

Professional update

Accounting and auditing developments | September 2016

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This edition includes:

- Auditor-General of New South Wales appointed as auditor of local councils
- Capital Structure and Financial Distributions Policies for Government Businesses
- IESBA releases new standard – Responding to noncompliance with laws and regulations

Hot Topics

Auditor-General of New South Wales appointed as auditor of local councils

On the 21 September 2016 the [Local Government Amendment \(Planning and Governance\) Act 2016](#) (the Act) was proclaimed. The Act is the first phase of reforming the *Local Government Act 1983* to meet the future needs of councils and communities, and:

- embed strategic business planning principles across council functions and practices
- promote independent, sustainable councils engaged with and accountable to their local communities capable of delivering local and regional needs
- support a culture of continuous improvement in councils to ensure effective and efficient delivery of strategic goals agreed with local communities.

The Act appoints the Auditor-General of New South Wales as the auditor of all councils for the 2016–17 financial year onwards, and aligns New South Wales with other Australasian jurisdictions.

Under this mandate the Auditor-General will:

- audit councils' financial reports
- report to parliament on local government issues identified through the financial statement audits
- conduct performance audits across the local government sector
- provide other audit-related services at the request of the council, the minister or the Chief Executive of the Office of Local Government.

The Audit Office of New South Wales will work with the Office of Local Government, councils and existing audit firms in the transition to the new audit arrangements.

Other important reforms and objectives of the Act are to:

- clarify the roles and responsibilities of councillors, mayors, administrators and general managers
- introduce new guiding principles for local government
- enable the Minister for Local Government to appoint a financial controller to councils issued with an improvement order
- improve council governance and councillors' professional development
- consolidate councillors ethical conduct obligations
- establish a framework for strategic business planning and reporting
- require councils to establish Audit, Risk and Improvement Committees
- streamline council administrative processes.



Capital Structure and financial distributions policies for government businesses

NSW Treasury has issued two policies for government businesses to support the government's broader policy goal of maintaining the State's triple-A credit rating. The policies operate together with other policies in the Commercial Policy framework:

- [TPP 16-03 'Capital Structure for Government Businesses'](#)
- [TPP 16-04 'Financial Distribution Policy for Government Businesses'](#)

The policies apply to State Owned Corporations (SOCs) and other government businesses from 1 July 2017, commencing with the 2017–18 Statements of Corporate Intent (SCI) and Business Plans. The Capital Structure Policy outlines the government's expectations for these businesses to use an efficient mix of debt and equity to fund their capital needs. The policy aligns government businesses with private sector and regulatory benchmarks and sets a Target Credit Rating.

The Target Credit Rating (Baa2/BBB – Moody's/Standard & Poor's) is consistent with the government's risk appetite. The target will ordinarily be expressed as a minimum to maximum range for debt that allows a level of flexibility for changing circumstances. However, NSW Treasury may determine an alternative Target Credit Rating after consulting with the business.

The business and its shareholders will negotiate the Target Capital Structure during the SCI process, which may mean the business needs to take on more debt, or reduce or increase dividend payments to transition to the target structure.

NSW Treasury prefers government businesses to use debt to adjust their Target Capital Structure, as it reduces the overall cost of capital. However, the businesses must balance increasing debt with the need to meet their obligations and withstand shocks.

Once established, the government businesses are responsible for maintaining the agreed capital structure, including:

- reporting movements and the associated reasons in quarterly and half yearly reports to shareholders
- advising NSW Treasury of material changes in the operating environment that may call for a capital structure review.

NSW Treasury will arrange a yearly stand-alone credit rating assessment for government businesses, against which they

can compare their Target Credit Rating. The business' capital structure will be reviewed if these measures don't align.

The Financial Distributions Policy ensures the government receives a return on its equity investment in government businesses by setting expectations for dividend payments. The policy also covers capital payments, which represent a return on the government's equity investment.

The policy revisions acknowledge the critical link between financial distributions and capital management policies. It sets expectations for businesses to pay dividends that, over the medium-term, will maintain their Target Capital Structure and Credit Rating.

