

Professional update

Accounting and auditing developments |



November 2012

Hot Topics

FRC Survey of the Financial Literacy of Directors

The [Financial Reporting Council](#) (FRC) established a Board Education Task Force to consider how well board directors understand financial reporting.

The task force surveyed 210 directors and 175 financial reporting professionals to identify issues around the financial literacy of directors and how to address them. It concluded its work and released the [results of the survey](#) in September 2012.

Findings in the FRC task force report include:

- directors rated their financial literacy at notably higher levels than the financial professionals who deal with them
- both directors and financial professionals rated directors' knowledge of basic accounting principles higher than their knowledge of specific, more technical accounting issues
- directors expressed concern that the increasing complexity of accounting standards makes it more difficult for them to acquire and maintain the required level of knowledge
- directors and financial professionals suggested a range of low cost or free education courses be developed to help directors acquire and maintain sufficient accounting knowledge.

Gifts and Hospitality

A recent investigation by the [Independent Commission Against Corruption](#) into gifts given to staff at some local councils has highlighted the need to be careful when accepting gifts or hospitality.

Many organisations include guidance on receiving gifts and hospitality in their code of conduct. For example the NSW Treasury's [TPD 4.1 Code of Conduct](#) section 9, Acceptance of Gifts and Benefits, states:

Gifts and benefits, including hospitality, should not be accepted if they are meant to make you change how you do your work, or if other people could reasonably believe they were intended for that purpose.

Some organisations, including the Audit Office of New South Wales, maintain gift registers which record details such as:

- the employee receiving the gift or hospitality
- the person or organisation giving the gift or hospitality
- the value of the gift or hospitality
- whether the gift or hospitality was kept/used by the employee, shared with the office, or donated to a charity
- other details considered important to the transparent treatment of gifts or hospitality.

This edition includes:

- **NEW! Query of the month**
- **FRC survey of the financial literacy of directors**
- **Gifts and hospitality**
- **Unsolicited proposals**

Contents

Hot Topics	1
Query of the Month	2
Audit Office of New South Wales	3
Accounting Update	4
Auditing Update	5
Ethics Update	5
Financial Reporting Council	5
Treasury – NSW Government	5
Department of Finance and Deregulation	6
Australian Securities and Investments Commission (ASIC)	6
Australian Prudential Regulation Authority	6
Australian Charities and Not-For-Profits Commission	6
New Publications by Other Audit Offices	6
Useful Resources	7



Organisations which do not have a policy on the receipt of gifts and hospitality should consider establishing one. The policy should include guidance on:

- how the receipt of gifts or hospitality might compromise or be perceived to compromise an employee's integrity
- what employees should do if they are offered a gift or hospitality (for example reporting it to their manager, recording it in a gift register)
- timeframes employees have to report or register gifts or hospitality
- determining what is a token or insignificant gift (e.g. setting a dollar value)
- actions employees should take when declining a gift or hospitality (e.g. discussing the offered item with management).

Other examples of guidance or policies on gifts and hospitality include:

- the Accounting Professional & Ethical Standards Board – [APES 110 Code of Ethics for Professional Accountants](#) guidance for members in practice on 'Gifts and Hospitality' (section 260)
- the Audit Office of New South Wales' [Governance Lighthouse](#)
- NSW Fire Brigades' code of conduct regarding [gifts, benefits and hospitality](#).

Unsolicited Proposals

The NSW Government's [Guide for Submission and Assessment of Unsolicited Proposals](#) was issued in January 2012 and updated in August 2012. It sets out processes for government and private sector suppliers to follow in developing unsolicited proposals to deliver significant projects or services in New South Wales.

The intent of the guide is to encourage the private sector to approach the NSW Government with innovative and unique ideas to meet the objectives of its ten year plan [NSW 2021](#). The government may also directly approach the private sector to undertake a project.

The guide has a three stage assessment process:

- Stage 1 – Initial Submission and Strategic Assessment – a comprehensive initial assessment to identify potential benefits to the government that justify further consideration and development of the proposal

- Stage 2 – Detailed Proposal – the proponent and government will work cooperatively to develop and assess a detailed proposal
- Stage 3 – Negotiation of Final Binding Offer – finalisation of outstanding issues with a view to entering into a binding agreement if the government accepts the final offer.

Projects assessed using the process outlined in the updated guide will avoid going through tender process. The government may use this process where it believes an open market tender process will take too long to address a critical need and a particular organisation is positioned for expeditious delivery.

