

# Professional update

Accounting and auditing developments |



February 2014

## Hot Topics

### Agency restructures at commencement of the GSE Act

#### Six fundamentals to deal with administrative restructures

The [Government Sector Employment Act 2013](#) (GSE Act) has replaced the *Public Sector Employment and Management Act 2002*, and with effect from **24 February 2014**, the [Administrative Arrangements Order 2014](#) changed the functions of some agencies. The changes include:

- **10 new agencies established** – certain functions are separated into new stand-alone agencies. These agencies must prepare financial statements from 24 February 2014 to 30 June 2014. The continuing agency from which the new agency was separated must prepare a ‘pre-transfer’ statement of financial position and statement of comprehensive income for the separated functions to facilitate the continuing agency’s:
  - recognition of transferred assets and liabilities
  - year-end note disclosures
  - audit processes
- **28 agencies discontinued** – these agencies are amalgamated with a ‘continuing’ agency and do not need to prepare final financial statements. Instead, note disclosures will be included in the financial statements of the agency to which the functions are transferred. The discontinued agencies must prepare a ‘pre-transfer’ statement of financial position and statement of comprehensive income to facilitate the continuing agency’s:
  - recognition of the transferred assets and liabilities
  - year-end note disclosures
  - audit processes
- **42 continuing agencies** – are ‘successors and continuations’ of former agencies and must prepare one set of financial statements covering the whole year
- **3 further agencies were not abolished** (that is, Internal Audit Bureau Division, SAS Trustee Corporation Division and Treasury Corporation Division) and they continue for the time being, despite the repeal of the former Act.

Administrative restructures can be complex and challenging for agencies and auditors. However, these six fundamentals can help minimise transitional challenges.

#### 1. Planning

- Establish a steering committee or change management team to coordinate all aspects of the change.

#### 2. Governance

- Establish or review the composition and charters of mandatory committees.
- Develop or update governance/policy documents and, if necessary, prepare

## This edition includes:

- **Agency restructures at commencement of the GSE Act**
- **Treasury Circular TC 14/02 – mandatory early close procedures for 2014**
- **Contributions and donations – four common challenges**

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fresh delegation instruments.

- Update or create enterprise risk management and compliance framework documentation.
- Create or update contract registers.

### 3. Financial Management

- Develop Memoranda of Understanding (MoU) between transferor and transferee agencies to document decisions regarding costs, payment of invoices, recovery of money, transfer of assets, liabilities, revenues and expenses.
- Open, close and/or rename bank accounts and change signatories where necessary.
- Quantify the appropriation relating to the transferred function and arrange for transfer of budget appropriations.
- Review/reissue financial delegations.
- Review NSW [TC 11/13](#), which highlights issues and provides guidance on changes in grouping arrangements for GST, FBT responsibilities, PAYG and payment summaries, Australian Business Number (ABN), trading names, and other administrative tasks resulting from administrative and machinery of government changes.

### 4. Financial Reporting and Systems

- Consider the impact on the control structure, the financial statements and potential note disclosures arising from the restructure.
- Ensure systems are able to consolidate new and existing control relationships, and transferred data is complete and accurate.
- Develop/update financial and payroll systems.
- Integrate the accounts of the transferred functions in financial systems.
- Determine accounting treatment for transferred assets, liabilities, revenues and expenses, leases, restricted assets, commitments, contingencies.

### 5. People Management and Communication

- Identify affected employees and transfer their physical/digital personnel records.
- Develop a communication strategy to keep employees

informed and give them opportunities to raise any concerns.

### 6. General

- Update lease agreements, contractual arrangements and insurance policies.
- Develop MoU and service level agreements to cover shared arrangements and service provision.
- Identify outstanding legal actions and the parties to which they relate.

For further guidance on managing administrative restructures, refer to the following checklists:

- [Checklist for organisational change – Managing machinery of government changes](#) (Queensland Audit Office)
- [Checklist for restructures](#) (Australian National Audit Office)
- **Treasury** intends to issue a **frequently asked questions** shortly on its website
- [Government Sector Employment Regulation 2014](#).

### Treasury Circular TC 14/02 – Mandatory early close procedures for 2014

NSW Treasury has released [NSW TC 14/02 'Mandatory early close procedures for 2014'](#). It contains early close requirements and dates by which financial statements must be submitted to the Audit Office.

Early close procedures are mandatory for all TOES (Treasury Online Entry System) agencies, including SOCs. **All** TOES agencies must perform **each** early close procedure listed in Appendix B. For example, all agencies must prepare pro-forma financial statements with year to date financial information.

Agencies with a 30 June year-end should complete early close procedures as at 31 March, but no later than 30 April, unless another month-end is determined as appropriate and agreed with Treasury.

