

Professional update

Accounting and auditing developments |



May 2012

Hot Topics

Not For Profit (NFP) Reforms: Tax Exemptions and Concessions

In the 2011–12 Federal Budget, the Government announced measures to reform the not-for-profit (NFP) sector, including:

- establishing an Australian Charities and Not-for-Profits Commission (ACNC) – revised start date is 1 October 2012
- introducing a statutory definition of 'charity' – effective from 1 July 2013
- better targeting of not-for-profit tax concessions.

The reforms seek to tax NFP entities' profits derived from commercial activities that are unrelated and not directed back to a charitable purpose. They will limit current tax exemptions and concessions available to such entities.

NFP entities with unrelated commercial activities will also no longer enjoy fringe benefits tax exemptions or rebate, goods and services tax concessions, or deductible gift recipient support. However, exemptions will remain for small-scale and low-risk unrelated commercial activities.

Government or semi-government parent entities (such as universities) and their NFP subsidiaries should review the nature and purpose of each entity to determine the validity of existing tax exemptions and concessions. Such reviews should:

- examine what the reforms may mean for these entities
- examine the range of activities and services the entities deliver to determine whether they include 'unrelated commercial activities' where profits are not directed back to a charitable purpose
- determine whether the entities should apply for or confirm existing ATO endorsement as income tax exempt funds or tax concession charities.

In April 2012, the Australian Taxation Office (ATO) released new and updated information products to help NFP entities understand the proposed changes. The [not-for-profit](#) page on the ATO website provides useful information for NFP entities on the progress of the NFP reforms and guidance/tools to help them manage their tax affairs.

AASB 9 'Financial Instruments'

In 2010, the AASB issued AASB 9 'Financial Instruments', effective for reporting periods beginning on or after 1 January 2013. This standard replaces the classification, measurement, recognition and derecognition requirements in AASB 139 'Financial Instruments: Recognition and Measurement'.

The main changes include:

- simplifying the existing classification of financial assets, based on the objective of the entity's business model and characteristics of the contractual cash flows, i.e:
 - held to collect contractual cash flows (principal and interest) rather than for trading; in which case the assets are recorded at amortised cost, all gains

This edition includes:

- **NFP Reforms: Tax Exemptions and Concessions**
- **AASB 9 'Financial Instruments'**

Contents

Hot Topics	1
Accounting Update	2
Auditing Update	3
Ethics Update	3
Department of Premier and Cabinet	3
Public Services Commission	3
The Treasury – NSW Government	3
Australian Securities and Investments Commission (ASIC)	3
Australian Prudential Regulation Authority (APRA)	4
New South Wales Auditor-General	4
New Publications by Other Audit Offices	4
Miscellaneous Resources	4



and losses are recorded in other comprehensive income

- not held for contractual cash flows, in which case the financial assets are measured at fair value and gains and losses are recorded in profit or loss, unless part of a hedging relationship
- an election about an equity instrument can only be made at initial recognition, and this election cannot be changed unless there is a change in the business model
- explicitly preventing recycling of gains and losses (on assets held for contractual cash flows) through the profit and loss
- measuring investments in unquoted equity instruments at fair value
- disclosing the portion of a change of fair value relating to an entity's own credit risk for financial liabilities measured at fair value, in other comprehensive income, unless this creates an accounting mismatch.

Although AASB 9 permits early adoption, only universities and their controlled entities in New South Wales may, with the approval of the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE), early adopt. There are three models for transitioning to AASB 9, depending on the date of adoption.

Entities need to determine when they will adopt the new standard and:

- determine how they will apply the new policy, and how it will affect their comparative information and AASB 7 disclosures
- review their existing accounting policies and determine the changes required and the resources to implement the changes
- discuss the proposed changes with their auditors to ensure a smooth transition.

Other useful resources include:

- [KPMG Flash Report 'Transitioning to AASB 9 – tricks and tips'](#)
- [PKF Technical Update January 2012 'A Summary of Recent Changes to Financial Reporting Requirements'](#).

Accounting Update

Australian Update

[AASB Meeting Highlights – 18-19 April 2012](#)

At this meeting the Board discussed key not-for-profit (NFP)

issues relating to:

- control in the NFP public and private sectors
- income from transactions of NFP entities
- service performance reporting
- NFP entities in the general government sector
- accounting for the carbon tax – government perspective.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 16 April 2012](#)

Some sessions were jointly held with the Financial Accounting Standards Board (FASB). Topics discussed at the IASB/FASB sessions included:

- amortised cost classification for financial assets – business model assessment
- bifurcation of financial assets and financial liabilities
- expected credit loss estimates
- insurance contracts – reinsurance and issues related to policy loans and contract modifications.

