

Professional update

Accounting and auditing developments | March 2016

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This edition includes:

- New Leases Standard for Australia
- Public Service Commission publishes a report on the State of NSW
- Reporting of Key Audit Matters in Independent Auditor's Reports
- The Role of Good Regulation

Hot Topics

Hot Topic 1: New Leases Standard for Australia

The Australian Accounting Standards Board (AASB) has released [AASB 16 'Leases'](#). It has an effective date of 1 January 2019, with early application permitted for entities applying AASB 15 'Revenue from Contracts with Customers'.

The AASB did not substantially change the International Accounting Standards Board's (IASB) IFRS 16 'Leases', released in January 2016.

AASB 16 eliminates the need for lessees to classify leases as either operating or finance leases. All leases will be treated the way finance leases are currently treated under AASB 117 'Leases', that is, 'capitalised' at the present value of the future lease payments. Preparers can present leased assets in financial statements as either leased (right-of-use) assets, or together with property, plant and equipment.

Lessees will recognise a financial liability for their obligation to make future lease payments and the principal and interest portions of the cash payments will be separately disclosed in the Statement of Cash Flows.

AASB 16 does not require a lessee to recognise assets and liabilities for:

- short-term leases (of 12 months or less)
- leases of low-value assets (acquired for \$5,000 or less).

The new requirements significantly increase the lease assets and financial liabilities lessees will record on balance sheets, potentially changing

key financial metrics (such as leverage ratios) significantly.

Lessor accounting requirements are substantially carried forward from IAS 17 'Leases' (AASB 117 'Leases'). Accordingly, lessors will continue to classify leases as operating leases or finance leases, and to account for those two types of leases differently.

The IASB expects the new standard will have a greater impact on reporting entities with material operating leases. However, where entities previously classified and accounted for leases as finance leases under IAS 17 'Leases' (AASB 117 'Leases') the accounting treatment will not change substantially.

Reporting entities will not have to restate comparative information when first applying AASB 16. On initial recognition, entities can choose how to measure lease assets that were previously off balance sheet. They can measure them as if AASB 16 had always applied, or at an amount based on the lease liability, which means entities do not have to capture historical information, such as lease start dates and historical payment schedules.

Agencies should familiarise themselves with the changes, assess the potential impacts and determine the system and information requirements needed to report under the new standard.

Because the standard is not yet effective, agencies must disclose the potential impact of AASB 16 in future financial statements. Agencies should discuss potential changes, impacts and concerns with their auditors.



For more information on the leases standard, including examples and the Basis for Conclusions, agencies should visit the AASB [website](#) or the IASB [leases project page](#).

Hot Topic 2: Public Service Commission publishes a report on the State of New South Wales

The Public Service Commission (PSC) focuses on whole-of-sector workforce reform in the NSW public sector. It recently released 'State of the NSW Public Sector Report 2015 – to the next level', which looks at performance, notable achievements, challenges and priorities of the sector. 'To the next level' is the fourth edition of this annual report.

The report assesses the State's performance against the common traits of high performing organisations. The report includes:

- snapshots of the workforce's capability and diversity over the past 55 years
- progress of workforce reforms and links workforce management to business outcomes
- observations which show the NSW public sector is relatively engaged compared to other jurisdictions, but acknowledges there is room for improvement
- the views of public (citizens and businesses) about services offered by the NSW public sector
- the introduction of the NSW Leadership Academy, which was formed to deliver on the Premier's ten year goal of 50 per cent of leadership roles filled by women and double the number of Aboriginal and Torres Strait Islander people in senior leadership roles
- the importance of a strong and positive workplace culture when developing effective organisational reform
- the need for workplace management to deliver major productivity improvements.

Information on the PSC's work program and the report are available on the PSC website.

Hot Topic 3: Reporting of Key Audit Matters in Independent Auditor's Reports

The AUASB has issued [ASA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'](#). The standard sets out the auditor's responsibility to communicate Key Audit Matters (KAMs) in the Independent Auditor's Report (IAR) as well as its form and content. It is effective for financial years ending on or after 15 December 2016.