### **Reporting and audit deadlines**

Agencies must submit financial statements and supporting work papers to the Audit Office, and other returns (for example, TOES) to Treasury as detailed below.





Agencies	Financial statements and work papers, Treasury returns due by:	IAR due eight weeks later, by:
Group 1	Thursday 24 July	Thursday 18 September
Group 2	Friday 25 July	Friday 19 September
Group 3	Monday 28 July	Monday 22 September

Failure by Groups 1, 2 and 3 to have financial statements and supporting work papers prepared and submitted by these dates amounts to noncompliance with the *Public Finance and Audit Act 1983*.

Appendix D to the circular shows which group TOES agencies are in. Agencies which do not report data via TOES are subject to the statutory dates for submitting financial statements (11 August). The Audit Office has ten weeks to complete the audit and issue the IAR by 20 October.

### Contributions and donations – four common challenges

Accounting for contributions and donations can be challenging. Requirements differ depending on whether the receipt is by a not-for-profit (NFP) entity or for-profit (FP) entity.

Challenging aspects of accounting for contributions and donations include:

#### 1. Recognising and measuring contributed assets

[AASB 116 'Property, Plant and Equipment'](#) sets out the requirements for recognising and measuring contributed assets. An asset may be recognised if it is probable the future economic benefits associated with it will flow to the entity, and the cost of the asset can be measured reliably.

Assets must be initially measured at **cost**. However, where an asset is acquired at no cost, or for a nominal amount, a NFP entity may determine the cost is the fair value of the contributed asset at recognition. An FP entity does not have this option and a contributed asset can only be recognised at cost and subsequent changes in fair value must be recorded through a revaluation reserve.

#### 2. Identifying the correct basis for revenue recognition

[AASB 1004 'Contributions'](#) sets out the requirements for accounting for contributions to NFP entities. [AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance'](#) sets out the requirements for FP entities. Common errors include:

- i. Incorrect deferral or acceleration of recognition of income from government grants

The general NFP recognition principle under AASB 1004 is that a contribution is recognised as an asset as soon as the transferee gains control of it, providing there is no direct reciprocal obligation roughly equivalent in value of the transfer. Control is established when the transferee can benefit from the contribution or can deny or regulate the access of others to the benefits.

Income recognition associated with non-reciprocal contributions by an NFP transferee cannot be deferred and recognised over multiple periods even if such a deferral or delay better reflects the realisation of economic benefits by the transferee (AASB 1004).

For-profit entities, however, must recognise government grants as income on a systematic basis over the periods the entity recognises the related costs/expenses that the grant is intended to compensate (AASB 120).

- ii. Incorrect recognition of pledged contributions and donations

Entities cannot recognise contributions or donations pledged to it, but not yet received, unless the pledges are enforceable.

Similarly, an entity cannot recognise contributions under multi-year policy agreements until it has met conditions or provided services or facilities that give it a right to receive the contributions.

#### 3. Accounting for the value of services received free of charge

Contributions of services free of charge to government entities should be accounted for in accordance with AASB 1004 paragraphs 44 to 47.

An agency must recognise the fair value of the contributed service as income when the fair value can be determined and the agency would have purchased the service had it not been contributed.





#### 4. Completeness of fund-raising income at NFP charitable entities

Not-for-profit entities find implementing effective controls over donated revenue (especially cash and other voluntary donations) challenging. It may not be possible to implement controls before the point at which the donation enters the accounting system. In these instances, a charitable NFP's auditor may be unable to perform the tests needed to obtain the evidence required to provide assurance over the completeness of cash and other donations. As a result, an auditor may have no option but to express a qualified audit opinion in respect of this scope limitation. However, qualified opinions are not issued as a matter of course.

[GS 019 Auditing Fundraising Revenue of Not-For-Profit Entities](#) provides useful entity controls and indicative audit procedures. An auditor needs to consider: the activities and operations of the NFP entity; the materiality, source and predictability of the revenue stream; and the effect of any qualification issued in the previous year or in relation to compliance with charitable fundraising regulation.

#### Audit Office of New South Wales

Grant Hehir, NSW Auditor-General, participated in a panel discussion on financial reporting by NSW Health. He gave a short presentation on his initial observations of financial reporting and financial management in the NSW public sector (14 February 2014).

#### Accounting Update

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

The AASB has issued:

- updated AASB Standard Setting [Work Program](#) as at 18 February 2014
- Invitation to Comment – [ITC 30](#) Request for comment on IASB request for information on post-implementation review: IFRS 3 Business Combinations – February 2014. Comments close 2 May 2014.

