

Professional update

Accounting and auditing developments |



May 2013

Hot Topics

AASB Amendments – Third Balance Sheet

The Australian Accounting Standards Board (AASB) has issued [AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'](#). This standard applies to annual reporting periods beginning on or after 1 January 2013 and amends five standards, including AASB 101 'Presentation of Financial Statements'. Amendments to AASB 101 include more guidance and clarify requirements about third balance sheets and other comparative information presented in financial statements.

The amendments to AASB 101 are designed to make it easier for users of financial statements to assess the impact of retrospective changes. Retrospective changes are allowed to correct errors or implement new or altered accounting policies in accordance with AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The changes clarify the minimum level of comparative disclosure information:

- Paragraphs 10 and 40D specify a third balance sheet is required for the beginning of the preceding period when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification.
- Paragraph 40A clarifies a third balance sheet is only required where the effect of the retrospective application, restatement or reclassification is material at the beginning of the preceding period.
- Paragraphs 40C to 44 set out additional disclosure requirements including:
 - the nature of the reclassification
 - the amount of each item or class of items reclassified; and
 - the reason for the reclassification.

ED 238 released – implementation guidance for determining 'control' in the not-for-profit sector

The AASB has issued Exposure Draft [ED 238 Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities](#), which confirms the principles in AASB 10 'Consolidated Financial Statements' and AASB 12 'Disclosure of Interests in Other Entities', will apply in the NFP sector entities for periods beginning on or after 1 January 2014. The guidance in ED 238 will help NFP entities assess control in the absence of ownership/voting interest by:

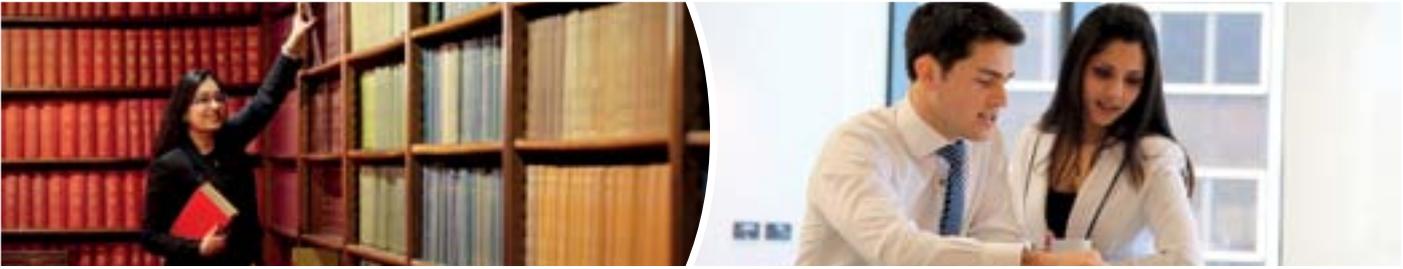
- explaining that rights, which are purely protective in nature (veto rights), do not in themselves, provide the power to govern
- clarifying, in the absence of any other rights, economic dependence is not an indicator of control.

This edition includes:

- **AASB amendments – third balance sheet**
- **ED 238 released**
- **changes to AASB 119 'Employee Benefits'**

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Changes to AASB 119 'Employee Benefits'

The AASB has issued an amended [AASB 119 'Employee Benefits'](#) by significantly changing the recognition and measurement of defined benefit superannuation plan (DBP) expense and termination benefits, and the disclosures for employee benefits.

The changes are effective for annual periods beginning on or after 1 January 2013 and must be applied retrospectively. Although not yet effective, agencies must assess the impact of the changes and make appropriate disclosures in the 2013 financial statements.

The amendments are intended to improve the comparability and understandability of changes occurring year-on-year in DBPs, by removing options and requiring entities to recognise changes immediately. The changes will also give users of financial statements clearer information about an entity's obligations resulting from providing a DBP and the impact of those obligations in the future.

