

# Professional update

Accounting and auditing developments |



November 2014

## Hot Topics

### IFRS 15 'Revenue from Contracts with Customers' is coming, get ready now

In May 2014 the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) issued a new jointly developed standard: IFRS 15 'Revenue from Contracts with Customers'.

IFRS 15 will impact all entities which provide goods or services under contract arrangements, especially those which offer bundled products and services, provide warranties or rebates, or have contracts with variable consideration.

IFRS 15 will be effective for financial years commencing on or after 1 January 2017. The Australian Accounting Standards Board (AASB) has flagged release of the Australian equivalent to this standard in December 2014 making it imperative for entities to start preparing for the requirements of the standard now. Entities need to consider and draft the necessary disclosures required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

If the Australian standard is issued in December, universities with 31 December year-ends must disclose how the new standard may impact the financial statements when it is applied.

All entities should:

- consider whether the standard will change the application of accounting policies. If it does, the impact must be disclosed before the application date as either 'full' or 'modified' retrospective application will be required on adoption
- assess and ensure registers/databases of contracts with customers are complete and performance obligations within those contracts have been identified
- prepare for the significantly increased disclosures
- review standard contracts to ensure new contracts clearly support revenue recognition with the goods and services sold
- ensure existing systems support income recognition and provide all the information needed for the new disclosures
- ensure the control environment supports robust estimates and judgements on revenue recognition
- plan training for accounting staff, legal and sales teams
- advise customers and other stakeholders of proposed changes to contracts, systems and processes
- discuss proposed financial statement disclosures with their auditors.

Audit committees and those charged with governance should:

- understand the new standard and ensure management has adequately planned for its effective application, including disclosures of the impact in the next financial report

### This edition includes:

- IFRS 15 'Revenue from Contracts with Customers'
- NSW Treasury Policy and Guidelines Paper – TPP 14-05
- Chartered Accountants Australia & New Zealand Quality Review Report 2014
- Legislative Implications from the new Consolidation Suite of Standards in the NSW Public Sector
- ACNC charity reporting obligations

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- consider and confirm management's determination of whether to apply the new standard using a 'full' or a 'modified' retrospective approach
- monitor progress against the plan and against the requirements of the standard.

### NSW Treasury Policy and Guidelines Paper – TPP 14-05 Certifying the Effectiveness of Internal Controls over Financial Information

NSW Treasury has released a new policy and guidelines paper [TPP 14-05](#), which aims to improve the reliability and timeliness of agencies' financial information. It requires Chief Financial Officers (CFOs) to annually certify the effectiveness of internal controls over financial information.

The Auditor-General recently reported in [Volume Four](#) of the Auditor-General's Report to Parliament for 2014, that the 'quality and timeliness of financial reporting has continued to improve across the NSW public sector'. The NSW Audit Office supports measures taken by NSW Treasury to enhance the accuracy and timeliness of agency financial information and welcomes the new policy and guidelines.

The new policy and guidelines include the following mandatory core requirements:

- agency heads must ensure an effective system of internal control exists over the agency's financial and related operations
- CFOs must annually certify the effectiveness of the system of internal control over financial information to agency heads with copies provided to NSW Treasury
- CFOs must complete an internal control questionnaire supporting the letters of certification
- CFOs must request and consider certifications by management and outsourced service providers
- agency audit and risk committees must review certification letters and advise agency heads and governing boards.

The policy and guidelines provide additional guidance, templates and useful checklists to help agencies comply with the core requirements. Agencies must customise these to meet their particular needs and circumstances.

NSW Treasury expects all certification letters for 2014-15 and future years to reflect all the core requirements.

All material agencies (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 comply and benchmark their systems of internal control over financial information against the policy and guidelines.

### Chartered Accountants Australia & New Zealand (CA ANZ) Quality Review Report 2014

CA ANZ has released its '[Quality Review Report 2014](#)', which summarises the results of CA ANZ's annual member Quality Review Program (the Program). The Program assesses whether practitioner members have implemented appropriate quality control policies and procedures in their accounting practices. CA ANZ uses the results to promote continuous improvement throughout the accounting profession.

