

Professional update

Accounting and auditing developments |



June 2014

Hot Topics

New Revenue Recognition Standard issued – what you need to know

The International Accounting Standards Board (IASB) and U.S. Financial Accounting Standards Board (FASB) have released a [new converged standard on revenue recognition](#).

The new standard from the IASB will be called IFRS 15 'Revenue from Contracts with Customers', and will replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and related interpretations. The Australian Accounting Standards Board (AASB) is expected to release an equivalent standard to IFRS 15 shortly.

IFRS 15 and its Australian equivalent will apply for financial years beginning on or after 1 January 2017.

Under IFRS 15, entities under contract to supply goods or services to a customer will have to follow a five-step process to recognise revenue:

1. identify the contract(s) with a customer
2. identify the separate performance obligations in the contract
3. determine the transaction price
4. allocate the transaction price to the separate performance obligations
5. recognise revenue when the entity satisfies each of the performance obligations.

IFRS 15 contains new guidance that will result in enhanced disclosure to help financial report users understand better the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Such disclosures will also have to address contract modifications and greater detail on multiple-element arrangements.

It would be prudent for entities to make an early start on understanding the ramifications of the new revenue standard as it may impact more than just the revenue line and note disclosures in their financial reports. The new standard may result in the need to:

- make IT systems changes to capture additional data (e.g. data used to make revenue transaction estimates and support disclosures)
- review wording in standard contracts with customers
- consider the impact of the new standard on multiple-element arrangement contracts with customers
- capture information required for comparative financial information disclosures in the year that the new standard becomes effective for an entity
- new training for sales, legal, IT and accounting staff, particularly for entities with sophisticated goods and services, and/or complex contracts.

This edition includes:

- **New Revenue Recognition Standard issued – what you need to know**
- **TPP 14-04 Financial Distributions Policy for Government Businesses**
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets re depreciation and amortisation**

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TPP 14-04 Financial Distributions Policy for Government Businesses

NSW Treasury has released [TPP 14-04 'Financial Distributions Policy for Government Businesses'](#). This Policy supersedes and withdraws TPP 09-6 'Financial Distributions Policy' and applies to financial distributions payable in respect of the 2013-14 financial year and financial years thereafter.

Key changes set out in TPP 14-04 from the previous policy are:

- the annual Statement of Corporate or Business Intent **no longer** creates a present obligation on the agency to pay a dividend
- the present obligation to pay a dividend is now established in May of each financial year through a process of formal recommendation and acceptance of a dividend, where:
 - the board recommends a dividend to shareholders and states the basis for the recommendation, and
 - shareholder ministers either accept or vary the recommendation
- the actual dividend payable will be determined in absolute dollar terms prior to year-end. Under the superseded policy, the actual dividend payable was determined after year-end once actual results were known, based on a formula determined prior to year-end
- the payment of dividends may exceed the balance of retained earnings at year-end, although Treasury expects this to occur only in limited circumstances (e.g. as a result of audit adjustments after year-end). Agencies' recommendations are nonetheless expected to preserve solvency and should not exceed the anticipated balance in retained earnings at year-end
- the policy now applies to commercial business units of general government agencies. These units were previously excluded from the coverage of the policy.

It is not anticipated that these changes will affect the timing of recognition of dividends payable. Agencies will recognise dividends in the year to which they relate provided shareholders formally accept the recommended dividend before year-end. Audit teams will need to verify the recommendation has been properly evidenced prior to 30 June of each financial year.

As dividends recognised by agencies will be determined prior to year-end, with no variation in the amount permitted, there may be instances where solvency issues arise after year-end. Audit teams will need to closely monitor this; ensuring letters of

comfort are obtained when necessary.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets re depreciation and amortisation

The International Accounting Standards Board (IASB) has published [amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets](#) to clarify appropriate methods for depreciation and amortisation of assets. The amendments are effective for annual periods beginning on or after 1 January 2016. Australia's AASB is expected to adopt these amendments shortly with the same effective date.

The amendments reflect the IASB's view that depreciation and amortisation must reflect the principle in IAS 16 and IAS 38 whereby depreciation/amortisation reflect the 'consumption of expected future economic benefits embodied in the asset'.

The IASB does not consider the revenue method to be appropriate because it does not reflect this principle. Instead, revenue methods represent the generation of economic benefits from the operation of the business of which an asset is a part.

The amendments to IAS 16 and IAS 38 are:

- under IAS 16, the revenue based method is not acceptable and is presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an asset
- IAS 38 presumes revenue based method is not an appropriate basis for amortisation. It does allow agencies to rebut this presumption in limited circumstances
- IAS 38 allows agencies to use the revenue method where it is the 'predominant limiting factor' in the contract for use of the intangible asset. IAS 38 provides examples of where this might be appropriate (refer to paragraph 98C).

Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (AASB 108 equivalent), changes in accounting estimates are accounted for prospectively and additional disclosures are required in the financial statements. The amendments to IAS 16 and IAS 38 are changes in accounting estimates and therefore will be accounted for prospectively.





Audit Office of New South Wales

Grant Hehir, NSW Auditor-General, presented at the:

- Suncorp Risk Services Audit and Risk Committee Chairpersons Breakfast, on behalf of NSW Treasury and the NSW Self Insurance Corporation (Office of Finance and Services)
- Ernst & Young Financial Reporting Update Executive Forum on “Preparing for the reporting season”
- Department of Planning Board on:
 - the role of the Auditor-General
 - challenges of good governance
 - the Lighthouse model; risk management to the achievement of organisational objectives.

Auditor-General's Financial Audit Reports to Parliament

- [Volume Two 2014 focusing on Universities](#) (27 May 2014)

Auditor-General's Performance Audit Reports to Parliament

- On 22 May 2014, the Auditor-General released the report '[Effectiveness of the New Police Death and Disability Scheme](#)'

The new police death and disability scheme introduced in January 2012, increased the focus on rehabilitating and returning officers to work. Injured officers can receive income protection benefits for up to seven years under the new scheme. Large lump sum payments for partial and permanent disability are no longer available.

The growing number of injured officers returning to work has increased the operational strength of NSW Police but is placing pressure on the force to find these officers appropriate roles, especially in commands outside metropolitan areas.

The overall cost of the new scheme is lower than for the previous scheme. The previous scheme's cost rose rapidly from \$69 million in 2005–06 to \$260 million in 2011–12. In 2012–13 the new scheme cost \$99.9 million and is estimated to cost \$126 million in 2013–14.

'To achieve the statutory cost target, the NSW Police Force must maintain the number of claims, payments and medical discharges close to current levels. This will provide more

certainty around potential costs which in combination with greater competition amongst insurers should lower the premium,' said the Auditor-General.

- On 5 June 2014, the Auditor-General released the report '[Use of purchasing cards and electronic payment methods](#)'

In December 2011, the NSW Government mandated the use of purchasing cards (pcards) for all transactions below \$3,000 and the replacement of cheques with Electronic Fund Transfers (EFTs) where applicable. Around 85 per cent of government transactions are below \$3,000.

This audit assessed whether the use of pcards and electronic payment methods for low value transactions is achieving the expected benefits.

The audit found that the government's initiative is in danger of stalling. Estimated gross savings of \$127.4 million over the first six years are unlikely to be achieved and ongoing annual savings of \$33 million are also at risk. Two years on, the uptake of pcards is low and not all departments have targets for the use of pcards and EFTs. The departments with potential to achieve most of the savings have made little progress. Expense management systems to streamline processes and maximise savings are not widely used. Treasury has not provided guidance and oversight to ensure consistent and timely implementation of the policy.

The audit recommended setting adoption targets, monitoring progress, making better use of bank's transactions data and enabling technologies, and providing incentive to encourage greater uptake of pcards.

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The AASB has [issued](#):

- [AASB 1056](#) Superannuation Entities
- invitation to comment – [ITC 31](#) Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Marco Hedging – May 2014. Comments to AASB by 19 September 2014
- comments on the IPSASB's Exposure Draft ED [Reporting](#).





[Service Performance Information](#) (3 June 2014)

- updated the AASB Standard-setting [Work Program](#) (4 June 2014).

[AASB Meeting Highlights – 28 to 29 May 2014](#)

Topics discussed included:

- ED248 Amendments to AASB 1053
- reporting entity concept
- Post-Implementation Review of IFRS 3
- related parties – Tier 2 amendments
- accounting for dynamic risk management
- replacement of AAS 25.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 20 to 22 May 2014](#)

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

- insurance contracts
- agriculture: bearer plants
- comprehensive review of the IFRS for SMEs
- leases
- equity method of accounting
- equity method: share of other net asset changes
- the Conceptual Framework
- recognition of deferred tax assets for unrealised losses (proposed amendments to IAS 12).

The IASB has published:

- the IFRS Foundation 2013 Annual Report (22 May 2014)
- IASB and FASB announce the formation of [Joint Transition resource Group for Revenue Recognition](#) (3 June 2014)
- [Exposure Draft Investment Entities](#) – Applying the Consolidation Exception – proposed amendments to IFRS 10 and IAS 28 (Comments close 15 September 2014).

[IASB Speeches and Presentations](#)

Recent speeches and presentations published by IASB include:

- at the IFRS conference in Singapore, Hans Hoovorst, Chairman of the IASB presented 'Charting Progress towards

global accounting standards' (29 May 2014)

- Philippe Danjou, IASB member, contributed an OECD round table discussion entitled 'Revisiting the accounting of long-term investment by institutional investors' (4 June 2014).

