed by IESBA at its meeting included:

- a professional accountant's responsibilities when encountering a suspected illegal act
- issues in the project to review Part C of the Code of Ethics for Professional Accountants, addressing professional accountants in business
- provision on non-assurance services to an audit client
- its future Strategy and Work Plan for 2014 to 2016
- long association of senior personnel (including partner rotation) with an audit client
- emerging issues and outreach
- the IESBA approved for issuance a revised definition of 'those charged with governance' and related changes to the Code of Ethics for Professional Accountants. The changes will be effective from 1 July 2014.

Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [M2013-05](#) Legislative Program – Spring Sitzings 2013 (28 June 2013)
- [M2013-06](#) NSW Government Boards and Committees Guidelines (5 July 2013)
- [C2013-05](#) Cabinet Standing Committee on Expenditure Review – Procedures and Operational Rules – 2013 (9 July 2013)

Public Service Commission (PSC)

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

- PSCC 2013-04 SES/Senior Officer Motor Vehicle Charges
- PSCC 2013-05 National Aborigines and Islanders Day Observance Committee (NAIDOC) Week 2013
- PSCC 2013-06 Performance Development Framework
- PSCC 2013-07 Senior Executive Service – Notional Salary 2013-2014
- PSCC 2013-08 Increase in Parking Space Levy 2013-2014

Public Accounts Committee

Inquiries

The NSW Parliament's Public Accounts Committee (PAC) has commenced the [Cogeneration and Trigeneration in New South Wales](#) inquiry. The PAC will examine and report on the installation and use of cogeneration/trigeneration technology in New South Wales. In particular, the committee will address the adequacy of the current regulatory framework in supporting precinct developments, regulatory arrangements, and the operation of cogeneration/trigeneration technology, its economic viability, financial or public safety risks to prospective customers, and supply security and reliability issues. Submissions close 4 September 2013.

Reports

[Reports tabled](#) in NSW Parliament:

- The closure or downsizing of Corrective Services NSW facilities (14 June 2013)
- Adequacy of water storages in New South Wales (26 June 2013)
- Report on electioneering, campaigning and doorknocking, and the role of electorate officers (28 June 2013)





Department of Finance and Deregulation

Finance Circular

- [No. 2013/04](#) Reduced Press Advertising for Open Approaches to Market (25 June 2013)

Australian Securities and Investments Commission (ASIC)

Recent [regulatory guides](#) released:

- [RG 249](#) Derivative trade repositories (July 2013)

Recent [consultation papers](#) released:

- CP 211 Facilitating electronic offers of securities: Update to RG 107
- CP 212 Licensing: Training of financial product advisors – Updates to RG 146

Recent [reports](#) released:

- Report 348 Response to submissions on CP 188 Managed investments: Constitutions – Updates to RG 134 (13 June 2013)
- Report 349 Market assessment report: Eurex Frankfurt AG (5 June 2013)
- Report 350 Response to submissions on CP 193 Takeovers, compulsory acquisitions and substantial holdings (21 June 2013)
- Report 351 Response to submissions on CP 176 Review of ASIC policy on platforms: Update to RG 148 (28 June 2013)
- Report 352 Response to submissions on CP 194 Financial requirements for custodial or depository service providers (28 June 2013)
- Report 353 Further review of term deposits
- Report 354 Market assessment report: London Metal Exchange (3 July 2013)
- Report 355 Market assessment report: BGC Partners (Australia) Pty Limited (3 July 2013)
- Report 356 Response to submissions on CP 201 Derivative trade repositories (11 July 2013)
- Report 357 Response to submissions on CP 205 Derivative transaction reporting (11 July 2013)
- Report 358 Review of credit assistance providers' responsible lending conduct relating to debt consolidation (18 July 2013)

- Report 359 Report on the Australian OTC Derivatives Market – July 2013 (17 July 2013)

ASIC [Media Releases](#):

- 13-160MR Focuses for 30 June 2013 financial reports
- 13-164MR ASIC announces surveillance on analyst briefing
- 13-165MR ASIC enforces standards in takeovers
- 13-171MR OTC derivatives reform – ASIC implements reporting regime
- 13-178MR Professional Investment Services enters into monitoring program
- 13-182MR ASIC review of debt consolidation sector highlights weaknesses in industry practice and risks for consumers.

Australian Prudential Regulation Authority (APRA)

Recent APRA releases:

- final package on disclosure of composition of capital and remuneration (26 June 2013)
- results of third stakeholder survey (12 July 2013).