The trends and results of the review are summarised below:

- 410 practices were reviewed during the year (406 in 2012 –13)
- 79 per cent were assessed as having either met all the relevant professional standards and regulatory requirements or showed levels of non-compliance not regarded as significant. These practices have undertaken to address areas of non-compliance
- 21 per cent were assessed as having non-compliance issues regarded as significant. Practices are required to urgently address these before a follow-up review
- practices with significant non-compliance issues from the prior year were re-reviewed. The follow up reviews revealed all areas of non-compliance had been adequately addressed in all but one practice. This practice no longer conducts engagements in the area of concern.

The report details the review outcomes and remediation, and discusses areas of non-compliance with auditing standards. It also discusses continuous improvement, addressing audit quality and focus areas for 2014-15.

### Legislative Implications Arising from Application of the new Consolidation Suite of Standards in the NSW Public Sector

Not-for-profit (NFP) NSW public sector entities will apply the revised accounting requirements for consolidation, joint ventures and off-balance sheet arrangements for the first time in 2014. Application of the new consolidation suite of standards by NFP entities was delayed to annual reporting periods beginning on or after 1 January 2014.

To help NFPs in the private and public sectors, the Australian Accounting Standards Board (AASB) recently added an





appendix to [AASB 10 'Consolidated Financial Statements'](#) to explain and illustrate how the principles within the standard apply from the NFP perspective. The additional guidance does not amend or deviate from the principles underlying AASB 10.

AASB 10 has a broader definition of 'control' which may result in:

- entities previously not considered to be controlled may now be considered to be controlled, and vice versa
- interests in entities may now need to be accounted for as investments, associates or joint arrangements by an individual NSW public sector entity, where a majority of the remaining interest is controlled by other NSW public sector entities (i.e. collectively controlled).

#### **Newly controlled entities**

In the NSW public sector, sections 45A (1A) and 39 (1A) of the *Public Finance and Audit Act 1983* (PF&A Act) requires departments and statutory bodies to determine whether investees fall under the AASB definition of 'controlled'. Where an entity is so defined, regardless of its size, it must prepare financial statements that comply with Australian Accounting Standards. Additionally section 63B of the PF&A Act will require:

- Department Heads/CEO's to notify, in writing, both the Treasurer and the Auditor-General of newly controlled entities within one month of application of AASB 10
- the department or statutory body to take the necessary steps to ensure the newly controlled entity is audited by the Auditor-General. Where another auditor is currently serving, work performed by that auditor is not valid for the purposes of the PF&A Act. Duplication of this work by the Auditor-General may involve such entities in additional, but avoidable costs.

#### **Requests to prescribe entities collectively controlled or no longer considered controlled**

Where an entity is no longer considered to be controlled or where more than two statutory bodies or departments control (as defined in Australian Accounting Standards) another entity, but no one statutory body or department individually controls it, a representation must be made to the relevant Minister to request the Treasurer to prescribe the entity (i.e. the collectively controlled entity or the entity no longer considered to be controlled) as a statutory body, to ensure it is audited by the Auditor-General.

Impacted agencies will need to liaise with their respective audit teams and, in the case of a collectively controlled entity, agree which of the controlling entities should make the necessary representations to the relevant Minister. Such representations should be made as soon as possible to avoid any delays processing requests later in the reporting cycle.

#### **ACNC charity reporting obligations for 2013-2014**

Charities registered with the Australian Charities and Not-for-profits Commission (ACNC) must lodge their 2013/14 Annual Information Statement with the Commission by 31 December 2014. Medium and large charities must submit a financial report with their Annual Information Statements. Small charities preparing financial statements under the Public Finance and *Audit Act 1983*, may choose to submit those financial statements to the ACNC, but this is not compulsory.

Financial reports submitted to a state regulator can also be submitted to the ACNC.

More information on annual reporting requirements can be found on the [ACNC website](#).

### **Audit Office of New South Wales**

#### **Grant Hehir, NSW Auditor-General:**

- attended the Australasian Council of Auditors-General business meetings in Sydney (6-7 November 2014)
- presented to the Myanmar National Parliament delegation visiting the NSW Parliament House on 'Oversight of the Audit Office functions, the role of the Auditor-General, and the Audit Office's interaction with Parliament' (18 November 2014)
- presented at Sydney Hospital, to the South East Sydney Local Health District: the role of the Auditor-General, challenges of good governance, the Lighthouse model, and risk management to the achievement of organisational objectives (21 November 2014).