The NSW Government has received two unsolicited proposals since this guide was issued.

Query of the Month

Query: Early close procedures this year presented some challenges. Can you give me some tips to help my audit team work with our clients to plan and execute early close procedures better next year?



Answer:

Client early close procedures should focus on key balances and processes and where possible:

- align sign-offs of controlled entities with the parent entity
- complete reconciliations and sign-offs of inter-entity balances (receivables and payables)
- determine and confirm the appropriateness of accounting treatments for major transactions (including parent/subsidiary transactions) that occur during the year, as early as possible
- undertake revaluations well in advance of year end, clearly establishing with the valuer:
 - date of valuation (e.g. 31 March)
 - assets to be valued
 - the basis of valuation (written down replacement cost,





income approach, individual asset or on a sample approach)

- the sufficiency of the valuer’s proposed approach – coverage, componentisation, condition assessment, etc
- identify possible impairment indicators as early as possible
- obtain specialist advice, if required. Agencies and audit teams must discuss this advice and determine and confirm its appropriateness as early as possible.

Audit teams should debrief clients while the last year-end is still a fresh memory.

- Discuss:
 - what went well
 - what can be improved next year
 - brainstorm – what new things can be planned for next year to make the process smoother and more efficient
 - identify issues in the last audit that will impact the next audit and plan how to address them
- Communicate – meet regularly with clients in the lead up to the early close to ensure everyone is clear about tasks, timeframes and responsibilities
- Client assistance schedule (CAS) – prepare a detailed CAS that clearly sets out early close requirements and identifies work to be performed at year-end, responsibilities and target dates.

Audit clients should:

- debrief with audit staff
- work through management letters and develop action plans to address items raised

organise training for staff to ensure they are up-to-date with accounting standards, legislative and other requirements.

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:

- presented at the Australian Institute of Company Directors Breakfast ‘The Public Sector Audit and Risk Committee: Roles and Responsibilities’ (9 October 2012)

- presented at L21 – Public Sector Leaders Series ‘Experimentation, innovation and contestability’ (16 October 2012)
- presented at Chartered Secretaries Australia ‘How good governance can shine a light on agencies and government’ (18 October 2012)
- attended the Commonwealth Association for Public Administration and Management 2012 Biennial Conference in New Delhi, and presented ‘Public service values and ethics: cultivating trusted and effective institutions’ (24 to 28 October 2012)
- presented to the China National Audit Office ‘Management of certified government auditing professionals and leadership and supervision’ (1 November 2012)
- attended a KPMG roundtable (7 November 2012)
- presented at the National Investigations Symposium ‘Ethics and integrity – implications for investigators and complaint handlers’ (9 November 2012)
- attended the Australia and New Zealand School of Government presentation by adjunct professor Gary Sturgess ‘Double Government – The art of commissioning public services’ (14 November 2012)
- attended the Australian Council of Auditors-General Business Meeting in Melbourne (15 to 16 November 2012).

Auditor-General’s Financial Audit Reports to Parliament

- [Volume Three 2012](#) focusing on New South Wales State Finances (31/10/12)
- [Volume Four 2012](#) focusing on Electricity (7/11/12)
- [Volume Five 2012](#) focusing on Superannuation, Compensation and Housing (12/11/12)
- [Volume Six 2012](#) focusing on Environment, Water and Regional Infrastructure (14/11/12).

Auditor-General’s Performance Audit Reports to Parliament

On 1 November 2012, the Auditor-General, released the report ‘[The Impact of the Raised School Leaving Age](#)’. The audit examined how well the Department of Education and Communities (the Department) monitors and supports young people at school or on an approved alternate pathway until they reach 17 years of age. It found that the Department does not know which students are not participating and that





more students who remain at school until 17 years of age are disengaged. The Department and schools can do more to support these students. Schools need to provide programs that better suit these students' needs and ensure students have access to high quality career advice.

Accounting Update

Australian Update

The AASB has:

- published the [2011-12 AASB Annual Report](#)
- released compiled versions of the standards affected by the issue of amending standard AASB 2012-6 [Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures](#)
- released Compiled AASB 9 [Financial Instruments](#) (September 2012)
- released AASB 2010-7 [Amendments to Australian Accounting Standards arising from AASB 9 \(December 2010\)](#) (compiled September 2012)
- released AASB 2011-7 [Amendments to Australian Accounting Standards arising from the consolidation and joint arrangements standards](#) (compiled September 2012)
- released AASB 2011-8 [Amendments to Australian Accounting Standards arising from AASB 13](#) (compiled September 2012)
- released AASB 2012-7 [Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements](#) (compiled September 2012)
- noted as superseded AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9.