In a separate session, the IASB discussed proposed amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangibles' relating to selecting an appropriate depreciation or amortisation method. The IASB proposes to clarify that methods of depreciation or amortisation based on the expected revenue generated from using an asset are not appropriate. This is because a revenue-based depreciation method reflects a pattern of generating economic benefits from operating the business (of which the asset is a part), rather than the consumption of the economic benefits embodied in the asset.

[IASB Podcasts](#)

The IASB has recently released a podcast on financial instruments and insurance contracts.

International Update – International Federation of Accountants (IFAC)

[Good Practice Checklist for Small Business](#)

This new checklist aims to assist small businesses apply good financial and management practices.





Auditing Update

Australian Update

[ED 01/12 Proposed ASAE 3410 'Assurance Engagements on Greenhouse Gas Statements'](#)

This proposed new standard provides requirements for assurance practitioners to determine when to accept, how to perform, and how and what to report in an engagement to provide assurance on a greenhouse gas statement.

The comment period closes 8 June 2012.

[AUASB Meeting Highlights – 16 April 2012](#)

New topics discussed by the AUASB at its meeting included:

- approving the project plan for the post implementation review of ASAE 3100 'Compliance Engagements' and ASAE 3500 'Performance Engagements'
- deferring revisions to ASA 610 'Using the Work of Internals Auditors' and ASA 315 'Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement' until changes in equivalent international standards are finalised.

Ethics Update

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

[IESBA Meeting Summary – 19 April 2012](#)

The IESBA discussed proposed changes to the code dealing with circumstances when a professional accountant might not be required to disclose a client's suspected illegal act to the appropriate authority. The IESBA tentatively concluded that this would be limited to exceptional circumstances, such as when the physical safety of individuals is sufficiently severe. The IESBA will now consider other proposals, such as the application in a group audit situation, before approving the release of the upcoming exposure draft.

Department of Premier and Cabinet

[M2012-04 Application of NSW Public Sector Wages Policy 2011 to State Owned Corporations](#)

The [NSW Public Sector Wages Policy](#) has been amended to extend its application to State Owned Corporations (SOCs), including their subsidiaries. The application of the policy to SOC's will limit increases in their employee related expenses

(including for executives and CEOs) to 2.5 percent per annum with any additional increase to be funded by employee related cost savings.

Public Service Commission

[PSCC 2012-01 SES/Senior Officer Motor Vehicle Charges 2012-2013](#)

New SES/Senior Officer motor vehicle charges take effect from 1 April 2012.

[PSCC 2012-02 National Aboriginal and Islander Observance Committee \(NAIDOC\) Week](#)

Agencies are encouraged to support the release of employees who are members of Aboriginal and Torres Strait Islander families to celebrate the annual NAIDOC week events, to be held in July.

The Treasury – NSW Government

[TPP 12-02 Fringe Benefits Tax \(FBT\) Manual](#)

This manual has been prepared to assist NSW Government agencies comply with requirements of the FBT regime. It outlines FBT related legislation, rulings, determinations and other relevant information including how to identify and value each type of fringe benefit, the interaction between FBT and GST.

New Circulars

- [TC 12/08](#) Budget Controls – Net Cost of Services
- [TC 12/09](#) Budget Controls – Capital Expenditure Authorisation Limits
- [TC 12/10](#) Protected Items and Funds
- [TC 12/11](#) Mandatory principle arranged insurance (PAI) for all major capital works projects
- [TC 12/12](#) Mandatory Use of the Treasury Managed Fund (TMF) for All Government Insurance Requirements

Australian Securities and Investments Commission (ASIC)

[12-75MR ASIC accepts enforceable undertaking from auditor for breaching the rotation requirements](#)

ASIC has accepted an enforceable undertaking from a Sydney-based auditor after he breached auditor rotation requirements. Auditor rotation is a key aspect of the





independence provisions aimed at enhancing the reliability and credibility of financial reports.

The *Corporations Act 2001* requires an auditor to not have a significant role on the audit of a listed company for more than five successive years. The auditor is not eligible to serve again until two years has elapsed since the auditor had a significant role on the audit.

