

Professional update

Accounting and auditing developments |



May 2014

Hot Topics

AASB Staff Paper – To Disclose or Not to Disclose: Materiality is the Question

The Australian Accounting Standards Board (AASB) has published a staff paper 'To Disclose or Not to Disclose: Materiality is the Question' to help preparers and auditors cut through the boilerplate.

The paper was written in response to increasing concerns about the volume, complexity and usefulness of financial statement disclosures. The topic of 'disclosure overload' is not a new one, and has been explored and debated by many over the years.

The paper identifies an increasingly litigious environment, the desire to avoid lengthy discussions with auditors and a lack of confidence in applying judgement as some of the reasons for 'disclosure overload'.

The paper acknowledges the steps taken by the International Accounting Standards Board (IASB) to address the concerns, including adding a project to its research agenda to explore how disclosures in IFRS financial reporting can be improved. Whilst the paper welcomes this project as a step in the right direction, it notes that 'due process may take time'. The paper provides a list of 'do nots' when assessing whether to include information in financial statements. These include:

- do not feel obliged to include every disclosure illustrated in model financial statements
- do not blindly copy disclosures of other entities. Use professional judgment to determine what should, and should not, be included
- do not slavishly repeat prior year disclosures, as circumstances may change
- do not disclose accounting policy choices unless they are relevant and necessary to understand information provided. As a rule; the 'less judgement needed to apply a policy the less likely it is that a disclosure would be needed'
- do not assume auditors will require every disclosure required by the accounting standards
- do not unduly fear regulators. Regulators are increasingly confirming they will not pursue immaterial non-disclosures.

Financial statement preparers in NSW General Government Sector agencies are required to follow the fixed format financial statements and note disclosures in NSW Treasury's Financial Reporting Code (the Code). However, the Code allows for the omission of items in the fixed format financial statements and note disclosures where such items are immaterial in amount and/or nature, or are not relevant to an agency. Agencies are strongly encouraged to consider the materiality and relevance of all items when preparing the financial statements to reduce disclosure overload.

Conversely, additional disclosures may be required to adequately convey information that may be material to users' understanding of the financial statements. AASB 13's fair value disclosure requirements for assets with level three inputs will be particularly

This edition includes:

- AASB Staff Paper – To Disclose or Not to Disclose: Materiality is the Question**
- TC 14/06 Funding Arrangements - Long Service Leave and Transferred Officers Leave Entitlements**
- AASB Releases Essay 2014-1: The Critical Role of the Reporting Entity Concept in Australian Financial Reporting**

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challenging for preparers this year. Multiple input factors may be involved in fair value assessments, many of which involve considerable professional judgement. Disclosures should convey the relevant information in a way that is informative and useful to users. Note: draft disclosures are not available in the Code.

Agencies' analysis and determinations about draft disclosures should be carefully documented, and where items are omitted, agencies should document their rationale for doing so.

Please click [here](#) to access a copy of the AASB staff paper.

TC 14/06 Funding Arrangements for Long Service Leave and Transferred Officers Leave Entitlements

NSW Treasury has released [NSW TC 14/06](#) 'Funding Arrangements for Long Service Leave and Transferred Officers Leave Entitlements'. This circular outlines the funding arrangements for Long Service Leave (LSL) and for transferred officers' leave entitlements. It applies to all NSW public sector agencies for financial years ending on or after 30 June 2014 and withdraws and supersedes Treasury Circular NSW TC 10/04.

The main changes to this circular are to:

- provide more detail on the funding arrangement for LSL and transferred officers' leave entitlements
- confirm contribution rates of the Agency Funded LSL Pool are unchanged based on a more recent actuarial assessment
- provide an updated list of agencies under different LSL categories.

This circular confirms the recent agency restructures, effected by the Administrative Arrangements Order under the *Government Sector Employment Act 2013*, do not change the status of LSL assumed by the Crown. For additional details refer to Section D of the circular.

This circular should be read together with [NSW TC 14/04](#), or its replacement, which outlines the accounting treatment for LSL.

AASB Releases Essay 2014-1: The Critical Role of the Reporting Entity Concept in Australian Financial Reporting

The Australian Accounting Standards Board (AASB) has released an essay which explores whether the 'reporting entity' concept is still critical to General Purpose Financial Statements (GPFS) in Australia.