[AASB Meeting Highlights – 31 October-1 November 2012](#)

Topics discussed by the AASB at its meeting included:

- investment entities
- superannuation entities
- revenue from contracts with customers
- financial instruments.

International Update

International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 15 to 19 October 2012](#)

Some sessions were jointly held with the FASB. Topics discussed included:

- insurance contracts
- accounting for macro hedging
- classification and measurement
- financial instruments: impairment
- revenue recognition.

The IASB has:

- issued [Investment Entities \(Amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28\)](#), its consolidation exemption requirements for investment entities
- announced the appointment of Mary Tokar to serve as a member of the IASB for a term ending 30 June 2017 (15/11/12)
- announced it will host a public Disclosure Forum to consider the challenging area of [disclosure overload](#), in London on 28 January 2013

Institute of Chartered Accountants of Scotland

The [Institute of Chartered Accountants of Scotland](#) has released guidance aimed at assisting preparers, auditors and regulators in making and auditing key professional judgements.

International Federation of Accountants (IFAC)

IFAC has recently:

- released two presentations by staff explaining IFAC's [global regulatory role, including its structure, mission and various boards](#) (October 2012)
- released [Draft Strategy for Professional Accountants in Business Initiatives](#) (5/11/12)
- held its annual seminar which focused on integrated reporting 'A Fundamental Shift in Corporate Reporting' (15/11/12)
- announced the election of [Warren Allen as New President and Olivia Kirtley as new Deputy President](#) (16/11/12).

IFRS Foundation

The IFRS Foundation:

- has released a summary of the conclusions of the IFRS Foundation Trustees' [meeting](#) (12/10/12)
- Trustees have appointed Ms Sheila Fraser (Canada), Professor Wiseman Nkuhlu (South Africa), and Dr Heidi Miller (United States) as [new trustees](#) from 1 January 2013





to 31 December 2015

- staff have released draft educational material supporting the implementation of IFRS 13 Fair Value Measurement – [Measuring the fair value of unquoted equity instruments within the scope of IFRS 9](#)
- has proposed the creation of a new [Accounting Standards Advisory Forum \(ASAF\)](#) group; its creation was one of the main recommendations of the [Trustees' strategy review](#). Comments close 17 December 2012
- has opened its [first international office](#) in Tokyo, to support the Asia-Oceania region with matters related to IFRS development and implementation (15/11/12).

International Public Sector Accounting Standards Board (IPSASB)

IPSASB has recently issued the following:

- Consultation Paper: [IPSASs and Government Finance Statistics Reporting Guidelines](#) – the paper seeks to encourage government use of integrated financial information systems that can generate both IPSAS financial statements and Government Finance Statistics. Comments close 31 March 2013
- [Conceptual Framework Exposure Draft \(ED\) 2](#), Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements. Comments close 30 April 2013
- [Conceptual Framework Exposure Draft \(ED\) 3](#), Measurement of Assets and Liabilities in Financial Statements. Comments close 30 April 2013.

Auditing Update

Australian Update

The AUASB has:

- published the [2011–12 AUASB Annual Report](#)

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

The IAASB has released:

- [Exposure Draft ISA 720 \(Revised\)](#), The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon. Comments close 14 March 2013.

Ethics Update

Australian Update

The Accounting Professional and Ethical Standards Board (APESB) have:

- published the [2011–12 APESB Annual Report](#)
- provided an update on its [Exposure Draft on APES 230](#) Financial Planning Services (16/11/12).

International Update

The International Ethics Standards Board for Accountants (IESBA) recently released:

- IESBA Staff Questions and Answers – [Implementing the Code of Ethics](#) – Part II (7/11/12).

[IESBA Meeting Highlights – 15 October 2012](#)

- discussed amendments to the Code of Ethics to address a breach of a provision of the code
- received a brief update on comments received on the exposure draft of the proposed change to the definition of the term 'engagement team' in the IESBA Code of Ethics.