KAMs are only required in the IARs for listed entity audits, but auditors may elect to include KAMs in the IARs of other entity audits. KAMs are intended to increase the transparency and value of IARs for intended users by identifying the matters, which in the auditors' professional judgement, were of most significance in the financial report.

KAMs are drawn from matters reported to those charged with governance of the entity and are reported under a separate heading; 'Key Audit Matters' in the IAR. Each KAM is listed under an appropriate sub-heading and should include:

- a description of the key audit matter
- reference to related disclosures, if any, in the financial report
- why the matter was considered so significant in the audit
- how the matter was addressed by the audit.

A KAM is not included in an IAR where:

- a law or regulation precludes public disclosure of the matter
- the auditor determines the adverse consequences would outweigh the public interest benefit.

ASA 701 is the international equivalent of ISA 701 issued by the IAASB.

Hot Topic 4: The Role of Good Regulation

The International Federation of Accountants (IFAC) recently released a discussion paper 'From Crisis to Confidence: the Role of Good Regulation', which examines the evolving global regulatory environment and its role in improving growth, investment and stability.

The three themes of the paper are:

1. The evolving regulatory environment, and in particular, the clarity of its objectives, its complexities, inconsistencies, achievements and failures.
2. Costs and impacts of the evolving environment, and the sectors that benefit or are being impacted disproportionately.
3. Regulatory principles and recommendations considered good practice by international organisations involved in post-crisis financial regulatory reform.

Eighty-three per cent of organisations view the impact of regulation on their organisation as more (or much more) significant than five years ago, and 84 per cent expect it to be so in another five years (IFAC Global Regulation Survey 2015).





A key challenge for regulators is convergence and consistency between different international regulatory frameworks. Almost half the respondents to the IFAC Survey believe different regulators do not communicate effectively with each other and over one-third believe the approach to regulation in different jurisdictions is not sufficiently consistent. A key reason for fragmentation and the lack of international coordination is growing politicisation, generating more ambitious domestic regulatory agendas. A challenge to convergence is the growing globalisation of business and capital markets, whilst relevant laws, regulations and standards remain predominantly national.

The complexity of new regulation is another challenge. Seventy-eight per cent of organisations view the regulation affecting their organisations as either complex or very complex (IFAC Global Regulation Survey 2015), but note that over-simplified regulations may have unintended or counter-productive outcomes.

Increased regulation increases the cost of compliance. Most organisations surveyed consider that regulation significantly increases the cost of doing business and stifles opportunities for growth and innovation (IFAC Global Regulation Survey 2015). More stringent banking capital requirements are blamed for the relative underperformance of small and medium sized entities, which have been central to recovery in previous crises.

The paper outlines themes for the reform of post-GFC regulation:

- clear objectives in the public interest
- active oversight
- systematic review processes.

Good regulation should be proportionate, balanced, evidence-based, appropriately resourced, cooperative, consistent and coherent and transparent.

A copy of the paper can be accessed [here](#).

Audit Office of New South Wales

Tony Whitfield, NSW Acting Auditor-General:

- attended the 2016 Australasian Council of Auditors-General Forum hosted in Brisbane.

Auditor-General's Performance Audit Reports to Parliament

- [Performance frameworks in custodial centre operations \(3 March 2016\)](#)



- [Managing unsolicited proposals in New South Wales \(10 March 2016\)](#).

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

[AASB Meeting Highlights – 23-24 February 2016](#)

The AASB Board made key decisions in relation to:

- Leases
- ED 269 Recoverable Amount of Non-cash generating Specialised Assets for Not-for-profit Entities
- Income of NFP Entities
- Service Concession Arrangements: Grantor
- Disclosure Initiative – Amendments to AASB 107 Statement of Cash Flows
- Recognition of Deferred Tax Assets for Unrealised Losses.

The Board also discussed the following topics:

- Australian Charities and Not-for-profits Commission's (ACNC) strategic plan
- Reduced Disclosure Requirements
- Annual Improvements to IFRSs 2014–16 Cycle
- Financial Reporting Framework
- ED 272 Transfers of Investment Property
- Australian Public Sector Characteristics
- Disclosure Initiative – Materiality Practice Statement
- Review of IFRS adoption in Australia
- Research Update
- Emerging Issues
- International Projects
- Strategic Plan Update.

