

Professional update

Accounting and auditing developments |



September 2014

Hot Topics

Procurement fraud – red flags and controls

Fraud in the procurement cycle is an unfortunately common occurrence in both the public and private sectors. Monetary and reputational damage caused by fraud can be significant for any entity.

The most effective way to combat fraud is to have a robust control environment in place and to be vigilant for fraud's red flags.

Red flags:

Where the following red flags are observed, management and those charged with the governance of an entity should elevate the risk of fraud occurring and take appropriate steps to mitigate the fraud risks as soon as possible:

- poor tone from the top, including poor ethical behaviour
- overly complex structures with unclear reporting lines, responsibilities and accountabilities
- no fraud awareness training
- people in key roles who never take a continuous period of leave
- poor or non-existent record keeping
- repeated awards to the same vendor
- gifts to and/or excessive entertainment of procurement staff by vendors
- competitive bidder complaints and protests
- complaints about quality, or high price, low quality goods
- duplicate invoice payments
- poor documentation to support expenditures
- failure to match invoices to receiving and order documentation
- round dollar invoices
- vendors with a post office box as the sole address
- payments to inactive vendors
- numerous post-award contract change orders
- consistent use of vendors who deliver poor quality goods and/or services.

High level controls:

Management and those charged with the governance of an entity should ensure:

- appropriate values and ethical behaviour are consistently practiced by those in leadership roles
- the risk of procurement fraud is acknowledged in the risk register
- risk owners are assigned with overall responsibility for fraud risks across the entity

This edition includes:

- Procurement fraud - red flags and controls
- AASB Research Report No. 1 - Application of Reporting Entity Concept and Lodgement of Special Purpose Financial Statements
- Accounting for Contributions within the Public Sector

Contents

Hot Topics	1
Audit Office of New South Wales	3
Accounting Update	3
Auditing Update	5
Ethics Update	5
Department of Premier and Cabinet	5
Public Service Commission	6
Public Accounts Committee	6
Australian Securities and Investments Commission (ASIC)	6
Australian Charities and Not-For-Profits Commission (ACNC)	6
New Publications by Other Audit Offices	6
Useful Resources	7



- staff are trained in the awareness and prevention of fraud and, in particular, how to identify procurement fraud
- procurement policies and processes, including a zero tolerance policy for fraud, are documented, readily available to staff, followed, enforced and regularly reviewed
- segregation of duties is consistently reviewed and enforced across the entity
- procurement contracts stipulate sub-contractors be approved before they are engaged
- internal audit includes procurement testing in its annual audit plan
- a register of related parties for senior executives and procurement personnel is maintained
- the entity has an appropriate gifts policy and maintains a gifts register
- board of director approval is required when awarding 'significant contracts' – a contract may be deemed 'significant' because of quantitative and qualitative factors.

Processes level controls:

Management and those charged with the governance of an entity should ensure:

- clear authorisation/approval levels are in place and operating effectively for all expenditures, and particularly for:
 - initiating tender processes
 - new contracts
 - contract renewals and extensions
 - contract variations, other than minor variations
- a register of approved vendors is maintained and reviewed at least annually
- vendors are removed from the entity's vendor list if they are inactive for 12 months
- proactive data set matches occur and available data from systems is analysed - many systems have control features which are not used, not 'switched on', or have been actively disabled
- system generated exception reports are enabled, generated on a regular basis, reviewed by senior managers and discrepancies reported and investigated.

AASB Research Report No.1 – Application of Reporting Entity Concept and Lodgement of Special Purpose Financial Statements

The Australian Accounting Standards Board (AASB) has released a research report into the application of the 'reporting entity' concept. The report was commissioned as part of its ongoing review of differential reporting in Australia.

The report analysed the financial statements of over 1,500 unlisted Corporations Law entities and 1,100 state entities and raised fundamental questions about the adequacy of financial reporting. In particular, the research found:

- widespread use of special purpose financial reporting - nearly 80 per cent of large proprietary companies prepared special purpose financial statements
- inconsistent application of the 'reporting entity' concept (An entity, including an economic entity, where it is reasonable to expect the existence of users that are dependent on general purpose financial report information to make and evaluate decisions about the allocation of scarce resources.)
- some public record special purpose financial statements did not purport to fully apply or did not disclose the application of many accounting standards. There was wide variation in the information disclosed, with some extremely poor quality disclosures
- an apparent mismatch between the lodgement requirements of regulators (e.g. size criteria) and the 'reporting entity' concept as defined by the Accounting Standards.