Dividend processes for government businesses not subject to a Target Capital Structure remain unchanged.

The Capital Structure policy supersedes TPP 02-7 and the Financial Distributions policy supersedes TPP14-04 and TC14-9.

IESBA releases new standard – Responding to noncompliance with laws and regulations

The International Ethics Standard Board for Accountants (IESBA) has released a new standard, [Responding to Non-compliance with Laws and Regulations](#). The Accounting Professional and Ethical Standards Board (APESB) is expected to follow suit shortly.

The standard requires professional accountants to respond appropriately when they become aware of or suspect noncompliance with laws and regulations committed by a client, an employer, management, those charged with governance, or individuals working for, or under the direction of a client. The response may require the non-compliance to be reported to the appropriate public authorities without being constrained by the ethical duty of confidentiality.

The standard applies to all categories of professional accountants, including auditors and accountants in public practice, business, government, education and the not-for-profit sector.

Noncompliance may include acts of omission or commission, intentional or unintentional, which are contrary to prevailing laws or regulations, including:

- laws and regulations that directly affect the amounts and disclosures in the financial statements





- other laws and regulations that do not directly affect the amounts and disclosures in the financial statements, but compliance is fundamental to the operations of the client's business, its ability to continue as a business or to avoid material penalties. Examples include laws and regulations that deal with:

- fraud, corruption and bribery
- money-laundering, terrorist financing and proceeds of crime
- securities markets and trading
- banking and other financial products and services
- data protection
- tax and pension liabilities and payments
- environmental protection
- public health and safety.

The standard will be effective from 15 July 2017, with early adoption permitted.

Audit Office of New South Wales

Margaret Crawford, NSW Auditor-General, attended:

- Minter Ellison dinner: Women in Government (20 September 2016).

Auditor-General's Annual Report

- [Annual Report 2015-16](#) (9 September 2016)

Auditor-General's Performance Audit Reports to Parliament

- [Red tape reduction](#) (25 August 2016)
- [Sale and lease of Crown land](#) (8 September 2016)
- [Monitoring food safety practice in retail food business](#) (15 September 2016).

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

[AASB Meeting Highlights – 30 to 31 August 2016](#)

The AASB Board made key decisions in relation to:

- Income of not-for-profit Entities – AASB 10XX Income of

Not-for-Profit Entities is to be effective from 1 January 2019, and consequently AASB 15 will be deferred for not-for-profit entities to the same date

- Insurance Contracts – scope of forthcoming insurance standard to be clarified for public sector entities.

The Board also discussed the following topics:

- AASB agenda consultation
- Research updates
- International consultation documents
- Review of IFRS adoption
- Research on corporate reporting thresholds.

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

- FRC seeks applications for membership of the AASB and AUASB 2016–17 (30 August 2016)
- Justin Lachal appointed to new National Director role (1 September 2016)
- Updated AASB Standard-Setting Work Program (7 September 2016)
- Board holds joint strategy meeting (16 September 2016).

International Update – International Accounting Standards Board (IASB)

[IASB Podcasts](#)

Recent podcasts released by IASB include:

- July 2016.

International Update – International Financial Reporting Standards (IFRS) Foundation

[IFRS latest news](#)

- IFRS Foundation develops IFRS Taxonomy Guide to Common Practice Content (25 August 2016)
- How well do you know your IFRS Standards? IFRS Foundation updates popular online quiz (1 September 2016)
- IASB webcast on proposed amendments to the definition of a business (6 September 2016)
- International Accounting Standards Board issues amendments to insurance contracts (12 September 2016)
- A Guide through IFRS Standards (Green Book) – now available (20 September 2016).