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

- International Edition (08-16) (25 February 2016)
- Reporting Service Performance Information in the Not-for-Profit Sector – Webinar (25 February 2016)
- February 2016 Action Alert is now available (25 February 2016)
- Now available for early adoption – Leases and amendments to Income Taxes (1 March 2016)



- Updated AASB Standard-setting Work Program (3 March 2016)
- International Edition (09-16) (3 March 2016)
- International Edition (10-16) (10 March 2016)
- AASB LinkedIn Discussion Group (16 March 2016)
- International Edition (11-16) (17 March 2016).

AASB has recently issued:

- [AASB 16](#) – Leases (Appendix D)
- [AASB 2016-1](#) – Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses (AASB 112).

International Update – International Financial Reporting Standards (IFRS) Foundation

[Public events of the IFRS Foundation:](#)

- Meeting of IASB representatives with the Global Preparers Forum March 2016 (2 March 2016)
- XBRL meeting: ITCG Conference Call – March 2016 (9 March 2016)
- IFRS Conference: Joint FAP and IFRS Foundation Conference in Bangkok (11 March 2016)
- Board meeting: IASB Meeting March 2016 (15-16 March 2016)
- IFRS Interpretations Committee: IFRS Interpretations Committee March 2016 (22 March 2016).

[IFRS Latest News](#)

- Takatsugu Ochi reappointed to the IASB; Pat Finnegan to stand down in June 2016 (23 February 2016)
- Global Preparers Forum meeting: Wednesday 2 March – Agenda Papers have been posted (23 February 2016)
- February IFRS for SMEs Update published (29 February 2016)
- The 2016 Red Book (IFRS Standards) is now available (8 March 2016)
- IFRS Advisory Council February meeting report posted (11 March 2016).

International Update – International Federation of Accountants (IFAC)

[Latest news from IFAC](#) includes:

- Upcoming Event: Regional SMO Workshop in Costa Rica (4 February 2016)

- SMOs as A Driver of Successful PAOs: ICPAU's Experience (13 February 2016)
- Creating Value for Professional Accountants in Business – Pakistan Experience (13 February 2016)
- Compliance Program Strategy – New Strategic Focus (13 February 2016)
- Addressing the SMOs: Jordan Experience (13 February 2016)
- Institute of Chartered Accountants of Barbados (13 February 2016)
- Latest Editions of IAASB, IESBA, IPSASB, and IAESB Handbooks Now Available (24 February 2016)
- IFAC Global Survey: Accountants' Performance Expectations for Coming Year Moderate but Remain Optimistic, Despite Concerns over Economic Slowdown (29 February 2016)
- Regional SMO Workshop Held in Costa Rica; Follow-up Quality Assurance Webinar Planned (4 March 2016)
- Strong International Standards, Governance & Ethics Help Fight Bribery (16 March 2016).

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

[Latest news from IPSASB includes:](#)

- IPSASB Podcast on IPSAS 32 (25 February 2016)
- IPSASB March 2016 Meetings Highlight Podcast (17 March 2016).

[IPSASB Meeting Highlights - 8-11 March 2016](#)

The Board discussed the following topics:

- Report on Communication Activities
- Summary of IASB Work Plan
- IFRS Tracking Table
- GFS Tracking Table
- Responses to CP: Social Benefits
- Social Benefits
- Non-Exchange Expenses
- Revenue
- Emissions Trading Schemes
- Technical Director's Report on Work Plan
- Responses to ED 58: Improvements





- Heritage Assets
- Leases
- Responses to ED 57: Impairment of Revalued Assets
- Public Sector Financial Instruments
- Responses to ED 56: The Applicability of IPSAS.

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB Meeting Highlights – 22 February 2016](#)

Topics discussed by the AUASB at its meeting included:

- Auditing Reporting Project
- Guidance Statement GS 010 Responding to Questions at an Annual General Meeting
- Auditor Reporting – Special Purpose Reports and Single Element Reports
- ASAE 3100 Compliance Engagements
- IAASB ITC Enhancing Audit Quality – A Focus on Professional Scepticism, Quality Control and Group Audits.

