

Professional update

Accounting and auditing developments |



May 2015

Hot Topics

Hot Topic 1: Income of Not-for-Profit Entities

The Australian Accounting Standards Board (AASB) recently released [ED 260](#) 'Income of Not-for-Profit Entities'. This exposure draft (ED) proposes:

- guidance to help not-for-profit (NFP) entities apply the principles in AASB 15 'Revenue from Contracts with Customers'
- replacing the income recognition requirements in AASB 1004 'Contributions'.

The amendments will:

- allow NFP entities to account for both 'reciprocal' and 'non-reciprocal' revenue from contracts with customers under AASB 15
- remove the distinction about whether transactions are 'reciprocal' or 'non-reciprocal'.

The proposed amendments change accounting for income from grants and contributions. NFP entities will be able to defer income from grants and donations where specific and enforceable conditions attach to the goods or services provided, regardless of whether the ultimate beneficiary is the grantor or a third party. Currently income is recognised immediately if the ultimate beneficiary is not the grantor. The AASB believes the proposals will more accurately match income and expenditure and address constituents' concerns that AASB 1004 prematurely recognises income for certain contributions. Certain transfers, such as donations which have no conditions attached will continue to be recognised immediately.

The proposals also require transactions with a donation element to be recognised at fair value. Finance lease with a peppercorn rental will be recognised at fair value, with a corresponding recognition of grant income (unless performance conditions are attached).

It is anticipated the replacement of AASB 1004 will coincide with the implementation of AASB 15. Both are currently scheduled to apply to annual reporting periods beginning on or after 1 January 2017, (early adoption permitted). However, the IASB has proposed delay of the implementation of AASB 15 until 1 January 2018, which is likely to delay application of the AASB's proposed standard.

For-profit entities will continue to account for grant and contributions under AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance'.

Comments are due to the AASB by 14 August 2015.

Hot Topic 2: Complete AASB 9 'Financial Instruments' released

The Australian Accounting Standards Board (AASB) has released the complete version of [AASB 9](#) 'Financial Instruments', superseding AASB 9 (2009), AASB 9 (2010) and AASB 139 'Financial Instruments: Recognition and Measurement'. While this standard will not be effective for the majority of NSW Government agencies until 30 June 2019, agencies should assess the impact of this standard and ensure the disclosures required by paragraphs 30 and 31 of [AASB 108](#) 'Accounting Policies,

This edition includes:

- **Income of Not-for-Profit Entities**
- **Complete AASB 9 'Financial Instruments' released**
- **Accounting for Long Service Leave and Annual Leave**
- **The IASB Progresses its Disclosure Initiative**
- **More Relevant Information in the Independent Auditor's Report**

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Changes in Accounting Estimates and Errors' are made in this year's financial statements.

This standard now governs all aspects of financial instruments and includes chapters on:

- classification and measurement – assets (Dec 2009)
- classification and measurement – liabilities (Dec 2010)
- hedge accounting (Dec 2013)
- impairment (Dec 2014).

The key changes introduced by this standard include:

- new requirements for impairment of financial assets based on a three-stage 'expected credit loss' approach. This approach introduces a more forward looking provisioning model for recognising expected credit losses. A loss event will no longer need to occur before a loss allowance is recognised
- amendments to the classification and measurement of financial assets by:
 - introducing two new classification criteria. Classification will be based upon the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. This assessment requires judgement and may result in significant changes to how financial assets are classified and measured
 - adding a third measurement category for debt instruments. The new category of fair value through other comprehensive income (FVOCI) is added to the existing categories for debt instruments, i.e. amortised cost and fair value through profit or loss (FVTPL)
 - no longer separating embedded derivatives from their financial asset hosts. Instead, the entire instrument is assessed for classification
 - allowing entities to make irrevocable elections in regards to the presentation of subsequent changes in the fair value of non-trading equity instruments
- a substantially reformed model for hedge accounting to make hedge accounting easier to understand and better aligned with an entity's risk management practices. Whilst the amendments do not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness, more hedging relationships will qualify for hedge accounting. The new hedge accounting

provisions can only be applied prospectively from the date the hedge accounting requirements are met

- amendments to AASB 7 'Financial Instruments: Disclosures' that significantly expand the disclosures required in relation to credit risk.

For those agencies permitted to adopt early, the transition rules are complex and should be carefully considered.

Hot Topic 3: Accounting for Long Service Leave and Annual Leave

NSW Treasury has released [NSW TC 15/09 'Accounting for Long Service Leave and Annual Leave'](#). This circular outlines the accounting treatment for long service leave (LSL), annual leave and related on-costs, applicable to NSW public sector agencies (including Statutory State Owned Corporations) for financial years ending on or after 30 June 2015.