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

Recent ACNC releases:

- ACNC six month progress report
- Commissioner's Column – 16 July 2013.

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Report 41: The Award of Grants Under the Supported Accommodation Fund (31 May 2013)
- Report 42: Co-location of the Department of Human Services Shopfronts (6 June 2013)
- Report 43: Establishment, Implementation and Administration of the General Component of the Local Jobs Stream of the Jobs Fund (12 June 2013)
- Report 44: Management and Reporting of Goods and Services Tax and Fringe Benefit Tax Information (13 June 2013)
- Report 45: Cross-Agency Coordination of Employment





Programs (17 June 2013)

- Report 46: Compensating F-111 Fuel Tank Workers (18 June 2013)
- Report 47: AUSTRAC's Administration of its Financial Intelligence Function (18 June 2013)
- Report 48: Management of the Targeted Community Care (Mental Health) Program (19 June 2013)
- Report 49: Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2013 (20 June 2013)
- Report 50: Administration of the GP Super Clinics Program (20 June 2013)
- Report 51: Management of the Australian Tax Office's Property Portfolio (24 June 2013)
- Report 52: Management of Debt Relief Arrangements (25 June 2013)
- Report 53: Agencies' Implementation of Performance Audit Recommendations (25 June 2013)
- Report 54: Administration of Government Advertising Arrangements: August 2011 to March 2013 (26 June 2013)
- Report 55: Indigenous Employment: The Australian Government's Contribution to the Australian Employment Covenant (26 June 2013)

ANAO [Better Practice Guides](#):

- Preparation of Financial Statements by Public Sector Entities (19 June 2013)
- Human Resource Management Information Systems: Risks and Controls (20 June 2013)

ANAO [Corporate Publications](#):

- ANAO Agency Multicultural Plan for 2013 to 2015 (26 June 2013)
- ANAO Strategic Statement (28 June 2013)

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

- Learning from public entities' use of social media (June 2013)
- Annual Plan 2013/14 (June 2013)
- Managing public assets (June 2013)
- Insuring public assets (June 2013)
- Evolving approach to combating child obesity (June 2013)

Victorian Auditor-General's Office (VAGO)

- 2012-13:32 Infection Prevention and Control in Public Hospitals (12 June 2013)
- 2012-13:33 Organisational Sustainability of Small Councils (12 June 2013)
- 2012-13:34 Environment and Sustainability Sector: Performance Reporting (26 June 2013)
- 2012-13:35 Flood Relief and Recovery (26 June 2013)

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

- Fraud Prevention and Detection in the Public Sector (19 June 2013)
- Follow-up Performance Audit of Behind the Evidence: Forensic Services (19 June 2013)
- Records Management in the Public Sector (19 June 2013)
- Administration of the Patient Assisted Travel Scheme (26 June 2013)
- Supply and Sale of Western Australia's Native Forest Products (26 June 2013)
- Information Systems – Application Controls Audits (27 June 2013)
- Information Systems – General Computer Controls and Capability Assessments (27 June 2013)

Queensland Auditor-General's Office (QAO)

- Report 15: Enforcement and collection of parking fines (June 2013)
- Report 1: Right of private practice in Queensland public hospitals (July 2013)

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

- National Partnership Agreement on Homelessness (19 June 2013)

Useful Resources

Productivity Commission

The Productivity Commission [media releases](#):

- Regulators Need to do More for Small Business (3 July 2013)
- Deep and Persistent Disadvantage in Australia (11 July 2013)
- Geographic Labour Mobility Issues Paper Released (11 July 2013)





Independent Pricing & Regulatory Tribunal (IPART)

IPART has released [new publications](#) relating to electricity, water and gas industries.

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

- changes in regulated electricity prices from 1 July 2013 (17 June 2013)
- changes in regulated gas prices from 1 July 2013 (17 June 2013)
- the impact of green schemes on a typical residential electricity retail bill from 1 July 2013 (17 June 2013)
- Determination on solar feed-in tariffs in 2013-14 (28 June 2013)

Australian Competition & Consumer Commission (ACCC)

ACCC [media releases](#):

- ACCC seeks comment on updated merger process guidelines (1 July 2013)
- ACCC re-authorises milk supply arrangements (3 July 2013)
- ACCC negotiates removal of misleading 'organic' water claims (16 July 2013)

Australian Institute of Company Directors (AICD)

AICD media releases:

- Building better social outcomes through improved governance of NFPs (18 June 2013)
- Directors say scrap the tax on self-education (8 July 2013)

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