Financial services sector – the latest news

- [12-82MR](#) ASIC releases details for registration and licensing of financial services in emissions units
- [12-83MR](#) ASIC warns financial services licensees about the use of the term 'independent'
- [12-84MR](#) ASIC releases policies on adviser training and financial requirements for carbon financial products

Australian Prudential Regulation Authority (APRA)

Superannuation reforms – the latest news

APRA [releases](#) proposed MySuper authorisation requirements; response to submissions and draft prudential standards for superannuation.

New South Wales Auditor-General

Peter Achterstraat, New South Wales Auditor-General, recently:

- hosted the Regional Working Group of Environmental Audit meeting from 17 to 19 April 2012
- presented at the CPA/CSA Risk Discussion Forum 'Establishing an Integrated Governance Framework' on 26 April 2012
- addressed the School of Government at the University of Sydney on 27 April 2012.

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Fighting Terrorism at its Source
- Public Sector Environmental Management
- Establishment and Use of Procurement Panels
- Guidelines for the Conduct of Performance Audits
- Management of Complaints and Other Feedback by the

Department of Veterans Affairs

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

- Inquiry into how Christchurch City Council managed conflicts of interest when it made decisions about insurance cover
- Summary of our fraud survey results for local authorities
- Draft annual plan 2012/13
- Summary of our fraud survey results for district health boards
- Public entities' progress in implementing the Auditor-General's recommendations 2012
- Summary of our fraud survey results for tertiary education institutions

Victorian Auditor-General's Office (VAGO)

- Freedom of Information
- Casual Relief Teacher Arrangements
- Performance Reporting by Local Government
- Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards

Western Australia Office of the Auditor General (WA OAG)

- Beyond Compliance: Reporting and managing KPIs in the public sector
- Supporting Aboriginal Students in Training

Miscellaneous Resources

Australian Competition & Consumer Commission (ACCC)

The ACCC has made available [guidance](#) to assist businesses in understanding their responsibilities when making claims about the impact of the new carbon legislation on their pricing.

Australian Institute of Company Directors

- [Media release](#): Statement from Company Directors on the James Hardie judgment

Commonwealth Government Department of Climate Change and Energy Efficiency

- [Publication](#): National Inventory Report 2010 – national net greenhouse gas emissions estimates for the period 1990-2010





- **Publication:** National Inventory by Economic Sector 2009/10 - national emissions disaggregated by Australia-New Zealand Standard Industry Classifications (ANZSIC)
- **Publication:** Quarterly Update of Australia's National Greenhouse Gas Inventory: December 2011
- **Publication:** State and Territory Greenhouse Gas Inventories 2009/10

Productivity Commission

- **Visiting researcher paper:** Australia's Productivity Growth Slump: Signs of Crisis, Adjustment or Both?
- **Report** on Government Services 2012: Indigenous Compendium
- **Draft inquiry report:** Barriers to Effective Climate Change Adaptation
- **Research report:** Schools Workforce

The Institute of Chartered Accountants in Australia

- **Publication:** 'Walk the line: Discussions and insights with leading audit committee members'
- **Checklist** of top non-compliance areas – lessons from quality reviews

The Public Service News Network

[Workplace giving is new take on charity](#)

The new 'NSW Public Sector Workplace Giving Program' will allow NSW Government employees to make regular, pre-tax, voluntary donations through their payroll to selected charities.

Independent Pricing & Regulatory Tribunal (IPART)

- IPART have released [new publications](#) relating to the electricity, local government, transport, gas and water Industries.

Copyright

Material on this site is protected by copyright law.

You may download, display, print and copy any material on this site for your personal use or for non-commercial use within your organisation.

You must not copy, adapt, publish, or distribute any material contained on this site without acknowledging the source.

You must not use any material on this site for commercial purposes without the written authorisation of the Audit Office. For requests for authorisation please contact us.

Disclaimer

All material published on this site is of a general nature only and is not intended to be a substitute for or relied upon as specific professional advice.

No responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any material on this site is accepted.

Although the Audit Office will take all reasonable steps to ensure material on this site is complete and accurate, no guarantees are given.

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

Professional people with purpose

Making the people of New South Wales proud of the work we do.

Disclaimer

This newsletter is of a general nature only and is not intended to be a substitute for, or relied upon, as specific professional advice. No responsibility for loss occasioned to any person acting on or refraining from action as a result of any material in the publication can be accepted.