This circular is issued as a Direction in accordance with section 9 and 45E of the *Public Finance and Audit Act 1983* and withdraws and supersedes Treasury Circular NSW TC14/04.

This circular has been updated to reflect the results of a recent actuarial valuation performed by Treasury's actuary. The key changes are:

- Changes in LSL on-cost factors applicable to Crown Funded LSL agencies and Agency Funded Crown LSL Pool agencies (refer Part A Section 3, Table 1)
- Superannuation on-cost factors for NSW Health are now aligned with other agencies (refer Part A Section 3, Table 1)
- Change in the current and non-current allocation of LSL and related on-costs liabilities (refer Part C, Section 1).

To comply agencies will need to:

- calculate their year-end provisions in accordance with this circular unless the individual circumstances of the agency indicate the on-cost factors and current/non-current percentage splits are not appropriate. Where this is the case, the agency should liaise with both the audit team and Treasury
- update the reference to TC14/04 with TC15/09 in the 'Employee benefits and other provisions' accounting policy disclosure in Note 1 of the pro-forma early close and year-end financial statements.





Hot Topic 4: The IASB Progresses its Disclosure Initiative

The International Accounting Standards Board (IASB) issued amendments to IAS 1 'Presentation of Financial Statements' in December 2014, as part of its Disclosure Initiative. The Australian Accounting Standards Board (AASB) approved these amendments and released [AASB 2015-2 - Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101](#).

The AASB had previously highlighted its concerns about the volume, complexity and usefulness of financial statement disclosures in its Staff Paper titled 'To Disclose or Not to Disclose: Materiality is the Question' (previously a 'Hot Topic' in the May 2014 edition of Professional Update).

Whilst this standard is only effective from 1 January 2016, the amendments clarify existing requirements agencies can consider when preparing their current financial statement disclosures. The amendments reiterate that materiality should be considered when applying all accounting standards, including the associated disclosures required by those standards.

The amendments to AASB 101 clarify that:

- information should not be obscured by aggregating or disclosing immaterial information
- the concept of 'materiality' applies to not only the financial statements but also the accompanying note disclosures
- even when a standard specifies minimum disclosure requirements, if these disclosures are immaterial, they do not need to be disclosed
- line items in the Statement of Financial Position and the Statement of Comprehensive Income can be disaggregated and aggregated when such presentation is relevant to an understanding of an entity's financial position and financial performance
- notes are to be presented systematically (or grouped) keeping in mind the effect on understandability and comparability of the financial statements. The amendments provide the examples of ways preparers can improve disclosures

- the nature of an entity's operations and user expectations should be considered when determining which accounting policies to disclose.

Financial statement preparers in NSW General Government Sector agencies following the fixed format of NSW Treasury's Financial Reporting Code should nonetheless consider the materiality and relevance of proposed disclosures when preparing financial statements.

Agencies should document their proposed changes to streamline financial statements and disclosures, along with their justification, to discuss with their auditors.

Hot Topic 5: More Relevant Information in the Independent Auditor's Report

International and local standard-setters have responded to calls for better, more relevant information in the Independent Auditors Report. The proposed auditing standard ASA 701 [Communicating Key Audit Matters in the Independent Auditor's Report](#) will change the way auditors will communicate with the users of their reports.

The most notable proposal is a requirement for auditors of financial reports of listed entities to communicate "Key Audit Matters" (KAMs). KAMs are those matters the auditor views as most significant to the users of the Independent Auditor's Report. The KAM may explain both the issue and how it was addressed in the audit. The Exposure Draft asks for comments on whether, in future, the requirement should be extended to the audit of other entities. This raises the possibility of future Independent Auditor's Report on public sector entities also including KAMs.

KAMs are matters that required significant auditor attention when performing the audit. KAMs are selected from matters already communicated to those charged with governance of the audited entity and may include account areas of higher risk, significant events or transactions or areas which required significant auditor judgement.

The Exposure Draft is due for comment by 30 June 2015.





Audit Office of New South Wales

Grant Hehir, NSW Auditor-General:

- is to be appointed the next Commonwealth Auditor-General and will leave the NSW position on 5 June.

Auditor-General's Financial Audit Report to Parliament

- [Volume Two 2015 focusing on Universities](#) (28 May 2015).

Auditor-General's Performance Audit Reports to Parliament

- [Country Towns Water Supply and Sewerage Program](#) (4 May 2015)
- [Large construction projects: Independent assurance](#) (7 May 2015).