The findings in the report are 'intended to inform any future discussion of public-policy makers, regulators and the Australian Accounting Standards Board (AASB) on the application of the reporting entity concept and what the concept implies for financial statements lodged with various regulatory bodies.'

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

Accounting for Contributions by Owners within the Public Sector

AASB 1004 '[Contributions](#)' defines and prescribes the accounting treatment of contributions by owners, including the restructure of administrative arrangements for government controlled not-for-profit entities or for-profit government departments.

The accounting treatment of non-reciprocal transfers of assets





and/or liabilities between wholly-owned public sector entities within the same group of entities arising from decisions made by the government has been debated for several years. Non-reciprocal transfers occur when assets and/or liabilities are assumed / transferred without giving/receiving approximately equal value in exchange.

In July 2008, the Australian Accounting Standards Board (AASB) issued Interpretation 1038 '[Contributions by Owners Made to Wholly-Owned Public Sector Entities](#)'. This interpretation holds that, in the absence of equity instruments or formal agreements, the classification of transfers of assets and/or liabilities as contributions by owners is a designation decision for Government. As a consequence, unless the transfers have arisen as a result of a 'restructure of administrative arrangements' as defined in AASB 1004 or have been formally designated as 'contributions by owners' by Government, transfers of assets and/or liabilities between wholly-owned government agencies cannot be accounted for as equity transfers and must be accounted for through profit or loss.

For transfers to be classified as 'contributions by owners', a formal designation (usually evidenced by Cabinet or Ministerial approvals) must be made either before the transfer occurs or at the time of transfer and must clearly state the transfer is a capital contribution and/or distribution, which is to be adjusted against the transferor's and transferees contributed equity/accumulated surplus.

To ensure a consistent approach to dealing with contributions by owners within the NSW public sector, NSW Treasury issued TPP 09-3 '[Contributions by owners made to wholly-owned Public Sector Entities](#)'. This policy paper designates certain transfers as contributions by owners and outlines the accounting and disclosure requirements of such transfers. Equity transfers are generally restricted to:

- transfers effected by Public Sector Employment and Management Orders
- corporatisations
- the establishment of new statutory bodies
- transfers of programs/functions between entities
- transfers of assets/liabilities due to reassessment of use by the Government
- 'equity appropriations'
- other transfers to adjust an entity's capital structure
- other transfers with a Government controlled parent entity.

Audit Office of New South Wales

Grant Hehir, NSW Auditor-General:

- attended the Pacific Association of Supreme Audit Institutions (PASAI) conference in Apia, Samoa (18 to 22 August 2014)
- attended the opening of the second session of the 55th Parliament of NSW (9 September 2014)
- presented at the CPA's Sydney Accountants in Government discussion group – journey from Secretary of the Victorian Treasury to Auditor-General of New South Wales; views on key public sector reforms in New South Wales; role of the Auditor-General and the Audit Office (16 September 2014)
- participated on discussion panel for session "What does it mean to use public money well?" at the Australian Government Leadership Network Conference – "Towards Excellence Building Capacity for Change" (18 September 2014).

Annual Report 2013/14 for the Audit Office of New South Wales

On 29 August 2014, the Auditor-General released the [Annual Report 2013/14 for the Audit Office of New South Wales](#). The report summarises the activities and performance of the Audit Office of the past financial year against the main objectives, strategies and targets in the Audit Office strategic plan.

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The AASB has issued:

- exposure draft [ED 253 Recognition of Deferred Tax Assets for Unrealised Losses \(Proposed amendments to AASB 112\)](#). Comments close 20 November 2014.

AASB Meeting Highlights – 3 to 4 September 2014

Topics discussed by the AASB at its meeting included:

- borrowing costs of not-for-profit public sector entities
- revenue
- fair value measurement – implementation issues
- income from transactions of not-for-profit entities
- service concession arrangements
- service performance reporting





- disclosure initiative
- ED 250 Investment Entities
- IFRS Interpretations Committee
- accounting for dynamic risk management
- financial instruments.

International Update – International Accounting Standards Board (IASB)

[IASB Speeches and Releases](#)

The IASB has released:

- Exposure Draft ED/2014/3 Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12 Income Taxes) (20 August 2014)
- Speech by Hans Hoogervorst: 'The Dangers of ignoring unrealised income' (3 September 2014)
- narrow-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (11 September 2014).

International Update – International Valuation Standards Council (IVSC)

The IVSC has [released](#):

- Exposure Draft: [The Valuation of Equity Derivatives](#) – comments close 30 November 2014.