The key changes include:

Change	Impact
Interest on the expected rate of return on defined benefits plan assets	'Net interest' is simply calculated as the net defined benefit liability/asset multiplied by the discount rate used to measure the defined benefit obligation. The greater the difference between the expected return on plan assets and the rate used to discount the obligation, the greater the impact of this change. (This change will impact agencies whose defined benefit liability is not assumed by the Crown).
New disclosure requirements	The new disclosure requirements help users assess matters such as: <ul style="list-style-type: none"> • characteristics of an entity's DBP • amounts recognised in the financial statements • risks arising from DBPs and multi-employer plans • impact of DBP on amount, timing and certainty of future cash flows.
Consistent presentation of changes in assets and liabilities	Entities must recognise: <ul style="list-style-type: none"> • service and finance costs in profit or loss • re-measurements (previously actuarial gains/losses) in other comprehensive income (OCI) • surplus as net defined benefit asset and deficit as net defined liability.
Changes to timing for recognition of liabilities for termination benefits	Termination benefits will now be recognised at the earlier of: <ol style="list-style-type: none"> 1. when an entity can no longer withdraw the offer of benefits; and 2. when the entity recognises restructuring costs within the scope of AASB 137 and involves payment of termination benefits.
Classification of short-term and long-term employee benefits	Clarifies classification is based on when payment is expected, not when payment can be demanded. Annual leave, not expected to be used within 12 months of the end of the reporting period, will be discounted.
Elimination of the 'corridor method'	Actuarial gains/losses for a DBP must be recognised immediately in OCI and can no longer be deferred. (The 'corridor' option was not previously permitted under NSW Treasury mandates).

Changes to presentation requirements mean an entity's change in net defined benefit liability/asset is split into different components and recognised in OCI as follows:

Service cost	Employees' service cost, (including current and past service costs and gains/losses on settlements) is recognised in profit or loss.
Net interest	Interest expense/(income) on the defined benefit liability/(asset) is recognised in profit or loss.
Re-measurements	Other changes in value of defined benefit obligation – (actuarial gains/losses, return on plan assets and any change in effect of asset ceiling) are recognised in OCI.





Query of the Month

Query: What resources are available to help me ensure my agency has suitable corporate governance, an appropriate control framework and prepares high quality financial statements and annual report?



Answer:

1. Corporate Governance and Controls

Not-for-profit (NFP) reporting has been in the news recently because the Australian Charities and Not-for-profits Commission (ACNC) will regulate the charities and NFP sector. New reporting obligations start on 1 July 2013.

The NSW Treasury's [TPP 09-05](#) 'Internal Audit and Risk Management Policy for the NSW Public Sector', sets out minimum requirements for corporate governance at NSW public sector organisations and is considered to represent better practice. The policy sets out the responsibilities of Audit and Risk Committees, which include the review and oversight of:

- internal controls
- risk management
- corruption and fraud prevention
- external accountability (including the financial statements).

The Audit Office NSW [Governance Lighthouse](#) details 17 points of governance based on the ASX Corporate Governance principles.

Entities may also find the recently released International Federation of Accountants (IFAC) [Good Practice Checklist for Small Business](#) useful. Although originally issued as a guide for practitioners it has broader application for small to medium sized businesses. The IFAC guide also features a new section on environmental management.

2. Financial Statements and Annual Reports

The Financial Reporting Code for NSW General Government Sector Entities (the Code), released in February 2013 as

Treasury [TPP13-01](#), sets minimum reporting standards for NSW general government sector (GGS) entities. It outlines the form and content of financial statements, including the accompanying note disclosures and references to accounting standard and other reporting requirements.

The Institute of Chartered Accountants Australia has released its fourth edition of [Enhancing not-for-profit annual and financial reporting](#), which is a useful reference for not-for-profit organisations compiling of financial statements and annual reports. The publication incorporates recommendations from the 2011 PwC Transparency Awards and explores concepts of integrating reporting. The foundation for this work was an ICAA 2006 research project, [Not-for-profit sector reporting: a research project](#).

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:

- attended the CPA Australia launch of 'Australia's Competitiveness: From Lucky Country to Competitive Country' (2 May 2013)
- attended PricewaterhouseCoopers 'State of the Internal Audit Profession' presentation (9 May 2013)
- presented 'Use of IT Tools in Audits in Australia' at EURORAI's international seminar in Suzdal, Russia (17 May 2013)

Auditor-General's Performance Audit Reports to Parliament

On 2 May 2013, the Auditor-General released the report '[Management of the CLUBGrants Scheme](#)'.