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The [AASB has issued](#):

- Updated AASB Standard-setting Work Program - April 2015 (22 Apr 2015)
- Exposure Draft ED 260 Income of Not-for-Profit Entities (4 May 2015)
- Proposals on service concession arrangements and fair value disclosures (6 May 2015)
- Proposed deferral of revenue standard (1 May 2015).

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights - 27-29 April 2015](#)

Topics discussed included:

- Fair Value Measurement
- Revenue from Contracts with Customers
- IFRS implementation issues
- Disclosure Initiative
- High Inflation.

[IASB Meeting Highlights - 18-20 May 2015](#)

Topics discussed included:

- Insurance Contracts

- Accounting for Dynamic Risk Management
- Financial Instruments with Characteristics of Equity
- Revenue from Contracts with Customers
- Rate-regulated Activities
- Disclosure Initiative
- IFRS Implementation Issues
- IFRS 2 Share-based Payment Research Project.

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

IPSASB Published:

- [Accounting for Sovereign Debt Restructurings under IPSAS](#) (20 May 2015).

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

Topics discussed at the AUASB's meeting on 20 April 2015 included:

- The Auditor's Responsibilities Relating to Other Information
- Auditor Reporting
- AUASB Bulletin on Internal Audit.

The [AUASB has issued](#):

- ED 01/15 - Explanatory Memorandum Exposure Draft: Reporting on Audited Financial Reports–New and Revised Auditor Reporting Standards and Related Conforming Amendments – Issued 30 Apr 2015
- ED 01/15 - Proposed Auditing Standard ASA 700 Forming an Opinion and Reporting on a Financial Report – Issued 30 Apr 2015
- ED 01/15 - Proposed Auditing Standard ASA 701 Communicating Key Audit Matters in the Independent Auditor's Report – Issued 30 Apr 2015
- ED 01/15 - Proposed Auditing Standard ASA 705 Modifications to the Opinion in the Independent Auditor's Report – Issued 30 Apr 2015
- ED 01/15 - Proposed Auditing Standard ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report – Issued 30 Apr 2015





- ED 01/15 - Proposed Auditing Standard ASA 570 Going Concern – Issued 30 Apr 2015
- ED 01/15 - Proposed Auditing Standard ASA 260 Communication With Those Charged With Governance – Issued 30 Apr 2015
- ED 01/15 - Proposed Auditing Standard ASA 2015-1 Amendments to Australian Auditing Standards – Issued 30 Apr 2015.

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

The IAASB has issued:

- [Auditor Reporting—Illustrative Key Audit Matters.](#)

Australian Securities and Investments Commission (ASIC)

Recent ASIC Media release:

[15-100MR ASIC cancels AFS licences for failing to lodge annual statements.](#)

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Organ and Tissue Donation: Community Awareness, Professional Education and Family Support (29 April 2015)
- Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia (30 April 2015)
- Delivery of the Petrol Sniffing Strategy in Remote Indigenous Communities (5 May 2015)
- Administration of the Assistance for Isolated Children Scheme (6 May 2015)
- Management of Smart Centres' Centrelink Telephone Services (19 May 2015).

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

- Report 32: Restoration of the Lower Cotter Catchment (20 May 2015).

Queensland Audit Office (QAO)

- Report 14: Follow up audit: Tourism industry growth and development (5 May 2015)

- Report 15: Results of audit: Education sector entities 2014 (5 May 2015)
- Report 16: Results of audit: Local government entities 2013-14 (5 May 2015)
- Report 17: Managing child safety information (19 May 2015).

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

- Report on the probity of the processes leading to the awarding of a service contract: Provision of passenger transport services in the City of Whyalla (5 May 2015).

Tasmanian Auditor-General's Office (TAO)

- Report No. 11 of 2014-15: Road management in local government (26 May 2015)
- Report No. 10 of 2014-15: Number of public primary schools (26 May 2015).

Victorian Auditor-General's Office (VAGO)

- Tendering of Metropolitan Bus Contracts (6 May 2015)
- Occupational Violence Against Healthcare Workers (6 May 2015)
- Early Intervention Services for Vulnerable Children and Families (27 May 2015)
- Universities: 2014 Audit Snapshot (27 May 2015).

Western Australia Office of the Auditor General (WA OAG)

- Audit Results Report – Annual 2014 Financial Audits (6 May 2015).

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

- Inland Revenue Department: Governance of the Business Transformation programme (24 April 2015)
- Whānau Ora: The first four years (1 May 2015).

Useful Resources

Independent Commission Against Corruption

[ICAC has released](#)

- Learning the hard way: Managing corruption risks associated with international students at NSW universities (15 April 2015).

Productivity Commission

The Productivity Commission's [recent releases](#):

- International Education Services (30 April 2015).





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