International Update – Interpretations Committee

[IFRIC Meeting Highlights – 13 to 14 May 2014](#)

The committee discussed the following topics:

- IFRS 11 Joint Arrangements – analysis of implementations issues
- IAS 12 Income Taxes – threshold of recognition of an asset in the situation is uncertain
- IAS 19 Employee Benefits – remeasurement at a plan amendment or curtailment
- IFRIC14/IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction – availability of refunds from a defined benefit plan managed by an independent trustee
- IAS 16 Property Plant and Equipment and IAS 2 Inventories – 'core inventories'.

International Update – Advisory Council

[IFRS Advisory Council Meeting Highlights – 9 to 10 June 2014](#)

The Council discussed:

- the Conceptual Framework
- use of judgement in financial reporting
- implementation support groups for new standards
- the IASB's Research Programme
- implementing effects analyses within the IASB's due process
- Post-Implementation Review for IFRS 3
- update on project activities.

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB Meeting Highlights – 10 June 2014](#)

Topics discussed by the AUASB at its meeting included:

- Revised Assurance Framework and ASAE 3000 and





Consequential Amendments to ASAE's 3402, 3410 and 3420

- Assurance on Controls
- GS 003 Audits of AFSL Licensees
- Grant Acquittals and Other Combined Assurance
- Convergence with IAASB Standards and Harmonisation with NZ Standards.

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

The IAASB has released exposure draft [Proposed Changes to the International Standards on Auditing \(ISAs\) – Addressing Disclosures in the Audit of Financial Statements](#). This exposure draft seeks views from stakeholders in relation to the International Standards on Auditing (ISAs) that address disclosures in the audit of financial statements. The proposals include new guidance to clarify expectations of auditors when auditing financial statement disclosures. Comments close 11 September 2014.

Ethics Update

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

The APESB have released the following exposure draft:

- Proposed Standard: [APES 330 Insolvency Services](#). Comments close 4 July 2014.

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

The IESBA recently released:

- [Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients](#) (19 May 2014).

The Treasury - NSW Government

New Treasury Policy Papers, Circulars and Research Papers

- [TPP 14-03](#) Government Guarantee Fee Policy for Government Businesses (May 2014)
- [TPP 14-04](#) Financial Distributions Policy for Government Businesses (May 2014)
- [NSW TC 14/08](#) Government Guarantee Fee Policy (20 May 2014)

- [NSW TC 14/09](#) Financial Distribution Policy for Government Businesses (27 May 2014).

Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [M2014-03](#) Sydney Opera House – Requirements Regarding the Use of the Sydney Opera House Site, Image or Brand (14 May 2014)
- [M2014-04](#) Making NSW Film Friendly (14 May 2014)
- [M2014-05](#) Changes to NSW Cabinet Process (22 May 2014)
- [M2014-06](#) ANZAC Bridge – Special Requirements Regarding Use for Commercial or Advertising Purposes (28 May 2014).

Public Service Commission (PSC)

The PSC has released the following circulars:

- [PSCC2014-07](#) National Aboriginal and Islander Observance Committee (NAIDOC) Week (4 June 2014).

Public Accounts Committee

Inquiries

The NSW Parliament's Public Accounts Committee has commenced the '[Follow up of the Auditor-General's 2013 Financial Audit Reports Inquiry](#)', examining certain agency responses to certain repeat recommendations made in the Auditor-General's Financial Audit Reports to Parliament during 2013. These recommendations have been identified as being of high priority for further investigation based on an assessment of their importance to the relevant agency and to the public sector as a whole.

Australian Securities and Investments Commission (ASIC)

Recent [consultation papers](#) released:

- [CP 220](#) Fundraising: Facilitating offers to CHESS Depository Interests (28 May 2014).

Recent [reports](#) released:

- [Report 393](#) Handling of confidential information: Briefings and unannounced corporate transactions (27 May 2014)
- [Report 394](#) Review of recent rule changes affecting dark





liquidity (19 May 2014)

- [Report 395](#) Overview of decisions on relief applications (October 2013 to January 2014) (26 May 2014).

Recent [speeches](#) released:

- Consumer credit regulatory update 2014 (14 May 2014)
- Financial innovation-driven complexity: Creating a dynamic landscape (30 May 2014).

ASIC [Media Releases](#):

- 14-103MR Former Perth director jailed for providing false and misleading information (16 May 2014)
- 14-105MR ASIC reports on dark liquidity rules (19 May 2014)
- 14-106MR ASIC updated public comment guide (20 May 2014)
- 14-113MR ASIC reports on decisions to cut red tape (26 May 2014)
- 14-114MR ASIC releases report on confidential information (26 May 2014)
- 14-115MR ASIC encourages platforms to review compliance with class orders (27 May 2014)
- 14-116MR ASIC proposals to facilitate foreign companies offering securities (28 May 2014)
- 14-120MR Focuses for 30 June 2014 financial reports (30 May 2014).

