

Professional update

Accounting and auditing developments | May | 2017

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This edition includes:

- New guidance released to help implement AASB 124 Related Party Disclosures
- TPP17-06 Certifying the effectiveness of internal controls over financial information
- Australia's accounting standards - more modifications and guidance needed for the not-for-profit sector

Hot Topics

New guidance released to help implement AASB 124 Related Party Disclosures

The AASB and NSW Treasury have each released guidance to help not-for-profit (NFP) public sector entities implement [AASB 124 'Related Party Disclosures'](#).

The AASB's [Agenda Decision 'Materiality of Key Management Personnel related party transactions of not-for-profit public sector entities'](#) clarifies:

- transactions occurring outside a public services provider/taxpayer relationship will not always be material for disclosure in financial statements
- AASB 124 is not intended to assess an entities' governance or probity issues but rather to ensure the financial statements contain the disclosures necessary to draw the stakeholders' attention to the existence of material related party transactions
- judgement should be applied to determine the extent of information to collect. There is little value incurring significant costs to obtain data that is clearly immaterial for disclosure
- the key determinant in assessing whether something is material for disclosure is whether knowledge of the relationship and terms and conditions of the transaction could impact a user's understanding of the financial statements
- if a transaction has been through a robust procurement process, whereby the KMP has declared an interest and has no influence over the decision-making process in the transaction, the transaction is less likely to be assessed as material for disclosure
- disclosure of the employment of a KMP's close family members in *non-key* roles at the entity, where they are recruited in the same manner and subject to the same terms and conditions as others performing similar roles in the public service, is not material for disclosure.

NSW Treasury has responded to agencies' feedback on the practical challenges of implementing AASB 124 and developed a [frequently asked questions](#) (FAQ) to help them identify, collate and disclose related party transactions. The FAQs consider:

- what factors need to be considered in determining an agency's Key Management Personnel (KMP)
- when can I make qualitative disclosures about transactions with Government-related entities
- do I need to collect information on all transactions with Government-related entities
- do KMP compensation disclosures need to name individual KMPs
- when does someone acting in a KMP role become a KMP for the purposes of AASB 124
- when someone is a KMP for part of the financial year, what part of their compensation should be disclosed
- what are the required disclosures when KMP services are obtained from staff agencies
- what compensation amounts should be disclosed when KMP are shared by several agencies



- when should employment of a KMP's close family member by a NSW Government agency be disclosed
- do agencies need to collect personal information on close family members, if there are no reportable related party transactions with those close family members?

The FAQs accompany the previously released [NSW Treasury TC 16/12 Related party disclosures](#). This TC provided KMPs with guidance and a process to help agencies collect information from their KMPs for the purposes of disclosures. This process involves the KMP:

- understanding who their related parties are
- seeking information about certain types of transactions and employment arrangements their related parties may have had with NSW Government agencies
- providing detailed information about potentially disclosable transactions, balances and employment arrangements
- seeking consent from the KMP's related parties to disclose information, where necessary in the agency's financial statements.

The TC and FAQs are designed to help agencies develop a process to collect the information necessary for them to then determine which information is material for disclosure. Agencies departing from the process recommended by NSW Treasury must be able to demonstrate they had alternative robust processes in place to collect the required information throughout the reporting period.

Audit Office teams will assess the process adopted by agencies to support the completeness and accuracy of their related party disclosures. Where an agency's process is insufficient, your audit team will need to perform additional procedures to independently collect information from KMPs. This may involve seeking additional direct confirmations from agency KMPs.

TPP17-06 Certifying the effectiveness of internal controls over financial information

NSW Treasury recently issued TPP 17-06 '[Certifying the effectiveness of internal controls over financial information](#)', superseding the previous version, TPP 14-05. The policy and guidelines paper establishes Core Requirements to ensure agencies have clear accountabilities for the effectiveness of their internal controls over financial information. All material entities (other than State Owned Corporations) identified in the NSW Government Budget Papers must comply with

the Core Requirements. NSW Treasury strongly encourages State Owned Corporations to benchmark their systems of internal control over financial information against the policy and guidelines.

The paper is structured in two parts. Part one outlines the mandatory Core Requirements:

- Core Requirement 1: The Agency Head must ensure there is an effective system of internal control over the financial and related operations of the agency
- Core Requirement 2: The CFO must provide the Agency Head with an annual Letter of Certification as to the effectiveness of the system of internal control over financial information. Once the Letter of Certification is accepted by the Agency Head, the CFO must ensure that a copy is provided to NSW Treasury (on or before 15 September)
- Core Requirement 3: The CFO Letter of Certification must be supported by an Internal Control Questionnaire designed to assess the overall adequacy of the existing system of internal control over financial information and completed by the CFO
- Core Requirement 4: The CFO, when preparing the CFO Letter of Certification, must request and consider certifications provided by management, and outsourced and shared service providers
- Core Requirement 5: The CFO must submit a copy of the Letter of Certification and supporting documentation to the Audit and Risk Committee (ARC) for review. The ARC must review the Letter of Certification and provide advice to the Agency Head and, where applicable, to the governing board.