The ClubGRANTS scheme gives tax rebates to clubs for supporting their local community. Registered clubs are entitled to a maximum of 2.25 per cent in tax rebates on gaming machine profits over \$1 million. In 2012, 472 registered clubs participated in the scheme.

In this audit we examined whether the ClubGRANTS scheme is effectively managed by the Office of Liquor Gaming and Racing (OLGR).

The Office of Liquor, Gaming and Racing needs to improve the





transparency of the ClubGRANTS scheme as taxpayers have the right to know that clubs are using the tax rebates to benefit the community.

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

[AASB Meeting Highlights – 10 April 2013](#)

Topics discussed by the AASB at its meeting included:

- its decision to change the application focus of Australian Accounting Standards from ‘reporting entity’ to entities preparing ‘general purpose financial statements’
- policy issues will result from the above point and the AASB will work with key regulators to assess what these implications are
- finalisation of the revised superannuation standard to replace AAS 25 Reporting by Superannuation Plans. The AASB hopes to issue the new standard in August 2013.

The AASB has:

- issued an invitation to comment [ITC 28 Request for Information on Rate Regulation](#) which mirrors the IASB request for information of the same name. Comments to the AASB close 7 May 2013
- published an updated version of its staff paper ‘[Possible Financial Reporting Implications of the Fixed Price Phase of the Carbon Pricing Mechanism for Emitter Entities](#)’
- issued [ED 240 Regulatory Deferral Accounts](#) the IASB’s interim proposals for rate regulated activities, contained in its ED 2013/5. Comments close 5 August 2013.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 23-25 April 2013](#)

Topics discussed included:

- comprehensive review of IFRS for SMEs
- recoverable amount disclosures for non-financial assets
- the conceptual framework
- post-implementation reviews of IFRS 8 Segment Reporting
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Interpretation on Levies
- Annual improvements to IFRSs 2010-12 and 2012-14 cycles.

The IASB has released published:

- [Exposure Draft 2013/5 Regulatory Deferral Accounts](#). Comments close 4 September 2013
- [Exposure Draft ED/2013/6 Leases](#). Comments close 14 September 2013.

Recent podcasts released by IASB include:

- [frequently asked questions](#) on Exposure Draft 2013/3 and AASB ED 237 Financial Instruments: Expected Credit Losses.

International Update – International Federation of Accountants (IFAC)

- IFAC has recently released its [2012 annual report](#).

International Update – International Financial Reporting Standards (IFRS) Foundation

[IFRS Foundation Meeting Highlights – 11 April 2013](#)

The Trustees discussed the following topics:

- the creation of the Accounting Standards Advisory Forum
- the progress of IFRS adoption worldwide, especially in the US and Japan
- a technical projects update
- the work of the Due Process Oversight committee.

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

[IPSASB Meeting Highlight – 11-14 March 2013](#)

The Board discussed the following topics:

- the conceptual framework – [ED 4 Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Presentation in General Purpose Financial Reports](#) is now issued and open for comment until 15 August 2013
- financial statement discussion and analysis
- reporting on the long-term sustainability of an entity’s finances
- public sector combinations
- first-time adoption of accrual basis IPSASs.

International Integrated Reporting Council (IIRC)

- The IIRC has released [Consultation Draft of the International Integrated Reporting Framework](#). Comments close 15 July 2013.





Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB Meeting Highlights – 29 April 2013](#)

Topics discussed by the AUASB at its meeting included:

- revisions to ASA 610 and ASA 315
- composite auditing and assurance engagements (including grant acquittals)
- assurance engagements on controls
- agreed-upon procedures engagements – amendment on distribution of reports
- AASB update
- assurance on water accounting reports.

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

[IAASB Meeting Highlights – 15-19 April 2013](#)

Topics discussed by the IAASB at its meeting included:

- auditor reporting
- ISA implementation monitoring
- ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information
- disclosures
- innovations, needs and future opportunities
- feedback on ISA 720 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:

- [APES 230 Financial Planning Services](#) which details the professional and ethical requirements for professional accountants who provide financial planning and credit advice, and builds on APS 12. APES 230 is effective from 1 July 2014.