The main topics discussed in the article include:

- where the definition originated from and whether it aligns with the expectations of both preparers and users of GPFS
- public concerns about how the reporting entity concept is applied, in particular, how preparers exercise their professional judgement to determine whether an entity is a reporting entity
- a summary of AASB consultations to determine how best to address public concerns, including consideration of whether the reporting entity concept should be withdrawn entirely
- a summary of research commissioned by the AASB to identify 'whether there is consistency in the current treatment of entities as either reporting entities or non-reporting entities', and the nature of accounting policy choices made by entities classified as non-reporting. The feedback from this research varied and has led the AASB to conduct further research of which results are expected by 30 June 2014
- policy implications for the AASB and regulators if the reporting entity concept is removed.

Please click [here](#) to access a copy of the AASB staff paper.

Audit Office of New South Wales

Grant Hehir, NSW Auditor-General, hosted the Audit Office Audit and Risk Committee Chairs and Treasurer's annual forum on 1 May 2014. On the 9 May 2014 he presented at the PAC Forum – Planning NSW for the 22nd Century – 'Future audits on infrastructure on 9 May 2014'.

Auditor-General's Performance Audit Reports to Parliament

- On the 8 May 2014 the Auditor General released the report '[Regional Road Funding – Block Grant and REPAIR Programs](#)'.

This audit examined whether the Regional Roads Block Grant and Repair and Improvement of Regional Roads (REPAIR) programs are effective in promoting value for money outcomes. It found that the allocation and accountability of the Block Grant program needs to improve and the REPAIR program needs better implementation in regions.

The Auditor-General recommends that RMS continue to work with councils to improve the quality of data and projects under the REPAIR program should be selected from a regional





perspective and adequate weight be given to whole-of-life costs and economic development.

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The AASB has issued:

- comments to the IFRS Interpretations Committee on IAS 37 measurement of liabilities tentative agenda decision (2 May 2014)
- Exposure Draft – ED 248 Amendments to AASB 1053: Transition to and between tiers, and related tier two disclosure requirements - comments close 19 May 2014
- Invitation to Comment – ITC 30 request for comment on IASB request for information on post-implementation Review: IFRS 3 Business Combinations – comments close to IASB 30 May 2014.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 22 to 25 April 2014](#)

Topics discussed included:

- leases
- agriculture: bearer plants
- narrow-scope amendments – IFRS 10, IAS 28 and IFRS 2
- rate-regulated activities
- equity method in separate financial statements
- conceptual framework
- insurance contracts
- disclosure initiative.

The IASB has published:

- amendments to IFRS 11 Joint Arrangements (7 May 2014)

[IASB Podcasts](#)

Recent podcasts released by IASB include:

- conceptual framework, leases, disclosure initiative, insurance contracts, the IASB research programme (April 2014).

International Update – International Federation of Accountants (IFAC)

IFAC has recently released:

- IAASB re-proposes standard addressing information in annual reports; further clarifies auditor effort and reporting responsibilities (18 April 2104)
- IFAC encouraged by some recent developments in government accounting, but G-20 needs to maintain focus (5 May 2014).

International Update – International Financial Reporting Standards (IFRS) Foundation

IFRS Foundation Meeting Highlights – 8 to 10 April 2014

The trustee meeting discussed the following topics:

- IPSASB Governance Review
- IFRS international developments
- disclosure initiative
- leases
- revenue recognition
- IASB's current technical activities
- financial instruments project
- Post Issuance Implementation group for IFRS 9 Impairment.

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

The International Auditing and Assurance Standards Board (IAASB) have re-exposed [ISA 720 \(Revised\), The Auditor's Responsibilities Relating to Other Information](#). The proposed amendments to the standard clarify and strengthen the scope and focus of auditor efforts on information included in entities' annual reports, other than the audited financial statements, and introduces new auditor reporting responsibilities. The AUASB invites comments on this IAASB exposure draft addressing other information in annual reports. [Comments to the AUASB](#) close 1 July 2014.





Ethics Update

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

[APESB Meeting Highlights – 8 May 2014](#)

Topics discussed include:

- review of APES 230 Financial Planning Services
- proposed ED 01/14 APES 315 Compilation of Financial Information
- annual review of APES 205 Conformity with Accounting Standards
- annual Review of APES 225 Valuation Services
- annual Review of APES 310 Dealing with Client Monies
- annual Review of APES 320 Quality Control for Firms.

Treasury – NSW Government

New Treasury Policy Papers, Circulars and Research Papers

- [NSW TC 14/07](#) Financial Accounting Arrangements for the Crown Entity
- cost of living relief for NSW households (22 April 2014)
- new wage award for the NSW Police Force (24 April 2014)
- strong investment returns deliver a boost to Workers Comp Scheme (28 April 2014).