Part two provides guidance to support agencies implementing the Core Requirements. It is in the form of ten better practice principles that underpin an effective system of internal control over financial information. Additional templates and examples of checklists are also included as support material.

Australia's accounting standards - more modifications and guidance needed for the not-for-profit sector

The Australian Accounting Standards Board (AASB) recently released its research report '[Review of Adoption of International Financial Reporting Standards in Australia](#)'. The report reviews Australia's adoption of the IFRS (International Financial Reporting Standards) based on responses from Australian





stakeholders across different sectors.

A key feature of Australia's adoption of IFRS was the AASB's transaction-neutral policy to standard-setting. This policy means transactions are accounted for in the same way irrespective of the sector in which the entity operates, unless there was a compelling reason to have a different requirement. This resulted in a relatively smooth transition for Australian business entities. However, stakeholders identified more support was required for not-for-profit (NFP) entities, such as public sector entities, charities and incorporated associations, to meet users' needs and reduce the compliance burden.

AASB Chair Kris Peach said, "the research report finds that while IFRS Standards are currently appropriate as a base, extra modifications and guidance for specific standards are needed to support the NFP sector. The AASB is undertaking and considering projects specifically to meet this need".

These projects include:

- Exposure Draft 277 Reduced Disclosure Requirements for Tier 2 Entities
- benchmarking AASB Standards against International Public Sector Accounting Standards Board Standards to identify further areas that might warrant modification
- reshaping the Australian Financial Reporting Framework (leading and working with key regulators and policy makers to simplify and clarify reporting requirements).

Audit Office of New South Wales

Auditor-General's Performance Audit Reports to Parliament

- [Contingent workforce](#) (27 April 2017)
- [Therapeutic programs in prisons](#) (3 May 2017)
- [Planning for school infrastructure](#) (4 May 2017)
- [Mining rehabilitation security deposits](#) (11 May 2017)

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

[AASB Meeting Highlights 1-2 May 2017](#)

The AASB Board made key decisions on:

- Service Concession Arrangements: Grantors

- Agenda Consultation - AASB Work Plan 2017-2019
- Financial Reporting Framework.

The Board also discussed the following topics:

- Reduced Disclosure Requirements
- Insurance
- Principles of Disclosure - IASB Discussion Paper
- IASB Request for Information re IFRS 13
- Research Strategy
- Academic Presentation: Non-GAAP Reporting Research.

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

- AASB 1056 Superannuation Entities - support material released (27 April 2017)
- Making super clearer – new reporting will help Australians check performance of superannuation funds (27 April 2017)
- Updated AASB work program as at 10 May 2017 (10 May 2017)
- Webinar: ED 277 Reduced Disclosure Requirements for Tier 2 Entities (11 May 2017)
- New AASB Staff Paper: Modifications to Australian Accounting Standards for Not-for-Profit Entities (11 May 2017)
- A roadmap for tax transparency: new guidance promotes clarity and consistency for tax disclosures (16 May 2017)
- Insurance contracts – more transparency for investors (18 May, 2017)
- New AASB Staff Report: Australian Accounting Standards Board and International Public Sector Accounting Standards Board Pronouncements – A Comparison (18 May 2017).

AASB has recently [issued](#):

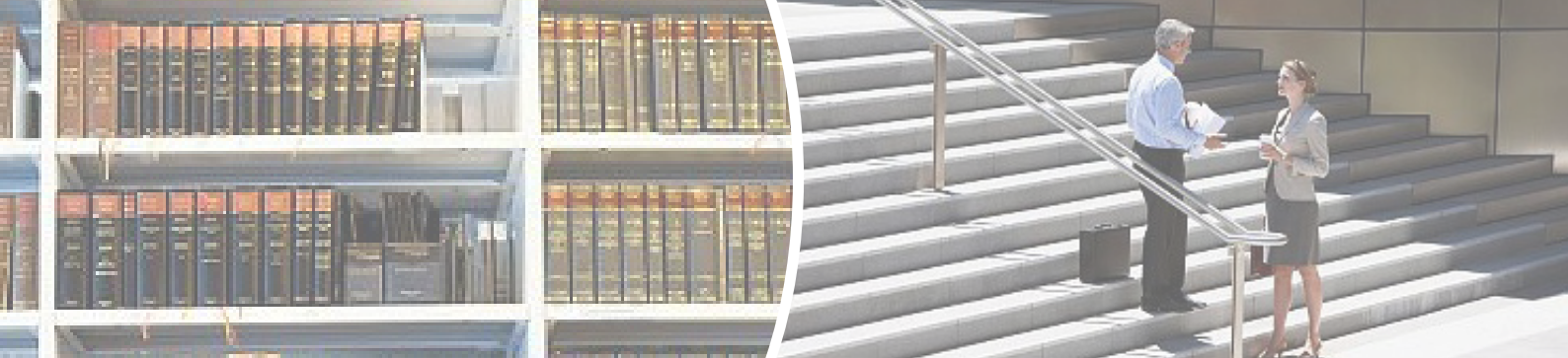
- Exposure Draft – ED 279 Prepayment Features with Negative Compensation - April 2017 - Comments closed 17 May 2017
- Invitation to Comment – Invitation to Comment Draft Appendix to the Tax Transparency Code - May 2017 - Open for comment until 28 February 2018.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 24 and 27 April 2017](#)