#### **Auditor-General's Financial Audit Reports to Parliament**

- [Volume Five 2014 focusing on Electricity and Water](#) (11 November 2014)
- [Volume Six 2014 focusing on Premier and Cabinet](#) (13 November 2014)
- [Volume Seven 2014 focusing on Transport](#) (18 November 2014)





- [Volume Eight 2014 focusing on Police and Justice](#) (20 November 2014)
- [Volume Nine 2014 focusing on Family and Community Services](#) (26 November 2014)
- [Volume Ten 2014 focusing on Treasury and Finance](#) (28 November 2014).

### Audit Office Better Practice Guides

- [Better Practice Contract Management Framework](#) (November 2014)
- [Good Practice Procurement Framework](#) (November 2014)
- [Effective Expense Management Framework](#) (November 2014).

## Accounting Update

### Australian Update – Australian Accounting Standards Board (AASB)

#### [AASB Meeting Highlights – 22 to 23 October 2014](#)

Topics discussed by the AASB at its meeting included:

- recognition of DTA for unrealised losses
- the Conceptual Framework
- the Disclosure Initiative
- dynamic risk management
- fair value measurement: unit of account
- income from NFP transactions
- insurance contracts
- service performance reporting
- international update
- emerging issues.

### International Update – International Accounting Standards Board (IASB)

#### [IASB Meeting Highlights – 19 to 20 November 2014](#)

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

- IFRS for SMEs: Comprehensive Review
- insurance Contracts
- Conceptual Framework
- the Disclosure Initiative
- leases

- Emission Trading Schemes.

#### [IASB Speeches and Releases](#)

The IASB has released:

- IFRS for SMEs Update (30 October 2014)
- a speech by Ian Mackintosh, vice-chairman of the IASB: 'The Maturing of IFRS' (10 November 2014)
- IFRS Taxonomy 2014 Updated for IFRS 15 Revenue from Contracts with Customers and Common Practice (transport and pharmaceuticals) (12 November 2014)
- an update to the Conceptual Framework project (24 November 2014).

### International Update – International Financial Reporting Standards (IFRS) Foundation

#### [IFRS Foundation Meeting Highlights – 7 to 9 October 2014](#)

The trustee meeting discussed the following topics:

- governance
- Accounting Standards Advisory Forum
- international developments
- IASB work plan
- Due Process Oversight Committee activities.

### International Update – Interpretations Committee

#### [IFRIC Meeting Highlights – 11 November 2014](#)

The committee discussed the following topics:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities - Disclosure
- IAS 2 Inventories
- IAS 12 Income Taxes
- IAS 16 Property, Plant and Equipment
- IAS 19 Employee Benefits – Remeasurement
- IAS 21 The Effects of Changes in Foreign Exchange Rates – Revenue
- IAS 28 Investments in Associates and Joint Ventures
- IAS 32 Financial Instruments: Presentation and IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Classification.





## International Update – Advisory Council

### [IFRS Advisory Council Meeting Highlights – 13 to 14 October 2014](#)

The Council discussed the following topics:

- IASB's Disclosure Initiative
- future of Corporate Reporting
- materiality
- IASB investor liaison strategy.

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

IPSASB has recently issued the following:

- [Public Sector Conceptual Framework](#) (31 October 2014).

## Auditing Update

### [AUASB Meeting Highlights – 21 October 2014](#)

Topics discussed by the AUASB at its meeting included:

- assurance on controls
- GS 017 auditing prudential requirements of life companies
- grant acquittals and other combined assurance
- international matters
- GS 005 using the work of management's expert.

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

### [IAASB Meeting Highlights – 28 October 2014](#)

This meeting was held via teleconference and focused on:

- ISA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report (Revised) – Issues and IAASB Task Force Recommendations
- discussion of the recommendations of the IAASB Task Force with respect to ISA 720.

## Ethics Update

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

The APESB have released the following:

- International Exposure Draft – [Improving the Structure of the Code](#). Comments due to the APESB by 16 January 2015

- [Annual Report - Year Ended 30 June 2014](#) (31 October 2014)
- its submission on [IESBA's Exposure Draft on Long Association of Personnel](#) (18 November 2014).

### [APESB Meeting Highlights – 14 October 2014](#)

Topics discussed by APESB at its meeting included:

- proposed APES GN 21 Valuations for Financial Reporting
- annual review of APES 215 Forensic Accounting Services and APES GN 30 Outsourced Services
- project proposal on IESBA's revisions to the Code
- definition of Professional Activities
- update on respondents' comments on APES 315 Compilation of Financial Information
- international and other activities.