Financial Reporting Council (FRC)

The FRC has released its [annual report](#) which includes its 2012–14 strategic plan, and discussion of audit independence, governance and administrative issues.

Treasury – NSW Government

New Treasury Policy Paper and Circulars

- [NSWTC 12/19](#) Submission of Business Cases
- [NSWTC 12/20](#) Budget Controls – Capital Expenditure Authorisation Limits. Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [M2012-13](#) Community Consultation/Have Your Say
- [M2012-14](#) State Submissions to Inquiries including NSW Statutory and Parliamentary Committees, and Other Reviews
- [C2012-15](#) Towards a Strategic Centre – New Ways of Working
- [C2012-16](#) Nominations sought for the Public Service Medal





Department of Finance and Deregulation

New Finance Circular

[No. 2012/06](#) Funding Arrangements for Commonwealth Property.

Australian Securities and Investments Commission (ASIC)

SMSF auditor information:

ASIC has:

- established a SMSF auditor [homepage](#) which will be the central place for information about the new SMSF audit registration regime
- announced it will be providing updates about the SMSF auditor registration regime through a new SMSF Auditor Update [email service](#).

Recent regulatory guides released:

- [RG 240](#) Hedge funds: Improving disclosure
- [RG 242](#) ASIC's power to wind up abandoned companies.

Recent consultation papers released:

- [Consultation Paper 190](#) Small business lending complaints: Update to RG 139 – Comments close 10 December 2012
- [Consultation Paper 191](#) Future of Financial Advice: Approval of codes of conduct for exemption from opt-in requirement – Comments close 4 December 2012
- [Consultation Paper 192](#) Competency standards for auditors of self-managed superannuation funds – Comments close 30 November 2012
- [Consultation Paper 193](#) Takeovers, compulsory acquisition and substantial holdings: Update of ASIC guidance – Comments close 22 February 2013.

Recent reports and speeches released:

- [Report 309](#): Report on the Australian OTC Derivatives Market – October 2012
- A speech by Greg Tanzer: [Global developments in securitisation regulation – an ASIC perspective](#).

ASIC [Media Releases](#)

- 12-264MR ASIC updates guidance on financial requirements for AFS licensees

- 12-272MR Millions of dollars waiting to be found
- 12-276MR ASIC to update and consolidate takeover guidance
- 12-283MR ASIC disqualifies two Melbourne directors from managing corporations
- 12-288MR former Centro auditor suspended
- 12-289MR ASIC acts against offshore companies.

Australian Prudential Regulation Authority (APRA)

[Recent APRA releases:](#)

- Reporting Standard GRS 001 Reporting Requirements
- Reporting Standard GRS 110.1 (2013) Prescribed Capital Amount
- Reporting Standard GRS 110.1 G (2013) Prescribed Capital Amount (Level 2 Insurance Group).
- a package of final measures that completes APRA's implementation of the [Basel III capital reforms](#) for authorised deposit-taking institutions (ADIs) in Australia.

Australian Charities and Not-For-Profits Commission (ACNC)

Legislation establishing the Australian Charities and Not-for-profits Commission passed through the Australian parliament on 1 November 2012. Australia's first national charity regulator, the ACNC, is now expected to begin in December 2012; it was previously set to commence on 1 October 2012.

One of the ACNC's key priorities will be to reduce unnecessary regulatory obligations imposed on charities. Amendments made to the original ACNC bill will prevent government agencies collecting information directly from organisations that are registered with the ACNC and are recipients of Commonwealth grants when the organisation has already provided the information to the ACNC.

New Publications by Other Audit Offices

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

- Report 8: Australian Government Coordination Arrangements for Indigenous Programs (24/10/12)
- Report 9: Delivery of Bereavement and Family Support Services through the Defence Community Organisation





(1/11/12)

- Report 10: Managing Aged Care Complaints (13/11/12)
- Better Practice Guide: Public Sector Internal Audit (28/9/12)
- AUDITFocus September 2012 (19/10/12)

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

- Response of the NZ Police to the Commission of Inquiry into Police Conduct: Third Monitoring Report (October 2012)
- Annual Report 2011/12 (October 2012)
- Roles, responsibilities and funding of public entities after the Canterbury earthquakes (October 2012)

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

- ACT Auditor-General's Annual Report 2011-12 (28/9/12)
- ACT Public Service Recruitment Practices (25/10/12)

Northern Territory Auditor-General's Office (NT AO)