Topics discussed:





- Insurance Contracts
- Rate-regulated Activities
- FASB educational session - Financial Performance Reporting
- IFRS Implementation Issues
- Definition of a Business.

[IASB Meeting Highlights – 16-17 May 2017](#)

Topics discussed:

- Dynamic Risk Management
- Rate-Regulated Activities
- IFRS Implementation Issues
- Leases – Implementation Update
- Research Update
- Goodwill and Impairment.

Latest [news](#) from the IASB included:

- March 2017 ASAF meeting summary posted (26 April 2017)
- The IASB and integrated reporting (27 April 2017)
- April 2017 IASB Update published and Work Plan updated (28 April 2017)
- Progress towards global accounting standards: 2017 Pocket Guide published (3 May 2017)
- Webcast: Disclosure Initiative – Principles of Disclosure (4 May 2017)
- New IFRS 9 webcast: impairment and the expected life revolving facilities (16 May 2017)
- Live web presentations on the new insurance Standard (16 May 2017)
- May 2017 IASB Update published and the Work Plan updated (18 May 2017).

International Update – International Financial Reporting Standards (IFRS) Foundation

Latest [news](#) from the IFRS Foundation included:

- IFRS Foundation publishes 2016 Annual Report (25 April 2017)
- IFRS Foundation publishes proposed Taxonomy Update for IFRS 17 Insurance Contracts (18 May 2017)
- IFRS Foundation to launch new website (22 May 2017).

[IFRS Interpretations Committee Highlights – 3 May 2017](#)



- Committee's tentative agenda decisions: IFRS 9 Financial Instruments – Financial assets eligible for the election to present changes in fair value in other comprehensive income
- Other matters – Committee work in progress update.

International Update – Advisory Council

[IFRS Advisory Council Meeting Highlights – 4-5 April 2017](#)

The Council discussed the following topics:

- IFRS Practice Statement – Making Materiality Judgements
- Better Communication – Principles of Disclosure - Discussion Paper: Update
- Wider corporate reporting: an initial overview
- Supporting implementation and application of IFRS Standards.

International Update – International Valuation Standards Council (IVSC)

The IVSC has [released](#):

- New consultation to set agenda for valuation standards development (15 May 2017).

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

IPSASB has recently [issued](#) the following:

- 2015-2016 Biennial Review, Sustaining the Momentum (24 April 2017).

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB Meeting Highlights – 26 April 2017](#)

Topics discussed:

- ASAE 3500 Performance Engagements
- ISA 540 Auditing Accounting Estimates and Related Disclosures
- Auditor Reporting Implementation
- ASA 250 Consideration of Laws and Regulations in an Audit of a Financial Report.

Latest [news](#) from the AUASB included:

- AUASB invites comments on IAASB Exposure Draft ISA 540 (24 April 2017)



- AUASB issues revised Guidance Statement GS 001 (3 May 2017)
 - Auditor Reporting – New FAQs available (23 May 2017).
- AUASB has recently [issued](#):
- Exposure Draft 01/17 Performance Engagements. Open for comment (24 May 2017).

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

Latest [news](#) from the IAASB included:

- IAASB Data Analytics Video (25 April 2017).

Ethics Update

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

Latest [news](#) from the APESB:

- APESB's Submissions to the IESBA on its Code Restructure Project (4 May 2017).

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

The IESBA recently [released](#):

- Exposure Draft, Proposed Application Material Relating to Professional Skepticism and Professional Judgement (11 May 2017).

The Treasury – NSW Government

Treasury has recently issued the following policy papers:

- [TPP 17-06](#) Certifying the effectiveness of internal controls over financial information (3 May 2017).