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

The IESBA have released:

- [Consultation Paper – Improving the Structure of the Code of Ethics for Professional Accountants](#). Comments due 4 February 2014
- [2013 IESBA Annual Report: Reinforcing Trust in the Profession](#) (19 November 2014).

## Treasury - NSW Government

New Treasury Policy Papers, Circulars and Research Papers

- [TPP 14-5](#) Certifying the Effectiveness of Internal Controls Over Financial Information (November 2014)
- [NSWTC 14-30](#) Review of Meal, Travelling and Other Allowances (12 November 2014).

## Department of Premier and Cabinet

### New Ministerial Memoranda and Department Circulars

- [M2014-10](#) Premier's Memorandum Christmas Closedown 2014-15 (10 November 2014)
- [M2014-11](#) Additional Evaluation Criteria for Procurement of Major Projects Valued Above \$100 million (18 November 2014)
- [M2014-12](#) 2015 State Election – Caretaker Conventions (20 November 2014)





- [M2014-13](#) NSW Lobbyist Code of Conduct (28 November 2014).

## Public Service Commission (PSC)

The PSC has released the following [circulars](#):

- Behaving Ethically: A guide for NSW government sector employee (5 November 2014)
- Winners of the 2014 Premier's Awards for Public Service (14 November 2014)
- State of the NSW Public Sector Report 2014: A better picture (21 November 2014).

## Public Accounts Committee

### Reports

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

- Debt Recovery in New South Wales (4 November 2014)
- Speed Zoning and Its Impact on the Demerit Points Scheme (4 November 2014)
- Report on the Ninth General Meeting with the Valuer-General (5 November 2014)
- Examination of the Auditor-General's Performance Audit Reports May 2013 – July 2013 (6 November 2014)
- Follow up of Repeat Recommendations from the Auditor-General's 2013 Financial Audit Reports (6 November 2014)
- The family response to the murders in Bowraville (6 November 2014)
- Report No 71: A revised memorandum of understanding with the ICAC relating to the execution of search warrants on members' premises (11 November 2014)
- Report No 72: The Crown Casino VIP Gaming Management Agreement (11 November 2014)
- Preparations for the NSW State Election (12 November 2014)
- Report No 73: Citizens Right of Reply (Professor Richard Henry) (18 November 2014)
- Tenancy management in social housing (19 November 2014)
- Budget Estimates 2014-15 (19 November 2014)
- Report of the Public Accounts Committee of the 55th Parliament (19 November 2014)
- Downstream gas supply and availability in NSW (20 November 2014)

- Measures to reduce alcohol and drug-related violence Preliminary inquiry (20 November 2014)
- The Promotion of False and Misleading Health-Related Information and Practices (20 November 2014).

## Australian Securities and Investments Commission (ASIC)

Recent [regulatory guides](#) released:

- [RG 49](#) Employee incentive schemes
- [RG 209](#) Credit licensing: Responsible lending conduct
- [RG 229](#) Superannuation forecasts
- [RG 243](#) Registration of self-managed superannuation fund auditors
- [RG 252](#) Keeping superannuation websites up to date.

Recent [consultation papers](#) released:

- [CP 224](#) Facilitating electronic financial services and disclosures. Comments close 16 January 2015.

Recent [reports](#) released:

- Report 415 Review of the sale of home insurance
- Report 416 Insuring your home: Consumers' experiences in buying home insurance
- Report 417 Response to submissions on CSP 218 Employee incentive schemes
- Report 418 Response to submissions on CSP 203 Age pension estimates in superannuation forecasts: Update to RG 229.

Recent [speeches](#) released:

- Monitoring the activities of companies in Australia (18 November 2014)
- Getting the right balance: ASIC's regulatory reform and deregulatory experience (19 November 2014).

ASIC [Media Releases](#):

- 14-279MR ASIC statement on Government response to Senate Economics Committee report (24 October 2014)
- 14-282MR ASIC concerns prompt NAB to correct misleading home loan claims (27 October 2014)
- 14-286MR ASIC 2013-14 Annual Report tables (30 October 2014)
- 14-287MR ASIC update of employee incentive scheme policy and release of class orders (31 October 2014)





- 14-289MR ASIC releases updated responsible lending guidance (5 November 2014)
- 14-294MR Focus for 21 December 2014 financial reports (7 November 2014)
- 14-295MR ASIC issues further guidance on superannuation forecasts (13 November 2014)
- 14-303 MR ASIC proposes to cut red tape and encourage more electronic disclosure (14 November 2014)
- 14-307MR Disallowance of FOFA regulations (19 November 2014).