International Update – Interpretations Committee

◦ [IFRIC Meeting Highlights – 6 to 7 September 2016](#)

The committee discussed the following topics:

- Items on the current agenda
 - IAS 12 Income Taxes – Uncertainty over Income Tax Treatments – analysis of matters raised in comment letters
 - IAS 19 Employee Benefits and IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – analysis of matters raised in comment letters on the proposed amendments
 - IFRS 9 Financial Instruments and IAS 28 Investments in Associates and Joint Ventures – long term interests in associates and joint ventures
 - IAS 16 Property, Plant and Equipment – proceeds and costs of testing property, plant and equipment
 - IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement – fees and costs included in the '10 per cent test' for the purpose of derecognition.
- Interpretation Committee's tentative agenda decisions
 - IAS 12 Income Taxes – recognition of deferred taxes when acquiring a single-asset entity that is not a business.
- Interpretation Committee's agenda decisions
 - IFRIC 12 Service Concession Arrangements – service concession arrangements with leased infrastructure.

International Update – International Federation of Accountants (IFAC)

IFAC has recently [released](#):

- Restoring Trust, Increasing Transparency: Crucial for G-20 Countries & Global Economy (25 August 2016)
- IFAC & IASBB eNews Special Edition: Working for the International Auditing and Assurance Standards Board (30 August 2016)
- Accountants Remain Most Trusted Advisor to Engine Room of Global Growth (14 September 2016).

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

[AUASB Meeting Highlights – 13 September 2016](#)

Topics discussed by the AUASB at its meeting included:

- Enhanced External Reporting – update
- Auditor Reporting – Special Purpose Reports – ED ASA 810
- Presentation by Professor Miklos Vasarhelyi – Rutgers University
- ASAE 3500 Performance Engagements update
- Auditor Reporting Implementation
- Revision of Audit Committees – A Guide to Good Practice – 2nd edition
- Discussion of agenda and key papers for the IAASB meeting 19 to 23 September in Hong Kong.

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

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

- IFAC & IAASB eNews Special Edition: Working for the International Auditing and Assurance Standards Board (30 August 2016)
- Exposure Draft: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics (1 September 2016), with comments due by 15 February 2017
- IAASB eNews: September 2016 (8 September 2016).

Ethics Update

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

The APESB have recently released:

- [APES GN 41 Management Representations.](#)

[APESB Meeting Highlights – 29 August 2016](#)

Topics discussed by APESB at its meeting included:

- International and other activities
- IESBA Board Member update
- Project proposal to incorporate international amendments to APES 110 Code of Ethics for Professional Accountants





- Project progress and annual review for APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document
- Annual reviews for APESB Pronouncements.

Treasury – NSW Government

Treasury has recently issued the following policy papers:

- [TPP 16-03](#) Capital Structure Policy for Government Businesses
- [TPP 16-04](#) Financial Distribution Policy for Government Businesses.

Public Service Commission (PSC)

The PSC has released the following circular:

- [PSCC-2016-06](#) Medical services for NSW Government agencies (8 September 2016).

Department of Finance, Services and Innovation (DFSI)

The DFSI has released the following circular:

- [DFSI-2016-08](#) NSW ICT Assurance Framework – Transition Arrangements and ICT Investment Policy (5 September 2016).

NSW Procurement Board

[NSW Procurement Board recent procurement alerts:](#)

- Feedback sought on new standard form contract for human services (8 September 2016)
- Value for money in innovative engagement with regional disability support provider (9 September 2016)
- Extension of Contract 776 Retail supply of electricity and GreenPower to NSW Government and eligible (small sites) (13 September 2016).

Public Accounts Committee (PAC)

The PAC has recently commenced [inquiries](#) into:

- Rules and questions (13 September 2016).

Recent [reports](#) tabled in the NSW Parliament:

- Citizen's Right of Reply – Eastern Suburbs Football Association (13 September 2016)

- Citizen's Right of Reply – Champion Homes (13 September 2016)
- Review of the 2015 Annual Report of the Advocate for Children and Young People (13 September 2016)
- Tenth General Meeting with the Valuer General (13 September 2016)
- Driverless Vehicles and Road Safety (22 September 2016).

Australian Securities and Investments Commission (ASIC)

Recent [reports](#) released included:

- REP 488 Response to submissions on CP 240 Remaking ASIC class orders on rounding and other matters (26 August 2016).

ASIC [media releases](#) included:

- 16-283MR ASIC's Corporate Plan 2016–17 to 2019–20 and Focus for 2016–17 (31 August 2016).