##### [AASB Meeting Highlights – 13 February 2014](#)

Topics discussed by the AASB at its meeting included:

- IPSASB exposure drafts regarding interests in other entities
- the future governance of the IPSASB



- IFRS for SMEs
- disclosures – incorporation of information by cross-reference
- insurance contracts
- activities of the Research Centre including completion of the Board's submission on the IASB's DP/2013/1 A Review of the Conceptual Framework for Financial Reporting.

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

##### [IASB Meeting Highlights – 21 to 23 January 2014](#)

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

- agriculture: bearer plants
- financial instruments: classification and measurement
- insurance contracts
- sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)
- elimination of gains from 'downstream' transactions (proposed amendments to IAS 28)
- accounting for acquisitions of interests in joint operations (amendments to IFRS 11)
- amendments to IAS 1
- financial instruments: impairment
- leases.

##### [IASB Podcasts](#)

Recent podcasts released by IASB include: January board meeting topics.

##### International Update – International Valuation Standards Council (IVSC)

The IVSC has [released](#):

- Exposure Draft: Proposed Changes to IVS 230 and IVS 300 – comments close 30 April 2014
- Exposure Draft: Development Property – comments close 30 April 2014.

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

##### [IFRS Foundation Meeting Highlights – 27 to 28 January 2014](#)

The trustee meeting discussed the following topics:

- international developments – discussion of the continuing



dialogue with the G20 on the mission of a single set of global accounting standards

- IFRS funding – review of the structure and effectiveness of the Foundation
- leases – there remained considerable concern about the cost and complexity of the proposals in the second ED issued in 2013
- insurance contracts
- the conceptual framework.

### International Update – Interpretations Committee

#### [IFRIC Meeting Highlights – 29 to 30 January 2014](#)

The committee discussed the following topics:

- IFRS 11 Joint Arrangements – Classification of joint arrangements
- IAS 1 Presentation of Financial Statements – issues related to the application of IAS 1
- IAS 12 Income Taxes – a number of issues
- IAS 16 Property, Plant and Equipment – disclosure of carrying amounts under the cost model
- IAS 19 Employee Benefits – Employee benefit plans with a guaranteed return on contributions or notional contributions
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets – measurement of liabilities arising from emission trading schemes.

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

IPSASB has recently issued the following [policy paper](#): Process for Considering GFS Reporting Guidelines during Development of IPSASs. The document sets out the IPSASB's process for considering Government Finance Statistics reporting guidelines during the development of IPSASs.

## Auditing Update

### Australian Update – Auditing and Assurance Standards Board (AUASB)

The AUASB has released a revised and expanded Guidance Statement [GS002 Audit Implications of Prudential Reporting Requirements for Registered Superannuation Entities](#). It contains guidance on matters assurance practitioners, conducting engagements under the new APRA Prudential Standard SPS

310 Audit and Related Matters, and the need to consider to meet APRA's audit reporting requirements (30 January 2014).

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

The IAASB has released [A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality](#).

## Ethics Update

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

#### [APESB Meeting Highlights – 29 January 2014](#)

Topics discussed by APESB at its meeting included:

- the preliminary draft of the Proposed Exposure Draft APES 315 Compilation of Financial Information
- the preliminary draft of the Proposed Exposure Draft APES 330 Insolvency Services
- the Project Proposal – APES GN 41 Management Representation Letters
- the annual review of a number of standards including:
  - APES 110 Code of Ethics for Professional Accountants
  - APES 210 Conformity with Auditing and Assurance Standards
  - APES 220 Taxation Services
  - APES 305 Terms of Engagement
  - APES 345 Reporting on Prospective Financial Information in Connection with a Disclosure Document
  - APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document.

## Financial Reporting Council (FRC)

#### [FRC Meeting Highlights – 28 November 2013](#)

At its meeting, the FRC discussed the following:

- remuneration of AASB and AUASB members and recent appointments
- G100 efforts to keep adoption of a single set of high quality accounting standards on the G20 agenda
- matters being considered by the AASB including: disclosure overload; effects of the discount rate used in the employee





benefit standard; the IASB's draft revised conceptual framework

- AUASB consultation and work on the IAASB auditor reporting project
- reports from stakeholders.

## Treasury – NSW Government

### New Treasury Policy Papers, Circulars and Research Papers

- [NSW TC 14/01](#) Acceptance of Performance Bonds or Unconditional Undertakings by Government Agencies
- [NSW TC 14/02](#) Mandatory Early Close Procedures for 2014.

## Department of Premier and Cabinet

### New Ministerial Memoranda and Department Circulars

- [M2014-01](#) Counter Terrorism Exercise Program Liability Issues
- [C2014-01](#) Australian Consumer Law – maintaining consistency.