International Update – International Federation of Accountants (IFAC)

IFAC has recently released:

- Speech by IFAC SMP Committee Chair on [IFAC's SMP-Related Activities](#) (19 August 2014)
- [Making Financial Reporting Better: Strengthening the Financial Reporting Supply Chain](#) (2 September 2014).

International Update – Interpretations Committee

[IFRIC Meeting Highlights – 16 to 17 September 2014](#)

The committee discussed the following topics:

- IFRS 11 – Joint Arrangements
- IFRS 5 – Non-Current Assets Held for Sale
- IAS 12 – Income Taxes: Measurement of income on uncertain tax positions

- IFRIC 14-IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Availability of refunds from a defined benefit plan managed by an independent trustee
- Conceptual Framework
- IFRIC 21 – Levies: Levy on PPE of service provider
- IAS 28 – Investments in Associates and Joint Ventures: Assessment of fund managers' significant influence over funds
- IFRS 12 – Disclosures of Interests in Other Entities: Disclosures for a subsidiary with a material non-controlling interest and for a material joint venture or associate
- IAS 39 – Financial Instruments: Recognition and Measurement: Accounting for embedded foreign currency derivatives in host contracts
- IFRS 13 – Fair Value Measurement – The fair value hierarchy – using quoted prices provided by third parties.

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

IPSASB has recently issued the following:

- IPSASB 2013-14 Update, [Leading Through Change](#)
- Consultation Paper: [Applicability of IPSASs to GBEs and Other Public Sector Entities](#). Comments close 31 December 2014.

[IPSASB Meeting Highlight - 15 to 18 September 2014](#)

The Board discussed the following topics:

- Conceptual Framework
- reporting service performance
- strategy and work plan
- interests in other entities
- first time adoption of IPSASs
- public sector combinations
- public sector financial instruments
- social benefits.





Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB Meeting Highlights – 9 September 2014](#)

Topics discussed by the AUASB at its meeting included:

- assurance on controls
- GS 004 Audit Implications of Prudential Reporting Requirements for General Insurers
- GS 017 Auditing Prudential Requirements of Life Companies
- ASIC presentation
- GS 005 Using the Work of a Management's Expert
- using the work of internal audit
- contract, regulatory and grant acquittal compliance engagements
- international update.

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

[IAASB Meeting Highlights – 15 to 19 September 2014](#)

Topics discussed by the IAASB at its meeting included:

- ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report
- ISA 570 Going Concern
- ISA 706 Emphasis on Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- ISA 800 series
- ISA 260 Communication with Those Charged with Governance
- ISA 700 Forming an Opinion in Financial Statements, ISA 705 Modifications to the Opinion in the Independent Auditor's Report and confirming amendments
- ISA 720 The Auditor's Responsibilities Relating to Other Information
- efficiencies and terms of reference
- auditor reporting wrap up.

Ethics Update

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

The APESB have revised the following standard:

- [APES 330 Insolvency Services](#) (effective for services commencing on or after 1 January 2015. Early adoption permitted).

[APESB Meeting Highlights – 26 August 2014](#)

Topics discussed by APESB at its meeting included:

- proposed revision of APES 330 Insolvency Services
- APES GN 20 Scope and Extent of Work for Valuation Services
- APES 325 Risk Management for Firms
- APES GN 41 Management Representation Letters Project
- APES 230 Financial Planning Services
- definition of professional activities
- international and other activities.

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

The IESBA recently released:

- 2013 Annual Report: Enhancing Professional Accounting Education (25 August 2014).

Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [M2014-08](#) NSW Government Resource Efficiency Policy (2 September 2014)
- [M2014-09](#) Code of Conduct for Ministers of the Crown (10 September 2014)
- [C2014-07](#) Ministry Relocation to 52 Martin Place (1 September 2014)
- [C2014-08](#) Notifying the Department of Premier and Cabinet of State Submissions requiring approval by the Premier or Cabinet (4 September 2014).





Public Service Commission (PSC)

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

- PSCC 2014-12 2014 People Matter Employee Survey – Main Findings Report (25 August 2014).

Public Accounts Committee

Reports

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

- Review of the exercise of the functions of the Worker's Compensation (Dust Diseases) Board (3 September 2014)
- Social, public and affordable housing (10 September 2014).

Australian Securities and Investments Commission (ASIC)

Recent [consultation papers](#) released:

- CP 222 Reducing red tape: Proposed amendments to the market integrity rules. Comments close 2 October 2014
- CP 223 Relief for externally administered companies and registered schemes being wound up – RG 174 Update. Comments close 20 October 2014.

