

Professional update

Accounting and auditing developments |



June 2015

Hot Topics

Hot Topic 1: Exposure Draft: 'Service Concession Arrangements - Grantor'

The Australian Accounting Standards Board (AASB) recently released [ED 261 'Service Concession Arrangements: Grantor'](#) to address the gap in accounting for service concession arrangements (SCAs) from a grantor's perspective.

The proposals will affect public sector entity grantors (including grantors of existing, but unrecognised SCAs). They aim to decrease the divergence in accounting treatments and improve transparency of these projects within and across governments.

The proposed requirements are based on the control or regulation approach in IPSAS 32 'Service Concession Arrangements: Grantor', consistent with AASB Interpretation 12 'Service Concession Arrangements'. The AASB considers this approach to be more conceptually sound than the current risks and rewards approach.

The new proposals require a grantor to recognise the assets and liabilities of a SCA where the grantor controls the service potential of the underlying asset.

The main impacts of the proposals will potentially result in:

- recognition of more government assets and liabilities on the balance sheet
- earlier recognition of assets and liabilities (when construction commences, rather than at completion).

The AASB anticipates the proposed standard will apply to annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

Due to the increasing number and value of SCAs in the public sector, the AASB encourages all constituents (both public and private sector) to comment on the proposals.

Comments are due to the AASB by 27 July 2015.

Hot Topic 2: Exposure Draft: 'Fair Value Disclosures of Not-for-Profit Public Sector Entities'

The Australian Accounting Standards Board (AASB) recently released [ED 262 'Fair Value Disclosures of Not-for-Profit Public Sector Entities'](#). This exposure draft (ED) proposes temporary relief for not-for-profit (NFP) public sector entities from making certain disclosures required by AASB 13 'Fair Value Measurement'.

The disclosure exemptions apply to NFP public sector entities with assets within the scope of AASB 116 'Property, Plant and Equipment', which are held primarily for their current service potential rather than to generate future net cash inflows.

This edition includes:

- Exposure Draft: 'Service Concession Arrangements - Grantor'
- Exposure Draft: 'Fair Value Disclosures of Not-for-Profit Public Sector Entities'
- A step closer to a new leases standard - IASB Project Update
- Keeping a lid on audit costs

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NFP public sector entities with recurring and non-recurring level 3 fair value measurements will be provided relief from disclosing:

- quantitative information about the significant unobservable inputs used in the fair value measurement
- the amount of gains or losses for the period included in profit or loss attributable to the change in unrealised gains or losses relating to those assets held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised
- information about the sensitivity of the fair value measurements to changes in unobservable inputs.

The relief does not prevent NFP public sector entities from presenting some or all of the above disclosures.

The Board decided that some level 3 fair value measurement disclosures provide useful information for users of financial statements without imposing significant additional costs. Consequently NFP public sector entities must continue to disclose:

- a description of the valuation technique(s) and the inputs used in the fair value measurement
- changes in valuation technique(s) and reasons for the change
- a reconciliation of the movements
- a description of the valuation process used.

The AASB anticipates the amendments will apply for annual reporting periods beginning on or after 1 July 2016 with early adoption permitted. If early adopted relief could be available for adoption by entities with 30 June 2015 financial year-ends. However, NSW Treasury is yet to confirm it will permit early adoption.

Hot Topic 3: A step closer to a new leases standard - IASB Project Update

The IASB has released a project update 'Leases: Practical implications of the new leases standard' in response to calls from stakeholders to provide more information on the likely practical effects of the new leases standard. The update also outlines the IASB's lessee accounting model comparing it to the Financial Accounting Standards Board's (FASB) model.

In summary, the update highlights the following key changes to lessee accounting and practical implications of the new standard:

- all leases, the only concessions to this being short term (i.e. 12 months or less) and small asset leases (e.g. laptops and office furniture), to be included on the balance sheet, increasing assets and liabilities
- lease assets and liabilities being initially measured at the present value of unavoidable lease payments
- lease assets being amortised in a similar way to other assets such as property, plant and equipment
- changes to key financial ratios such as performance and leverage ratios
- higher operating profits for entities which currently have substantial off balance sheet leases
- increases in operating cash flows and decreases in financing cash flows.

The IASB has indicated the new standard will be released by the end of 2015, but is yet to decide on an effective date. Upon transition, entities will have the option of adopting a fully retrospective or modified retrospective approach, each having a different impact on the bottom line.

Whilst the effective date is likely to be a few years off, the standard will result in substantial changes to lessee accounting. Agencies should familiarise themselves with the changes, assess the potential impacts (keeping in mind the concessions available) and determine systems and information requirements. The proposed transition options should also be carefully considered.