[Latest news from AUASB](#) includes:

- Highlights of AUASB Meeting 22 February 2016 (2 March 2016)
- Recruitment – Australian Auditing and Assurance Standards Board (AUASB) Chair (10 March 2016).

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

[IAASB Meeting Highlights 14-18 March](#)

- Professional Skepticism
- Integrated Reporting
- Data Analytics
- Responding to Noncompliance with Laws and Regulations.

[Latest news from the IAASB:](#)

- IAASB Highlights How Expected Credit Loss Models Will Affect Auditors; Signals Broader Efforts to Strengthen Auditor Efforts on Accounting Estimates (2 March 2016)
- ISA 540 Revision Project Publication (2 March 2016)
- Project Proposal: Revision of ISA 540 (2 March 2016)
- More Informative Auditor's Reports - What Audit Committees

and Finance Executives Need to Know (9 March 2016)

- IAASB Presentation and Outreach Activities January 2016-March 2016 (10 March 2016).

[IAASB has recently released:](#)

- Staff Questions and Answers on IPSAS 32 (25 February 2016)
- Public Sector Combinations: An Introduction to Exposure Draft 60 (11 March 2016).

Ethics Update

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

[APESB Meeting Highlights – 17 February 2016](#)

Topics included:

- Review of 2016 Issue Register
- Project Proposal on APESB Due Process and Working Procedures
- Annual Review of APES 315 Compilation of Financial Information
- APES 350 Due Diligence Committees Briefing Paper
- International and other activities
- APES 310 Dealing with Client Monies – Project Status Update
- Digital Disruption and its impact on the Accounting Profession
- Chartered Accountants Australia and New Zealand – Quality Review Presentation
- APESB Office Leasing Arrangements
- Diligent Boards Presentation
- Chairman's Report
- APESB's Proposed Strategy and Work Plan 2016
- Technical Director's Report
- Q2 Financial Reports
- APESB's ten-year anniversary planning.

Treasury – NSW Government

New Treasury Policy Papers, Circulars and Research Papers

- [TRP16-1](#) Interstate Comparison of Taxes 2015-2016 (March 2016)
- [Treasury Circular 16-03](#) Industrial Relations: Managing Accrued Recreation Leave Balances (22 February 2016).





Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [C2016-03](#) Department Liaison Officers (DLOs).

Department of Finance, Services and Innovation

The DFSI has released the following circular:

- [DFSI-2016-01](#) – Data Centre Reform.

NSW Procurement Board

[NSW Procurement Board has recently issued:](#)

- Award of contract 1008 travel management services (25 February 2016)
- New prequalification scheme: supply and installation of floor coverings (26 February 2016)
- Coming into effect: new system of chemical classification and hazard communication (3 March 2016)
- Transition to new travel management company (3 March 2016)
- Extension of whole-of-government facilities management services (asset maintenance and cleaning) contracts 1001622 – 1001652 (11 March 2016)
- Update on travel management supplier FCM Travel Solutions (16 March 2016).

Public Accounts Committee

Recent [inquiries](#):

- Review of the Report of the Inspector of the NSW Independent Commission Against Corruption regarding Operation 'Hale' (11 February 2016)
- 2016 Review of the Annual Reports of Oversighted Bodies (24 February 2016)
- Review of the 2013-2014 and 2014-2015 Annual Reports of the Health Care Complaints Commission (25 February 2016)
- Parliamentary Budget Office 2015 Post-election Report (not commenced)
- Review of the Code of Conduct for Members (not commenced).

Reports

[Reports tabled](#) in NSW Parliament:

- Remedies for the serious invasion of privacy in New South Wales (3 March 2016)
- Review of the 2013-2014 annual reports of the ICAC and the Inspector of the ICAC (8 March 2016)
- Examination of Auditor-General's performance audit reports September 2013 – July 2014 (15 March 2016).

Australian Securities and Investments Commission (ASIC)

Recent [information sheets](#) released:

- INFO-212 Illegal phoenix activity.

Recent [speeches](#) released:

- The regulator and marketplace lending (29 February 2016)
- Regulatory update to general insurance industry 2016 (4 March 2016).