[APESB Meeting Highlights – 5 April 2013](#)

- This meeting of the Board focused on discussion and approval of APES 230 Financial Planning Services.

Financial Reporting Council (FRC)

[FRC Meeting Highlights – 15 March 2013](#)

At its meeting, the FRC discussed the following:

- the draft strategic plan
- AASB and AUASB updates
- public sector task force update.

The Treasury – NSW Government

New Treasury Policy Papers, Circulars and Research Papers

- [NSW TC-13/04](#) Financial Accounting Arrangements for the Crown Entity Budget Controls – Labour Expense Cap (15 April 2013)

Public Accounts Committee

Inquiries

The NSW Parliament's Public Accounts Committee has commenced:

- [follow up of the Auditor-General's 2012 Financial Audit Report](#) (9 May 2013)

Reports

[Reports tabled](#) in NSW Parliament:

- The partial defence of provocation (23 April 2013)
- Report No 68: Possible non-compliance with the 2009 Mt Penny order for papers (30 April 2013)
- Land valuation system – Report on the inquiry into the land valuation system and the eighth general meeting with the Valuer General (2 May 2013)
- Review of the Parliamentary Electorates and Elections Act 1912 and the Election Funding, Expenditure and Disclosures Act 1981 (9 May 2013)
- Management of public land in New South Wales (15 May 2013)
- The use of cannabis for medical purposes (15 May 2013)





Australian Securities and Investments Commission (ASIC)

Recent [regulatory guides](#) released:

- RG 248 Litigation schemes and proof of debt schemes: Managing conflicts of interest.

Recent [consultation papers](#) released:

- CP 206 Shaping a National Financial Literacy Strategy for 2014-16 – open for comment until 30 June 2013.

Recent [reports](#) released:

- Report 337: SMSFs: Improving the quality of advice given to investors
- Report 338 Response to submissions on CP 185 Litigation schemes and proof of debt schemes: Managing conflicts of interest
- Report 339 Review of the National Financial Literacy Strategy – Background report
- Report 340 'Capital protected' and 'capital guaranteed' retail structured products
- Report 341 Retail investor research into structured 'capital protected' and 'capital guaranteed' investments
- Report 342 ASIC regulation of registered liquidators: January to December 2012
- Report 343 Response to submissions on CP 195 Proposed amendments to ASIC market integrity rules: ASX 24 and FEX markets.

Recent [speeches](#) released:

- Global challenges facing regulators in the next decade (24 April 2013)
- ASIC's perspective on resources and reserves reporting (29 April 2013)
- Launch of ASIC multimedia activities on mobile phone use (7 May 2013)
- ASIC's outlook ... the road ahead (8 May 2013)
- The changing perimeter of securities regulation: The perspective from Australia (13 May 2013)

ASIC [Media Releases](#):

- 13-073MR ASIC releases policy on cooperation and third enforcement report
- 13-081MR Maintaining a healthy SMSF sector: Improving the quality of advice

- 13-085MR ASIC releases guidance on managing conflicts of interest in litigation schemes and proof of debt schemes
- 13-093MR ASIC health check on capital protected products
- 13-094MR ASIC reports on supervision of registered liquidators
- 13-095MR Consumers warned about scam impersonating ASIC
- 13-098MR ASIC helps teens become mobile phone savvy
- 13-102MR ASIC makes new rules for ASX 24 market
- 13-103MR ASIC updates guidance for new hardship obligations
- 13-110MR ASIC consults on reforms for charitable investment fundraising

Australian Prudential Regulation Authority (APRA)

Recent [APRA releases](#):

- APRA's package of [35 final reporting standards](#), reporting forms and instructions for APRA-regulated superannuation funds. The requirements in 24 of the final reporting standards take effect from 1 July 2013, with the remaining 11 taking effect from 1 July 2014
- APRA releases consultation on harmonised and enhanced risk management requirements 9 May 2013)

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

[ACNC Advisory Board meeting 19 April 2013](#)

Topics discussed at the meeting included:

- final input on the Terms of Reference of the soon-to-be formed ACNC's Users Group
- structure, tone and content of the Annual Report to Parliament
- exposure draft Charities Bill 2013 and Explanatory Material
- financial reporting and the impact on smaller charities if general purpose financial reporting is required by the AASB
- proposed External Conduct Standards.

