

# Professional update

Accounting and auditing developments |



March 2014

## Hot Topics

### Valuation of Physical Non-Current Assets at Fair Value

NSW Treasury has released Treasury Policy TPP14-01 (the Policy) '[Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value](#)'. This Policy supersedes and withdraws the previous policy, TPP 07/01, and related Treasury Circulars NSW TC 12/05 and NSW TC 10/07.

The Policy applies to NSW public sector entities for financial years ending on or after 30 June 2014. It is consistent with Australian Accounting Standards and includes additional guidance on the application of the new AASB 13 Fair Value Measurement.

For 2013–14 **only**, this new Policy continues the previous requirement to perform comprehensive revaluations of all applicable asset classes at least every five years.

For financial years **beginning** on or after 1 July 2014 this Policy:

- requires a comprehensive revaluation of land and buildings (excluding infrastructure and land under infrastructure) at least every three years where the market or income approach is the most appropriate valuation technique
- requires a comprehensive revaluation of all other classes of property, plant and equipment at least every five years
- requires agencies to use external professionally qualified valuers to either conduct or review comprehensive revaluations
- provides guidance on when to perform interim revaluations and when to engage external professionally qualified valuers
- provides guidance on the selection and use of fair value indices / indicators.

AASB 13 defines fair value based on an exit price notion:

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (para.9).

The Policy provides guidance on the application of AASB 13 and its concepts, including:

- use of a principal market, or in its absence the most advantageous market
- highest and best use
- the valuation premise
- valuation techniques
  - market approach
  - income approach
  - cost approach
- the fair value hierarchy of inputs
- introduction of a diagram that sets out how the requirements of AASB 13 apply to the fair value measurement of physical non-current assets

## This edition includes:

- **Valuation of physical non-current assets at fair value**
- **Public Service Commission releases circular on NSW Public Service Senior Executive Work Level Standards**
- **Accounting Policy TPP 14-02 and Treasury Circulars 14/03 and 14/04.**

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- conduct of revaluations
- frequency and types of revaluations
- the additional fair value disclosure requirements of AASB 13
- requirements for all agencies to document how they comply with AASB 13, including demonstrating their valuation assumptions are appropriate and the valuation technique used maximise observable inputs.

[Appendix A](#) of the Policy details the main differences from the previous Policy.

### Public Service Commission releases Circular on NSW Public Service Senior Executive Work Level Standards

As a result of the enactment of the *Government Sector Employment Act 2013* (GSE Act), the Public Service Commission (PSC) has released [PSCC 2014-01](#) NSW Public Service Senior Executive Work Level Standards. These standards are expected to be the primary tool agencies will use to determine the appropriate band for Senior Executive roles.

The standards broadly define the expected work in each band, except for the Department Secretaries band. To help agency human resource functions apply the Work Level Standards, a [six step flow chart](#) has been developed.

The PSC will develop a summary of the standards to help those staff not in human resources, including senior executives and line managers, determine the new work level standards.

### TPP 14-02 Accounting Policy: Financial Reporting Code for NSW General Government Sector Entities

The Financial Reporting Code (the Code) sets out the financial reporting framework for NSW General Government Sector (GGS) entities outlining the form and content of financial statements, including the accompanying note disclosures.

This edition of the Code supersedes the previous version TPP 13-01. The Code applies to all GGS entities for financial years ending on or after 30 June 2014, except for special purpose service entities, which are exempt from the requirements of the Code (refer to Treasury Circular [NSW TC 11-19](#)).

To help agencies, the Code cross-references to and illustrates the effects of those Accounting Standards and Treasury Circulars typically relevant to a GGS entity. However, where Accounting Standards require disclosures not covered by the Code, entities must ensure they include such disclosures in their financial statements.

The main changes to the Code arise from AASB 13 Fair Value Measurements and Treasury's Policy TPP 14-01 Valuation of Physical Assets at Fair Value. In addition the Code provides illustrative disclosures for administrative restructures arising from the GSE Act and related Administrative Orders. The illustrative disclosures are based on the requirements of [TPP 09-03 Contributions by owners made to wholly-owned public sector entities](#).

The Code does not illustrate the new/revised AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures requirements, because GGS not-for-profit entities will not apply these new and revised standards until 2014–15.