Australian Prudential Regulation Authority (APRA)

[Recent APRA releases:](#)

- APRA releases superannuation statistics for December 2015 (23 February 2016)
- APRA releases statistics on ADI property exposures for December 2015 (23 February 2016)
- APRA consults on margining and risk mitigation requirements for non-centrally cleared derivatives (25 February 2016)
- APRA releases quarterly authorised deposit-taking institution (ADI) performance statistics for December 2015 (1 March 2016)
- APRA releases intermediated general insurance statistics for December 2015 (2 March 2016).

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

[Recent ACNC releases:](#)

- New ACNC guidance to support small charities with good governance (3 March 2016).





New Publications by Other Audit Offices

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

- Managing Compliance with Fair Trading Obligations (25 February 2016)
- Early Intervention Services for Children with Disability (1 March 2016)
- Delivery and Evaluation of Grant Programmes (15 March 2016)
- Defence's Management of the Mulwala Propellant Facility (15 March 2016)
- Major Projects Report 2014-15.

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

- Improving financial reporting in the public sector (24 February 2016)
- A review of public sector financial assets and how they are managed and governed (2 March 2016)
- Public sector accountability through raising concerns (4 March 2016)
- Department of Conservation: Prioritising and partnering to manage biodiversity (undated).

South Australian Auditor-General's Department ([SA AGD](#))

- Report on the Adelaide Oval redevelopment for the designated period 1 July 2015 to 31 December 2015 (1 March 2016).

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

- Report of the Auditor General No. 8 of 2015-16: Provision of social housing (25 February 2016)
- Report of the Auditor General No. 9 of 2016-16: Funding of Common Ground Tasmania (25 February 2016).

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

- Grants to Non-Government Schools (2015-16:25) (March 2016)
- Digital Dashboard: Status Review of ICT Projects and Initiatives – Phase 2 (March 2016).

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

- Consumable Stock Management in Hospitals (24 February 2016)
- Management of Government Concessions (16 March 2016).

Useful Resources

Commonwealth Government Treasury

[Latest media releases:](#)

- CEO of the Board of Taxation (26 February 2016).

[Commonwealth Government Treasury has recently issued:](#)

- Review of Treasury's Macroeconomic Forecasting Capabilities (8 March 2016).

[Latest speeches from Commonwealth Government Treasury:](#)

- Infrastructure: Setting the public policy compass (26 February 2016)
- The Macroeconomic Context (8 March 2016).

Commonwealth Government Department of the Environment

[Recent releases:](#)

- Draft ERF method: Community Buildings (11 March 2016).

Independent Commission Against Corruption ([ICAC](#))

- ICAC finds TAFE NSW ICT manager corruptly reaped \$1.76 million (4 March 2016).

Productivity Commission

[Recent releases:](#)

- Recent Developments in Anti-Dumping Activity (29 February 2016)
- Productivity Commission wants to hear from regional areas on all aspects of marine fishing (29 February 2016).

Independent Pricing & Regulatory Tribunal ([IPART](#))

IPART [information/fact sheets:](#)

- Fact Sheet – Latest discount rate for use in development contribution plans (February 2016)
- Fact Sheet – DPI Water price review – Draft Report and prices (8 March 2016)
- Fact Sheet – Draft prices for WAMC – Department of Primary Industries from 1 July 2016 (8 March 2016)
- DPI's Water metering and consent transaction charges (8 March 2016)
- Fact Sheet – Draft prices for groundwater from 1 July 2016 (8 March 2016)
- Fact Sheet – Draft prices for unregulated rivers from 1 July 2016 (8 March 2016)





- Fact Sheet – Draft prices for regulated rivers from 1 July 2016 (8 March 2016).

IPART [media releases](#):

- Feedback sought on Draft rural water management process (8 March 2016).

Australian Institute of Company Directors (AICD)

AICD [media releases](#):

- Uncertainty ends: real work for ACNC begins (4 March 2016).

Association of Superannuation Funds of Australia (ASFA)

ASFA [media releases](#):

- ASFA Retirement Standard December quarter indicates modest rise in cost of living (24 February 2016)
- Government to enshrine the objectives of superannuation (9 March 2016).

Water Accounting Standards Board (WASB)

The WASB [published](#):

- Providing water information to the Commonwealth (3 March 2016).

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