## Australian Prudential Regulation Authority (APRA)

### Recent APRA releases:

- 14.20 draft prudential practice guide on superannuation fraud risk management (27 October 2014)
- 14.21 prudential practice guide on group insurance arrangements (30 October 2014)
- 14.22 updated version of Prudential Standard APS 201 Liquidity (APS 210) and the associated reporting framework (4 November 2014)
- 14.24 quarterly superannuation statistics for September 2014 (20 November 2014).

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

### Recent ACNC releases:

- US looks to ACNC 'report once, use often' charity reporting model (5 November 2014)
- Commissioner's Column (5 and 18 of November 2014)
- Overseas aid and development charities factsheet (20 November 2014)
- Charity financial information to be made available by ACNC (20 November 2014)
- Charity registration revoked for 408 missing charities (24 November 2014).

## New Publications by Other Audit Offices

### Australian National Audit Office (ANAO)

- Report 3: Fraud Control Arrangements (30 October 2014)
- Report 4: Second Follow-up Audit into the Australian Electoral Commission's Preparation for and Conduct of Federal Elections (5 November 2014)
- Report 5: Annual Compliance Arrangements with Large Corporate Taxpayers (6 November 2014)
- Report 6: Business Continuity Management (6 November 2014)
- Report 7: Administration of Contact Centres (26 November 2014)
- Report 8: Implementation of Audit Recommendations (26 November 2014)
- Report 9: The Design and Conduct of the Third and Forth Funding Rounds of the Regional Development Australia Fund (27 November 2014).

### ANAO **AUDITFocus**:

- AUDITFocus October 2014.

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

- Accident Compensation Corporation: Using a case management approach to rehabilitation (November 2014)
- Making the most of audit committees in the public sector (November 2014)
- Water and roads: Funding and management challenges (November 2014).

### Tasmanian Audit Office (TAS AO)

- Tasmanian Audit Office Annual Report 2013-14 (28 October 2014)
- Report No. 4: Auditor-General's reports on the financial statements of State entities, Volume 3 – Government Businesses 2013-14 (25 November 2014)
- Report No. 5: Auditor-General's reports on the financial statements of State entities, Volume 2 – General Government and Other State entities 2013-14 (27 November 2014).

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

- Purchasing Through Common Use Arrangements (12 November 2014)





- Audit Results Report – Annual 2013-14 Financial Audits (12 November 2014)
- Ensuring Compliance with Conditions on Mining – Follow-up (19 November 2014)
- Training and Support for Justices of the Peace (26 November 2014).

#### Queensland Auditor-General's Office (QAO)

- Report 3: 2014-15 Emergency department performance reporting (28 October 2014).

### Useful Resources

#### Commonwealth Government Treasury

- [Treasury Annual Report 2013-14](#) (31 October 2014).

#### Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- COSO has announced a project to review and update the 2004 Enterprise Risk Management – Integrated Framework (Framework). As part of this project COSO has launched an [online survey](#) which is designed to obtain input and feedback from interested parties regarding the current Framework and to collect suggestions for improvements (5 November 2014).

#### Independent Commission Against Corruption (ICAC)

- Annual Report 2013-14 (22 October 2014)
- Safeguarding public money: The importance of controlling invoice payments (19 November 2014).

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

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

- applications to increase minimum rates 2015/16 (local councils) (24 October 2014)
- maximum fares for rural and regional buses from 1 January 2015 (27 November 2014).

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

- A policy framework to deliver retirement income streams and a better super system: new ASFA report (13 November 2014)
- Three steps to fixing the \$92,000 superannuation gender gap: new ASFA policy framework (13 November 2014)
- Single retirees will need to spend \$767 more this year in order to live a comfortable lifestyle in retirement: AFSA Retirement Standard (21 November 2014).



#### Water Accounting Standards Board (WASB)

The WASB has released:

- the [Groundwater Explorer](#) tool – this tool allows you to visualise, analyse and download groundwater information for an area of interest without needing specialised software
- [water data at your fingertips](#) – nationally consistent, timely data from thousands of water monitoring stations across Australia.

The Professional Update team would like to take this opportunity to wish you a safe and enjoyable holiday break! We will be back in 2015.





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