### TC 14/03 'Mandates of Options and Major Policy Decisions under Australian Accounting Standards'

NSW Treasury has released [NSW TC 14/03 'Mandates of Options and Major Policy Decisions under Australian Accounting Standards'](#). This circular updates the mandates of accounting policy options and major policy decisions under Australian Accounting Standards to be applied in entity financial statements for financial years ending on or after 30 June 2014.

This circular applies to all entities required to prepare general purpose financial statements under the *Public Finance and Audit Act 1983*, including Statutory State Owned Corporations.

The circular:

- updates mandates and references for new or amended standards, NSW Treasury Policies and NSW Treasury Circulars, including:
  - AASB 13 and NSW TPP 14-01 regarding fair value measurement
  - AASB 119 regarding accounting for superannuation
  - AASB 10, AASB 11, AASB 12, AASB 127 and AASB 128 (for for-profit entities only) regarding consolidated and separate financial statements and accounting for associates, joint arrangements and other interests in other entities
  - AASB 1053 regarding the reduced disclosure regime.
- updates the list of standards issued but not effective and confirms that Accounting Standards cannot be early adopted.





## TC 14/04 'Accounting for Long Service Leave and Annual Leave'

NSW Treasury has released [NSW TC 14/04 'Accounting for Long Service Leave and Annual Leave'](#). This circular outlines the accounting treatment for long service leave, annual leave and related consequential costs. This Circular withdraws and supersedes Treasury Circular NSW TC 12/06.

Key changes:

- Superannuation guarantee – increases in the superannuation guarantee rate from 1 July 2013 have changed the superannuation defined contribution consequential costs on long service leave and annual leave
- AASB 119 – a change in the definition of short-term employee benefits will likely result in annual leave and related consequential costs being classified as long-term employee benefits. Treasury has determined that the effect of discounting is likely to be immaterial, and General Government Sector (GGS) agencies can continue to apply the nominal approach plus the annual leave-on-annual leave liability to approximate the present value of the annual leave liability. However, agencies should still assess whether the effect of discounting the liability is immaterial. Other NSW public sector agencies should determine whether annual leave needs to be re-classified and measured as a long-term employee benefit in accordance with the standard.

disclosures.

The concept of a 'current exit price' may be difficult to apply where no active market exists for an asset or liability. This is often the case for public sector entities and application will require a great deal of judgement.

The valuation technique agencies select must maximise the use of observable inputs and minimise the use of unobservable inputs. The fair value hierarchy categorises inputs to the valuation techniques into three levels:

- Level 1 – based on quoted prices
- Level 2 – based on other observable inputs
- Level 3 – based on unobservable inputs.

In most cases, fair value measurements of public sector non-financial assets would be categorised as level 2 or 3, on the basis that it is rare for identical assets to be actively traded.

Level 1 categorisation must reference to quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 categorisation may reference to inputs other than quoted market prices that are either directly or indirectly observable for an asset or liability. Examples include:

- a non-specialised building used by an agency where a sufficient number of recent sale transaction prices can be observed
- plant and equipment where comparable equipment is available in the market and there is a sufficient volume of recent sales transactions.

Level 3 categorisation is appropriate where there are no observable inputs for the valuation of an asset or liability. Examples include:

- specialised infrastructure assets (such as electricity, gas and ports) valued on the income approach using discounted net cash inflows
- historical or collection assets that are rarely if ever traded.

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.

### Query of the Month

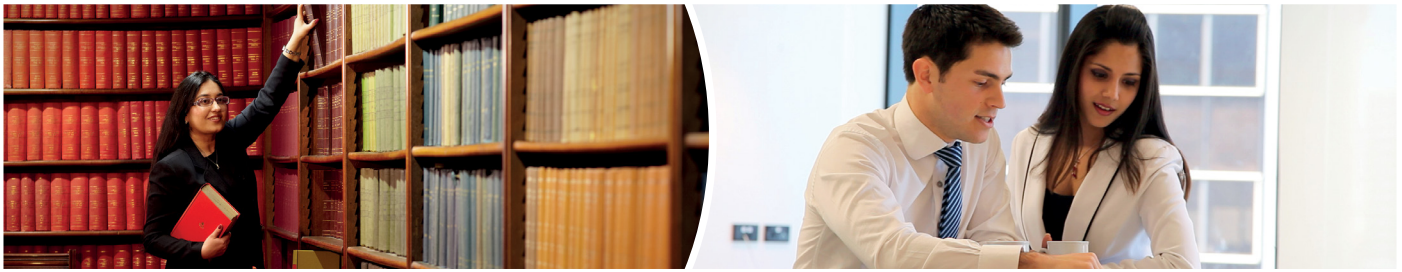
Query: AASB 13 requires fair value disclosures based on a 'fair value hierarchy'. My not-for-profit agency is having problems determining which level best describes our inputs. Can you provide any guidance?