A copy of the project update can be found on the [IASB website](#).

Hot Topic 4: Keeping a lid on audit costs

Studies have found companies with a "world-class" designation in best business practice, based on a variety of factors, spend nearly 50% less on audit fees per \$1b revenue than the average. The following tips may help CEOs restrain or reduce audit costs.

- **Talk is cheap.** Talk to your external audit team at the debrief of last year's audit, or early in the financial year. Learn from past mistakes and make a better plan for the future
- **Promote planning.** Attend planning sessions between your finance team and the external audit team. Help your finance team agree their deliverables, which the audit team will document in the Client Assistance Schedule. Keep abreast of progress throughout the audit and proactively manage trailing areas





- **Prepare in advance.** Nothing auditors ask for should be a surprise. Detailed supporting workpapers for every number in the financial statements greatly help the audit team. Appointing one person to log and handle auditor information requests simplifies communication
- **Keep your auditor in the loop.** Major developments, operational and system changes, and changes in accounting treatments can derail the financial statements close process and the audit. Ensure the auditor is well informed. Prepare flowcharts of changed processes and position papers on policy decisions
- **Use internal audit effectively.** External auditors can only use the work of the internal audit team in certain circumstances. The internal audit team must be independent of the finance function, skilled and competent, able to provide quality workpapers on relevant controls and balances for the period subject to audit, on a timely basis. Discuss the potential to use internal audit work with the external audit director early in the financial year
- **Audit team changes.** Professional requirements require audit firms to rotate senior team members so a “fresh pair of eyes” is brought to the audit. That change can work to your advantage, even though it may be a little disruptive. To the extent possible, negotiate for auditors with more experience, particularly where sector or industry specialisation is an advantage
- **Stick around.** Nothing is more frustrating than starting an audit only to find senior members of the finance team are on leave or otherwise not available. Ensure the finance team is available to answer questions and provide analyses, schedules and explanations the auditors will require
- **Internal controls count.** A lot of the audit work is directed at identifying and subsequently testing relevant internal controls to ensure they are working effectively. Ensure you have an effective system. Inform the auditors well in advance of major system changes so they can plan accordingly
- **Keep it simple.** Complex legal structures are expensive to audit. World-class companies had half the legal entities per \$1b revenue compared to the average.

Audit Office of New South Wales

Grant Hehir, NSW Auditor-General:

- presented at the Governance Institute of Australia the keynote address and was on a panel discussion – “A new era in governance.”

Auditor-General's Financial Audit Report to Parliament

- [Auditor-General's Report to Parliament – Volume Three 2015 - Additional Entitlements for Members of Parliament](#) (25 June 2015).

Auditor-General's Performance Audit Reports to Parliament

- [Government Advertising](#) (22 June 2015)
- [Implementing Performance Audit Recommendations](#) (24 June 2015)
- [Efficiency and effectiveness in tax collection – Office of State Revenue](#) (25 June 2015).

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The [AASB has issued](#):

- Exposure Draft ED 264 Conceptual Framework for Financial Reporting (1 June 2015)
- Exposure Draft ED 265 Updating References to the Conceptual Framework (1 June 2015).

The AASB Board [met on 27-28 May 2015](#) and made key decisions in relation to:

- Recognition of Residual Value for Infrastructure Assets
- Depreciated Replacement Cost as a Measure of Value in Use
- Reporting Service Performance Information.

The Board also discussed the following topics:

- Australian Financial Reporting Framework
- Reduced Disclosure Requirements (Tier 2)
- Classification of Liabilities
- IFRS 15 Deferral
- Process for Consultation on AASB Work Plan





- Calibrating the Value and Impairment of Intangible Assets
- International Projects Update
- Reissue of IFRS-Equivalent Pronouncements
- International Valuation Standards Council Exposure Draft.

International Update – International Accounting Standards Board (IASB)

The IASB has issued:

- [revised and updated work plan](#).

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

Matters discussed at the [June 9 meeting](#) included:

- GS 022 Grant Acquittals and Multi-Scope Engagements
- GS 009 Auditing Self-Managed Superannuation Funds
- GS 018 Franchising Code of Conduct - Auditor's Report
- ASAE 3100 Compliance Engagements and ASAE 3500 Performance Engagements
- Research project on Australian Financial Reporting Framework.

The [AUASB has issued](#):

- ED 02/15 Proposed Auditing Standard ASA 2015-2 Amendments to Australian Auditing Standards - issued 12 June 2015
- ED 02/15 Proposed Auditing Standard ASA 720 The Auditor's Responsibilities Relating to Other Information - issued 12 June 2015
- ED 02/15 Explanatory Memorandum Exposure Draft ED 02/15: The Auditor's Responsibilities Relating to Other Information and Related Conforming Amendments - issued 12 June 2015.