- Report to the Legislative Assembly October 2012

Western Australia Auditor-General's Office (WA AO)

- Major Capital Projects (17/10/12)
- Implementation of National Partnership Agreement on Homelessness in Western Australia (24/10/12)
- Audit Results Report - Annual 2011-12 Assurance Audits (7/11/12)

Queensland Auditor-General's Office (QAO)

- Follow-up of 2010 audit recommendations (30/10/12)

Tasmanian Audit Office (TAS AO)

- TasPorts: benefits of amalgamation - Tasmania - October 2012

Victorian Auditor-General's Office (VAGO)

- Collections Management in Cultural Agencies (2012-13:8)
- Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment (2012-13:9)
- Presentation: Fraud prevention strategies in local government (5/10/12)
- Presentation: Significant reforms in public sector audit – staying relevant in times of change and challenge (17/10/12)
- Presentation: Auditing in the public interest (19/10/12)

Useful Resources

Commonwealth Government Treasury

Treasury has released the following publications, reports and papers:

- The Commonwealth Treasury's NFP Tax Concession Working Group has released the discussion paper [Identifying fairer, simpler and more effective tax concessions for the not-for-profit sector](#). The paper is open for comment until 17 December 2012
- Treasury Annual Report 2011-12 (29/10/12); Business Tax Working Group – Final Report (2/11/12)
- Economic Roundup Issue 3 (9/11/12)
- Submission to the inquiry into Treasury Legislation Amendment (Unclaimed Money and Other Measures) Bill 2012 (9/11/12).

Australian Stock Exchange (ASX)

- ASX has released a revised [draft of ASX Listing Rule Guidance Note 8](#) and related materials for public consultation. They aim to provide listed entities with clearer and more detailed information to help them understand and comply with their continuous disclosure obligations. Comments close 30 November 2012

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- COSO has released a thought paper titled '[Risk Assessment in Practice](#)'. The paper provides the latest thinking on risk assessment approaches and techniques that have emerged as the most useful and sustainable for decision-making

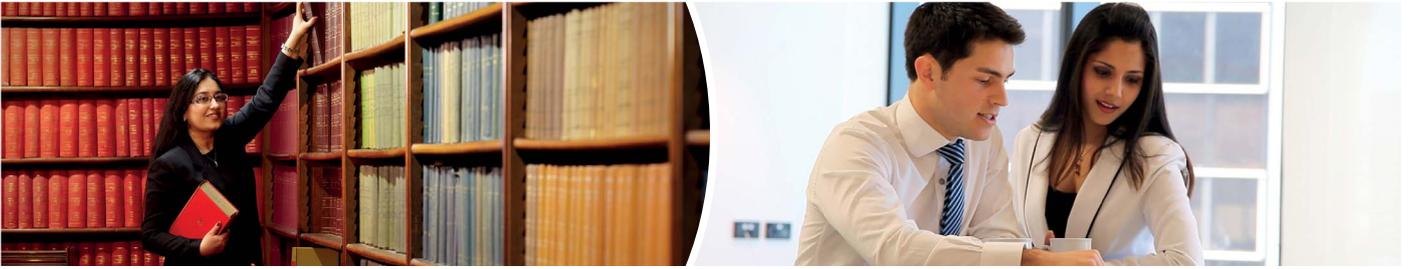
Independent Commission Against Corruption (ICAC)

- published 2011-12 Annual Report (18/10/12)
- investigated the recruitment of contractors and other staff by a University of Sydney IT manager (24/10/12)

Productivity Commission

- released draft report [Electricity Network Regulatory Frameworks](#) (18 October 2012)
- published its [Annual Report 2011-12](#) (31/10/12)
- Gary Banks (Chair) presented at the Economic and Social Outlook Conference, '[Productivity policies: the 'to do' list](#)' (1/11/12)





Independent Pricing & Regulatory Tribunal (IPART)

IPART has released [new publications](#) relating to transport, regulation and electricity Industries.

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

- reforming licensing in NSW – Summary of issues paper (30 October 2012)
- review of regulated retail prices for electricity from 2013 to 2016 (14 November 2012).

Australian Institute of Company Directors (AICD)

James Strong has been appointed as the new Chair of the AICD (14/11/12).

Bureau of Meteorology

The world's first water accounting standard, [Australian Water Accounting Standard 1 \(AWAS 1\)](#) has been released by The Bureau of Meteorology.

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