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

[Recent ACNC releases:](#)

- ACNC Commissioner launches new AICD NFP research report (1 September 2016).

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Procurement of the International Centre for Complex Project Management to Assist the OneSKY Australia Program (31 August 2016)
- Conduct of the External Compliance Assurance Process pilot (31 August 2016)
- Machinery of Government Changes (31 August 2016)
- Award of Funding under the 20 Million Trees Programme (31 August 2016)
- Passenger Security Screening at Domestic Airports (31 August 2016)
- Corporate Planning in the Australian Public Sector (31 August 2016)
- Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2016 (31 August 2016)





- Controls over Credit Card Use (31 August 2016)
- Community Pharmacy Agreement: Follow-on Audit (31 August 2016)
- Award of Funding under the Mobile Black Spot Programme (1 September 2016)
- Tiger – Army's Armed Reconnaissance Helicopter (1 September 2016)
- The Design of, and Award of Funding Under, the Living Safe Together Grants Programme (1 September 2016)
- Delivery of Health Services in Onshore Immigration Detention (1 September 2016)
- Abatement Crediting and Purchasing under the Emissions Reduction Fund (12 September 2016)
- Meeting Revenue Commitments from Compliance Measures (12 September 2016)
- Offshore Processing Centres in Nauru and Papua New Guinea: Procurement of Garrison Support and Welfare Services (13 September 2016)
- The Auditor-General Annual Report 2015–16 (14 September 2016)
- Design and Monitoring of the Rural Research and Development for Profit Programme (20 September 2016).

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

- Auckland Council: How it deals with complaints (August 2016)
- Department of Corrections: Managing offenders to reduce reoffending – Progress in responding to the Auditor-General's recommendations (September 2016)
- Using Gateway reviews to support public sector projects (September 2016)
- Annual Report 2015–16 (September 2016).

Tasmanian Audit Office (TAS AO)

- Accounting and Auditing Developments newsletter (16 September 2016)
- Report of the Auditor-General No.1 of 2016017: Ambulance emergency services (22 September 2016).

Victorian Auditor-General's Office (VAGO)

- Audit Committee Governance (31 August 2016)
- Meeting Obligations to Protect Ramsar Wetlands (14 September 2016).

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

- Ord-East Kimberley Development (7 September 2016).

Useful Resources

Commonwealth Government Treasury

Recent [media release](#) included:

- Statement: Budget Savings (Omnibus) Bill 2016 and Explanatory Memorandum (31 August 2016).

Recent [publications](#) included:

- Corporate Plan 2016–17 (31 August 2016).

Department of Justice NSW

Department of Justice NSW [recent releases](#) included:

- Over \$2 million for local crime and safety solutions (26 August 2016)
- \$237 million investment in reducing reoffending (31 August 2016).

Independent Commission Against Corruption (ICAC)

ICAC's [recent releases](#) included:

- Operation Spicer report to be furnished 30 August 2016 (26 August 2016)
- Prohibited donations, fund channelling and non-disclosures exposed in NSW Liberal Party 2011 State election campaign (30 August 2016).

Productivity Commission

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

- Better management of Australia's fisheries needed to ensure sustainability and value (31 August 2016)
- Governments need to lift the bonnet on Australia's schools (6 September 2016)
- People should be at the centre of the services they use (22 September 2016).

Independent Pricing & Regulatory Tribunal (IPART)

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

- Fact Sheet – Review of Local Government Rating System (22 August 2016)
- NSW Country Regional Network (9 September 2016)
- Electricity networks audit guideline – R2A update (13 September 2016)





- R2A Draft report – Electricity Network Safety Management System – Formal Safety Assessment Audit Guidance (13 September 2016)
- Issues Paper – Review of prices for WaterNSW – Rural bulk water services from 1 July 2017
- Fact Sheet – Reweighting of Local Government Cost Index (19 September 2016)
- RailCorp Compliance Proposal – Hunter Valley RAB Ceiling Test – 2014–15 (22 September 2016).

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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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