[The ACNC has released:](#)

- Governance for Good – the ACNC's guide for charity board members





- its [regulatory approach document](#), setting out how it will approach its regulatory work.

Defining the term ‘charity’

The Federal Government has issued draft legislation in two new bills, the [Charities Bill 2013](#) and the [Charities \(Consequential Amendments and Transitional Provisions\) Bill 2013](#), containing a statutory definition of the term ‘charity’. The draft legislation has a proposed start date of 1 January 2014 and is accompanied by [explanatory materials](#) and a [fact sheet](#).

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Report 28: The Australian Government Performance Measurement and Reporting Framework – Pilot Project to Audit Key Performance Indicators (23 April 2013)
- Report 29: Administration of the Veterans’ Children Education Schemes (30 April 2013)
- Report 30: Management of Detained Goods (1 May 2013)
- Report 31: Implementation of the National Partnership Agreement on Homelessness (2 May 2013)
- Report 32: Grants for the Construction of the Adelaide Desalination Plant (7 May 2013)
- Report 33: The Regulation of Tax Practitioners by the Tax Practitioners Board (8 May 2013)
- Report 34: Preparation of the Tax Expenditures Statement (9 May 2013)
- Report 35: Control of Credit Card Use (16 May 2013)

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

- Central Government: Results of the 2011/12 audits (April 2013)
- Draft annual plan 2013/14 (April 2013)
- Statement of Intent 2013-2016 (May 2013)

Victorian Auditor-General’s Office (VAGO)

- 2012-13:25 Managing Traffic Congestion (17 April 2013)
- 2012-13:26 Consumer Protection (17 April 2013)
- 2012-13:27 Public Asset Valuation (17 April 2013)
- 2012-13:28 Planning, Delivery and Benefits Realisation of Major Asset Investment: The Gateway Review Process (8 May 2013)

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

- 2/2013: Follow-on Performance Audit to ‘Room to Move: Improving the Cost Efficiency of Government Office Space (17 April 2013)
- 3/2013: Management of Injured Workers in the Public Sector (8 May 2013)
- 4/2013: Audit Results Report – Annual Assurance Audits and Across Government Benchmarking Audits (15 May 2013)

Queensland Auditor-General’s Office (QAO)

- Report 10: Results of audits: Local government entities 2011-12 (16 April 2013)
- Report 11: Results of audits: Education sector entities 2012 (30 April 2013)

Useful Resources

Productivity Commission

- [Better Indigenous Policies: The Role of Evaluation – Roundtable Proceedings Released](#) (30 April 2013)
- ‘The Productivity Reform Outlook’ presented by the Productivity Commission Chairman (1 May 2013)

Independent Pricing & Regulatory Tribunal (IPART)

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

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

- changes in regulated gas prices from 1 July 2013 (23 April 2013)
- changes in regulated electricity prices from 1 July 2013 (23 April 2013)
- the impact of green schemes on a typical residential electricity bill from 1 July 2013 (23 April 2013)
- rental arrangements for communications towers on Crown Land (30 April 2013)
- changes proposed for NSW Taxi fares (6 May 2013)
- review of water, sewerage and stormwater drainage prices for Gosford City and Wyong Shire Councils (14 May 2013)
- final report on developer charges for Gosford and Wyong (14 May 2013)

Australian Competition & Consumer Commission (ACCC)

- the ACCC has released [Draft Authorisation Guidelines 2013](#)





for public comment. Submissions close 31 May 2013

- the ACCC has released the [March 2013 quarterly report](#) (9 May 2013).

Centre for Audit Quality (CAQ)

- the CAQ has released a video '[Fighting Fraud](#)' which explains the responsibilities of audit committee members, financial executives, internal and external auditors to reduce the risk of fraud. This is the fourth free video in a series released by the CAQ aimed at informing the general public about laws and requirements in place to protect investors' interests
- the CAQ, the Federation of European Accountants (FEE) and the Institute of Chartered Accountants Australia have released a report '[Global Observations on the Role of the Audit Committee](#)'.

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