Ethics Update

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

The APESB has released the following:

- [ED 02/15 Revision of APESB Pronouncements](#).

Highlights of the [meeting on 25 May 2015](#) were:

- Revision of APESB Standards primarily due to changes to the Code
- Revision of APES GN 40 Ethical Conflicts in the Workplace – Considerations for Members in Business
- Project status update on APES 320 Quality Control for Firms to focus on non-assurance practices and Annual Review of APES 320
- International and other activities.

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

The IESBA has released:

- [Responding to Non-Compliance with Laws and Regulations](#).

The Treasury - NSW Government

New Treasury Policy Papers, Circulars and Research Papers

NSW Treasury has released the following pronouncements:

- [TC 15/10](#) Crown Employees (Public Sector Salaries 2015) Award
- [TC 15-11](#) Agency guidelines for the 2014–15 Mandatory Annual Returns to Treasury.

Public Service Commission (PSC)

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

- [2015-04](#) NSW Public Sector Aboriginal Employment Strategy 2014
- [2015-05](#) NAIDOC Week 2015
- [2015-06](#) Medical assessment services for the NSW government.

NSW Procurement Board

The NSW Procurement Board has released the

[NSW Procurement Policy Framework \(October 2014\)](#)

and the following Directions:

- [C2014-03](#): Agency Accreditation Scheme for Procurement
- [2014-04](#): Procuring operational telecommunications and





radio communications equipment

- [2014-05](#): Procurement innovation stream
- [2014-06](#): Procurement of goods and services on behalf of other government agencies
- [2014-07](#): Recognising suppliers to the Australian Government
- [C2014-04](#): Construction procurement prequalification schemes for work valued to \$1million.

Australian Securities and Investments Commission (ASIC)

ASIC has recently released Information Sheet:

- [INFO - 203](#) Impairment of non-financial assets: Materials for directors

and the following media releases:

- [15-139MR](#) Focus areas for 30 June 2015 financial reports
- [15-143MR](#) Impairment of non-financial assets: The role of directors.

New Publications by Other Audit Offices

Australian National Audit Office ([ANAO](#))

- Administration of the Defence Home Ownership Assistance Scheme (10 June 2015)
- Administration of the Imported Food Inspection Scheme (10 June 2015)
- Limited Tender Procurement (10 June 2015)
- Verifying Identity in the Citizenship Program (10 June 2015)
- Administration of the Australian Childhood Immunisation Register (9 June 2015)
- Central Administration of Security Vetting (9 June 2015)
- Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2015 (5 June 2015)
- Managing Australian Aid to Vanuatu (5 June 2015)
- Administration of Travel Entitlements Provided to Parliamentarians (4 June 2015)
- The Award of Funding under the Safer Streets Programme (4 June 2015)
- Transport Services for Veterans (3 June 2015)
- Promoting Compliance with Superannuation Guarantee

Obligations (3 June 2015)

- Administration of Enforceable Undertakings (2 June 2015)
- Administration of Capital Gains Tax for Individual and Small Business Taxpayers (25 June 2015)
- Australian Defence Force's Medium and Heavy Vehicle Fleet Replacement (25 June 2015).

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

- ACT Government support of the University of Canberra for affordable student accommodation (12 June 2015)
- Integrity of Data in the Health Directorate (19 June 2015)
- Bulk Water Alliance (24 June 2015).

Queensland Audit Office ([QAO](#))

- Report 18: WorkCover Claims (2 June 2015)
- Report 19: Fraud Management in Local Government (2 June 2015)
- Report 20: Managing water quality in Great Barrier Reef catchments (10 June 2015).

Tasmanian Auditor-General's Office ([TAO](#))

- Report of the Auditor-General No. 12 of 2014-15: Auditor-General's Report on the Financial Statements of State entities, Volume 5 (2 June 2015).

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

- Technical and Further Education Institutes: 2014 Audit Snapshot (2014-15:31) (28 May 2015)
- Victoria's Consumer Protection Framework for Building Construction (2014-15:32) (28 May 2015)
- Operational Effectiveness of the myki Ticketing System (2014-15:33) (10 June 2015)
- Delivering Services to Citizens and Consumers via Devices of Personal Choice: Phase 1 – Interim Report (2014-15:34) (10 June 2015).

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

- Management of Adults on Bail (10 June 2015)
- Regulation of Training Organisations (24 June 2015).

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

- Reflections from our audits: Service delivery (8 June 2015).





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