Treasury has recently [published](#):

- Evaluation of the Sydney CBD Entertainment Precinct Plan of Management (21 April 2017)
- Implementing AASB 124 Related Party Disclosures – Frequently asked questions (3 May 2017)
- Rebuilding NSW – Delivering on our \$20 billion infrastructure program (11 May 2017)
- Information sheet – Rebuilding NSW funding secured (11 May 2017)
- Weekly Economic Calendar (23 May 2017)

- Weekly Market Wrap (23 May 2017).

Department of Finance Services and Innovation (DFSI)

DFSI has recently issued the following [circular](#):

- DFSI-2017-02-Improvements to NSW Land Acquisition Processes (1 May 2017).

NSW Procurement Board

NSW Procurement Board's recent [Procurement Board Direction](#):

- PBD-2017-01 Procuring human services from NGOs (1 May 2017).

Office of Local Government

Recent [publications](#) released:

- 17-06 Commencement of Phase 1 Amendments – An Overview (4 May 2016)
- 17-07 Update to Integrated Planning and Reporting Manual – request for feedback (9 May 2017)
- 17-08 2017/18 Determination of the Local Government Remuneration Tribunal (10 May 2017)
- 17-09 Information about Rating 2017-18 (18 May 2017).

Australian Securities and Investments Commission (ASIC)

Recent [speeches](#) released:

- Opening statement: Parliamentary Joint Committee (27 April 2017)
- Regulatory update to the general insurance industry (10 May 2017).

ASIC [media releases](#) included:

- 17-129MR ASIC supports second-phase extension of ground breaking whistle blower research project (3 May 2017).

Australian Prudential Regulation Authority (APRA)

APRA [media releases](#) included

- APRA releases superannuation statistics for March 2017 (17.16) (23 May 2017).





New Publications by other Audit Offices

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

- Strengthening Australia's Tourism Industry (27 April 2017)
- Future Submarine – Competitive Evaluation Process (27 April 2017)
- Apprenticeship Training – alternative delivery pilots (11 May 2017)
- Child Support Collection Arrangements between the Australian Taxation Office and the Department of Human Services (15 May 2017)
- The history, mandate and function of the Auditor-General of Australia (17 May 2017)
- Administration of Youth Allowance (Student) and ABSTUDY (22 May 2017)
- Managing Underperformance in the Australian Public Service (23 May 2017).

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

- Inquiry into state schools requesting payments in connection with out-of-zone places (1 May 2017).

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

- 2015-2016 Financial Audits – Computer Information Systems (5 May 2017).

Queensland Audit Office ([QAO](#))

- Criminal justice system – reliability and integration of data (Report 14: 2016-17) (26 April 2017)
- Managing performance of teachers in Queensland state schools (Report 15: 2016-17) (28 April 2017).

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

- Public Participation in Government Decision-Making (2016-17:20) (10 May 2017)
- Public Participation and Community Engagement: Local Government Sector (2016-17:21) (10 May 2017)
- Board Performance (2016-17:22) (11 May 2017)
- Managing School Infrastructure (2016-17:23) (11 May 2017)
- ICT Strategic Planning in the Health Sector (2016-17:24) (24 May 2017).

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

- Financial Audit Reports - Report of the Auditor-General No. 12 of 2016-17 - Auditor-General's Report on the Financial Statements of State entities - Volume 4 - State entities 30 June and 31 December 2016 (23 May 2017).

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

- Audit Results Report – Annual 2016 Financial Audits (11 May 2017).

Useful Resources

Commonwealth Government Treasury

Recent [media releases](#) included:

- New fight against the black economy (10 May 2017)
- Treasury response to the Australian Bankers' Association (16 May 2017).

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

IPART's [information/fact sheets](#) included:

- IPART submission to the Productivity Commission Issues Paper on National Water Reform (3 May 2017)
- Fact Sheet – Decisions on councils' request for special variations for 2017-18 (9 May 2017)
- Reporting Manual - Electricity Network Reporting Manual - May 2017 (10 May 2017)
- Fact Sheet - Compliance with employment guarantees - updated 11 May 2017 (11 May 2017)
- Regulatory Impact Statement - IPART Regulation 2017 (16 May 2017)
- Annual Licence Compliance Report 2015-16 (16 May 2017)
- Electricity Network Audit Guideline (19 May 2017)
- Retail Electricity Market Monitoring 2017 (23 May 2017).

Association of Superannuation Funds of Australia ([ASFA](#))

Recent media releases included:

- ASFA submission to Productivity Commission's Alternative Default Models (3 May 2017)
- Joint Media Release: Call for submissions on third insurance in Superannuation Working Group (ISWG) discussion paper (5 May 2017)
- ASFA budget submissions to support super entitlements (5 May 2017)





- Minimising complexity essential for super access: ASFA (9 May 2017).

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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

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