Recent [reports](#) released:

- Report 405 ASIC supervision of markets and participants: January to June 2014 (21 August 2014)
- Report 406 ASIC regulation of corporate finance: January to June 2014 (29 August 2014).

Recent [speeches](#) released:

- The 2014-17 National Financial Literacy Strategy (3 September 2014)
- Investors' trust and confidence in managed funds (3 September 2014)
- Parliamentary Joint Committee: Opening Statement (5 September 2014).

ASIC [Media Releases](#):

- 14-207MR ASIC published eighth market supervision report (21 August 2014)
- 14-208MR ASIC consults on red tape reduction proposals for ASIC market integrity rules (21 August 2014)
- 14-211MR Updated ASIC policy for externally administered companies and registered managed investment schemes being wound up (25 August 2014)

- 14-213MR ASIC lodges second submission to the 2014 Financial System Inquiry (26 August 2014)
- 14-214MR ASIC published first report on corporate finance regulation (29 August 2014)
- 14-225MR ASIC Chairman's travel spending and agenda (5 September 2014)
- 14-227MR ASIC – sharing the secrets of successful savers (11 September 2014).

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

[Recent ACNC releases](#):

- Regulator revokes 246 "missing" charities (18 August 2014)
- Regulator warns charities to be aware if operating overseas (4 September 2014)
- The Commissioner's latest column (10 September 2014).

New Publications by Other Audit Offices

Tasmanian Audit Office (TAS AO)

- Report No.2 - Follow up of selected Auditor-General reports: October 2009 to September 2011 (4 September 2014)
- Report No 3 – Motor Vehicle fleet management in government departments – summary report (4 September 2014).

Victorian Auditor-General's Office (VAGO)

- 2014 – 15:3 Managing the Environmental Impacts of Transport (20 August 2014)
- 2014 – 15:4 Access to Legal Aid (20 August 2014)
- 2014 – 15:5 Managing Landfills (3 September 2014).

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

- Report on the Adelaide Oval redevelopment pursuant to section 9 of the Adelaide Oval Redevelopment and Management Act 2011 for the designated period 1 January 2014 to 30 June 2014 (1 September 2014).

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

- Annual Report 2013-14 (20 August 2014).





Northern Territory Auditor-General's Office (NTAO)

- August 2014: Report to the Legislative Assembly on matters arising from audits conducted during the six months ended 30 June 2014 (15 August 2014).

Useful Resources

Commonwealth Government Treasury

- The Commonwealth Treasury has released a [speech](#) by Barry Sterland: The G20 Growth Agenda: Implications for Emerging Economies (21 August 2014).

Commonwealth Government Department of Climate Change and Energy Efficiency

- [Renewable Energy Target Scheme – Report of the Expert Panel](#) (28 August 2014)
- [Draft Emissions Reduction Fund methods released for public consultation](#) (3 September).

Productivity Commission

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

- Australia's Automotive Manufacturing Industry – Inquiry report (26 August 2014)
- Modelling the Effect of Childcare policy changes – Technical supplement to draft report (28 August 2014)
- Infrastructure – Chairman's speech (12 September 2014).

Independent Pricing & Regulatory Tribunal (IPART)

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

- Estimating the wider benefits of public transport (26 August 2014)
- Fees for services provided by NSW Trustee & Guardian (September 2014).

Institute of Internal Auditors (IIA)

The Institute of Internal Auditors has released:

- [Practice Guide - Business Continuity Management Key to Handling Crisis](#) (8 September 2014).

Association of Superannuation Funds of Australia (ASFA)

ASFA [media releases](#):

- Objectives and measurable goals are crucial to the long-term success of the superannuation system: ASFA System Inquiry Submission (27 August 2014)

- the Community needs certainty when it comes to the Superannuation Guarantee (2 September 2014).

Copyright

Material on this site is protected by Copyright Law.

You may download, display, print and copy any material on this site for your personal use or for non-commercial use within your organisation.

You must not copy, adapt, publish, or distribute any material contained on this site without acknowledging the source.

You must not use any material on this site for commercial purposes without the written authorisation of the Audit Office. For requests for authorisation please [contact us](#)

Disclaimer

All material published on this site is of a general nature only and is not intended to be a substitute for or relied upon as specific professional advice.

No responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any material on this site is accepted.

Although the Audit Office will take all reasonable steps to ensure material on this site is complete and accurate, no guarantees are given.

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

Professional people with purpose

Making a difference through audit excellence.