## Public Service Commission (PSC)

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

- PSCC2014-01 NSW Public Service Senior Executive Work Level Standards
- PSCC2014-02 Supporting Leave for Living Organ Donors scheme.

## Australian Securities and Investments Commission (ASIC)

Recent [reports](#) released:

- Report 382: Overview of decisions on relief applications (June to September 2013)
- Report 383: ASIC enforcement outcomes: July to December 2013
- Report 384: Regulating complex products.

ASIC [Media Releases](#):

- 14-013MR ASIC reports on decisions to cut red tape – June to September 2013
- 14-017MR ASIC releases report on regulating complex

products

- 14-018MR ASIC enforcement report – July to December 2013
- 14-020MR ASIC updates hybrid information for investors
- 14-026MR ASIC extends shorter PDS regime
- 14-028MR ASIC accepts enforceable undertaking from Sydney-based auditors.

Recent guidance for preparers of financial reports:

- ASIC has decided to extend Class Order [CO 13/1050] which allows [issuers of stapled securities](#) (stapled entities) to continue to present consolidated or combined financial statements.

## Australian Prudential Regulation Authority (APRA)

[Recent APRA releases](#):

- harmonised standard and proposed guidance on risk management (31 January 2014).

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

[Recent ACNC releases](#):

- ACNC working with States and Territories to cut financial red tape (18 February 2014)
- the Commissioner's latest column (11 February 2014)
- top charity concerns revealed (28 January 2014)
- ACNC compliance: an overview of the first year of compliance activity (January 2014)
- Charity Commissioner's Interpretation Statement on Indigenous charities (24 January 2014).

## New Publications by Other Audit Offices

### Australian National Audit Office (ANAO)

The ANAO has recently published [audit reports](#):

- Report 16: Administration of the Smart Grid, Smart City Program (29 January 2014)
- Report 17: Administration of the Strengthening Basin Communities Program (30 January 2014)
- Report 18: Administration of the Improving Water Information Program (5 February 2014)





- Report 19: Management of Complaints and Other Feedback (12 February 2014).

ANAO [Corporate Publications](#):

- Procedures for Determining Breaches of the Code of Conduct and Sanctions (14 January 2014).

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

- Maintaining a future focus in governing Crown-owned companies (February 2014).

#### **Tasmanian Audit Office (TAS AO)**

- Redevelopment of the Royal Hobart Hospital governance and project management (16 January 2014)
- Report of the Auditor-General No.7 2013–14: Police responses to serious crime (6 February 2014)
- Report of the Auditor-General No.8 2013–14: Volume 4. Analysis of the Treasurer's Annual Financial Report 2012–13 (11 February 2014).

#### **Victorian Auditor-General's Office (VAGO)**

- 2013–14:20 Oversight and Accountability of Committees of Management (February 2014)
- 2013–14:21 Managing Emergency Services Volunteers (February 2014)
- 2013–14:22 Asset Management and Maintenance by Councils (February 2014).

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

- Report 13: Right of private practice: Senior medical officer conduct (11 February 2014).

#### **Northern Territory Auditor-General's Office (NTAO)**

- February 2014: Report to the Legislative Assembly on matters arising from audits and reviews for the six months to 31 December 2013.

## **Useful Resources**

#### **Commonwealth Government Treasury**

The Commonwealth Government Treasury has released:

- Australian Government [Protocols](#) Governing the Engagement Between Commonwealth Bodies and the Parliamentary Budget Office (15 January 2014)
- [Tax Expenditures](#) Statement 2013 (30 January 2014).

#### **Australian Stock Exchange (ASX)**

The ASX has released:

- ASX to launch a new managed fund service (6 February 2014).

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

- COSO releases new thought leader [paper](#) demonstrating how frameworks improve organisational performance and governance (10 February 2014).

#### **Independent Commission Against Corruption (ICAC)**

- Investigations into false certifications of heavy vehicle competency-based assessments by a Roads and Maritime Services accredited assessor (Operation Nickel) (24 January 2014).

#### **Productivity Commission**

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

- Tasmanian Shipping and Freight Draft Report (24 January 2014)
- Report on Government Services 2014 (28 January 2014)
- Auto Adjustment Assistance Needs a Measured Approach (31 January 2014).

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

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

- Our role in local government rate setting and special variations – February 2014
- Changes in gas retail prices from 1 July 2014 – February 2014
- Changes in regulated electricity retail prices from 1 July 2014 – February 2014.

#### **Australian Competition & Consumer Commission (ACCC)**

ACCC [media releases](#):

- ACCC to assess Australia Post's proposed increase for stamps (31 January 2014)
- Big spike in small business contacts to competition regulator (7 February 2014).





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