Australian Prudential Regulation Authority (APRA)

Recent [APRA releases](#):

- quarterly superannuation statistics for March 2014 (22 May 2014)
- draft prudential practice guide on residential mortgage lending (26 May 2014)
- quarterly authorised deposit-taking institution (ADI) statistics for March 2014 (27 May 2014)
- new statistics on life insurance (11 June 2014).

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

Recent [ACNC releases](#):

- Gaining insight into the Australian charity sector (30 May 2014)
- Supplementary Submission to the Senate Economics

Legislation Committee inquiry (June 2014)

- Commissioner's Column (3 June 2014)
- Additional information to be published to the ACNC Register (3 June 2014)
- ACNC passport ready to cut red tape for charities (11 June 2014).

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Report 32: Delivery of the Hearing Community Service Obligation (28 May 2014)
- Report 33: Indigenous Employment in Australian Government Entities (29 May 2014)
- Report 34: Implementation of ANAO Performance Audit Recommendations (29 May 2014)
- Report 35: Managing Compliance of High Wealth Individuals (4 June 2014)
- Report 36: The Administration of the Parliamentary Budget Office (5 June 2014)
- Report 37: Management of Services Delivered by Job Services Australia (11 June 2014).

ANAO [Better Practice Guides](#):

- Better Practice Guide – Administering Regulation (10 June 2014).

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

- New Zealand Customs Service: Managing Trade Assurance capability risks (May 2014)
- Schools: Results of the 2012 audits (15 May 2014)
- Health sector: Results of the 2012/12 audits (19 May 2014)
- Inquiry into the Plumbers, Gasfitters, and Drainlayers Board: Follow-up report (21 May 2014)
- Reflections from our audits: Our future needs – is the public sector ready? (22 May 2014)
- Local government: Results of the 2012/13 audits (26 May 2014)
- Watercare Services Limited: Review of service performance (26 May 2014).





Tasmanian Audit Office ([TAS AO](#))

- Auditor-General's Report on the Financial Statements of State entities, Volume 5: State entities 30 June and 31 December 2013, matters relating to 2012-13 audits and KPIs (19 May 2014)
- Report No 11 – Compliance with the Alcohol, Tobacco and Other Drugs Plan 2008-13 (29 May 2014)
- Summary Report: Compliance with the Alcohol, Tobacco and Other Drugs Plan 2008-13 (29 May 2014).

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

- 2013-14:26 Shared Services in Local Government (28 May 2014)
- 2013-14:27 Universities: Results of the 2013 Audits (28 May 2014)
- 2013-14:28 Accessibility of Mainstream Services for Aboriginal Victorians (29 May 2014)
- 2013-14:29 Access to Services for Migrants, Refugees and Asylum Seekers (29 May 2014)
- 2013-14:30 Prisoner Transportation (11 June 2014)
- 2013-14:31 Using ICT to Improve Traffic Management (11 June 2014).

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

- Moving On: The Transition of Year 7 to Secondary School (14 May 2014).

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

- Report 3: Single Dwelling Development Assessments (27 May 2014)
- Report 4: Gastroenterology and Hepatology Unit, Canberra Hospital (6 June 2014).

Useful Resources

Commonwealth Government Treasury

- [Presentation](#): The 2014-15 Budget Sustaining Broad Based Growth Living Standards (20 May 2014)
- [Presentation](#): 2014 Post Budget Economic Briefing (23 May 2014)
- Australian Government Payments to Small Business Performance [Report](#) (30 May 2014).



Independent Pricing & Regulatory Tribunal (IPART)

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

- Reforming licensing in NSW – summary of Draft Report – May 2014 (22 May 2014)
- Valuer-General's prices for land valuation services provided to councils (30 May 2014)
- Summary of rate variations requested by councils and IPART's decisions (3 June 2014).

Australian Competition & Consumer Commission ([ACCC](#))

ACCC media releases:

- ACCC begins consultation on regulated access to wholesale telecommunications services (23 May 2014)
- ACCC grants authorisation to Sydney councils for joint waste tender (29 May 2014).

Association of Superannuation Funds of Australia (ASFA)

[ASFA media releases](#):

- ASFA's response to the Federal Budget (13 May 2014)
- Common sense changes recognise the challenges of SuperStream implementation (27 May 2014).

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Contact us

Professional Update is published by:

Audit Office of New South Wales
Level 15, 1 Margaret Street
Sydney NSW 2000

t +61 2 9275 7100

f +61 2 9275 7200

e auditsupport@audit.nsw.gov.au

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