Public Service Commission (PSC)

The PSC has released the following circulars:

- PSCC 2014-06 People Matter 2014 NSW Public Sector Employee Survey (1 May 2014)

Public Accounts Committee

Reports

[Reports tabled](#) in the NSW Parliament:

- Examination of the Auditor-General's Performance Audits April 2012 – August 2012 (8 May 2014)

Australian Securities and Investments Commission (ASIC)

Recent [reports](#) released:

- Report 390 Review of OTC electricity derivatives market participants' risk management policies (17 April 2014)
- Report 391 ASIC's deregulatory initiatives (7 May 2014)
- Report 392 Market assessment report: Chi-X Australia Pty Ltd (7 May 2014).

Recent [speeches](#) released:

- senate inquiry into the performance of the Australian Securities and Investments Commission - opening statement April 2014 (10 April 2014).

ASIC [Media Releases](#):

- 14-083MR ASIC's OTC electricity derivatives report (17 April 2014)
- 14-090MR ASIC bans Sydney directors following company failures (29 April 2014)
- 14-099MR ASIC reports on red-tape reduction and invites feedback (7 May 2014)
- 14-100MR two men arrested for insider trading and abuse of public office, \$7 million restrained (9 May 2014).

Australian Prudential Regulation Authority (APRA)

[Recent APRA releases](#):

- APRA improves capital-raising options for mutual ADIs (15 April 2014)
- APRA proposes simplified prudential framework for securitisation (29 April 2014).

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

[Recent ACNC releases](#):

- Commissioner's Column (23 April 2014 and 8 May 2014)
- good governance a priority for new charities – regulator (17 April 2014)
- regulation necessary for good governance – international charity regulators (11 April 2014).





New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Report 26: Medicare Compliance Audits (23 April 2014)
- Report 27: Integrity of Medicare Customer Data (24 April 2014)
- Report 28: Review of Child Support Objections (30 April 2014)
- Report 29: Regulation of Commonwealth Radiation and Nuclear Activities (7 May 2014)
- Report 30: Administering the Code of Good Manufacturing Practice for Prescription Medicines (7 May 2014)
- Report 31: The Australian Electoral Commission's Storage and Transport of Completed Ballot Papers at the September 2013 Federal General Election (8 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 key performance indicators (7 May 2014)
- Report No. 10 of 2013-14: Government Radio Communications (8 May 2014).

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

- The Implementation and Initial Outcomes of the Suicide Prevention Strategy (7 May 2014)
- Audit Results Report – Annual 2013 Assurance Audits (7 May 2014).

Queensland Auditor-General's Office (QAO)

- Report 16: Results of audit: Education sector entities 2013 (6 May 2014)
- Report 17: Queensland Ambulance Service performance (May 2014).

Useful Resources

Independent Pricing & Regulatory Tribunal (IPART)

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

- IPART's new approach to estimating the cost of debt - April 2014 (1 May 2014)
- Setting fees for trustee and guardianship services (9 May 2014).

Australian Competition & Consumer Commission (ACCC)

ACCC [media releases](#):

- Irrigators continue to benefit from lower barriers to trade in the Murray-Darling basin (8 May 2014)
- Don't pay a scammer for a fake energy bill (1 May 2014)
- ACCC issues carbon monitoring report (1 May 2014).

Association of Superannuation Funds of Australia (ASFA)

ASFA [media releases](#):

- ASFA's response to the Commission of Audit report (1 May 2014)
- Rising retirement costs highlight the importance of superannuation (9 May 2014).

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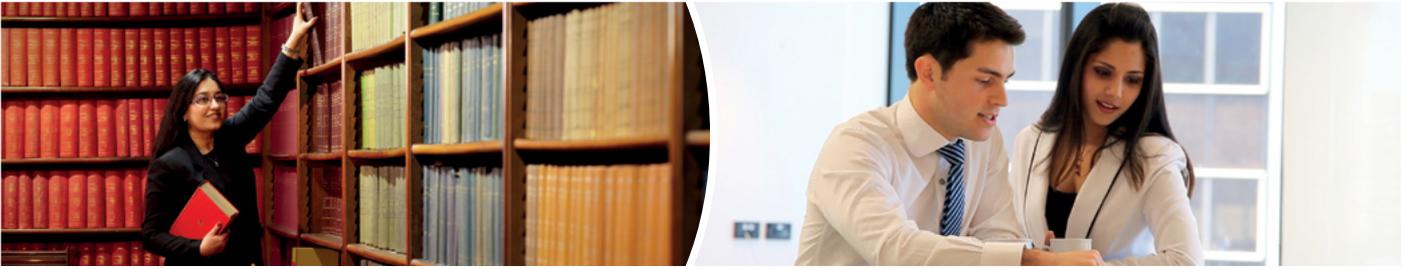
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