### Answer:

The adoption of AASB 13 Fair Value Measurement may result in significant changes to agencies' processes and procedures for determining fair value and increase existing financial statement







## Audit Office of New South Wales

- Grant Hehir, NSW Auditor-General, presented at the CFO Forum for the NSW Public Sector Community of Finance Professionals 'Sharing Ideas on Contemporary Issues' (13 March 2014).

## Accounting Update

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

The AASB has issued:

- a staff paper on [disclosures and materiality](#)
- [comment letter](#) on IASB ED/2013/9 Proposed amendments to the International Financial Reporting Standard for Small and Medium-sized Entities.
- [comment letter](#) on IASB ED/2013/11 Annual Improvements to IFRSs 2012-2014 Cycle
- [Exposure Draft 248](#), Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements. Comments close 19 May 2014.

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

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

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

- rate-regulated activities
- equity method: share of other net asset changes
- narrow-scope amendments – IFRS 2 Share-Based Payment
- sale or contribution of assets between an investor and its associate or joint venture
- agriculture: bearer plants
- fair value measurement: unit of account
- financial instruments: impairment and classification and measurement.

#### [IASB Podcasts and Webcasts](#)

Recent podcasts and webcasts released by IASB include:

- Fair Value Measurement: Unit of Account, Financial Instruments: Impairment, Financial Instruments: Classification and Measurement (February 2014)
- a new [Investor Education Programme](#) series of webcasts

(February 2014).

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

The IVSC has [released](#):

- IVSC Statement of Protocols (6 March 2014).

### International Update – International Federation of Accountants (IFAC)

IFAC has recently released:

- [Guide](#) to Review Engagements (February 2014)
- an exposure draft on [Developing and Reporting Supplementary Financial Measures – Definition, Principles, and Disclosures](#). Comments close 26 May 2014
- a new [Knowledge Gateway](#) designed to bring together news, views, resources and thought leadership for the worldwide accountancy profession.

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

IPSASB has recently issued:

- [the IPSAS Outlook March 2014](#). The document sets out IPSASB's project update and latest developments regarding IPSASB governance and oversight.
- the paper [Process for Considering GFS Reporting Guidelines during Development of IPSASs](#).

#### [IPSASB Meeting Highlights – 11 to 14 March 2014](#)

The Board discussed the following topics:

- summary IASB work plan
- governance
- the Conceptual Framework: elements and recognition, measurement and presentation
- government business enterprises
- public sector financial instruments
- social benefits.

## Auditing Update

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

The AUASB and the Bureau of Meteorology have jointly issued Standard for Assurance Engagements [ASAE 3610](#)/Australian Water Accounting Standard AWAS 2 Assurance Engagements





on General Purpose Water Accounting Reports. The Assurance Standard provides requirements and application and other explanatory material regarding the assurance practitioner's responsibilities in an assurance engagement on a general purpose water accounting report, including both reasonable assurance and limited assurance engagements.

#### [AUASB Meeting Highlights – 24 February 2014](#)

Topics discussed by the AUASB at its meeting included:

- Revised Assurance Framework and ED 05/13 Proposed Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information
- ED 07/13 Conforming Amendments to ASAE 3402, ASAE 3410 and ASAE 3420 as a Result of Revisions to ASAE 3000
- Assurance on Internal Controls
- Trans-Tasman harmonisation
- GS 003 Assurance Relating to Australian Financial Services Licences issued under the Corporations Act 2001.

The AUASB has withdrawn the following superseded pronouncements, which have now been transferred to the archive section of its website:

- AUS 804 The Audit of Prospective Financial Information (July 2002)
- AGS 1062 Reporting in Connection with Proposed Fundraisings (August 2002)
- AGS 1014 Privy letter requests (July 2002).

#### **Federation of European Accountants (FEE)**

The FEE has released a new paper 'Opening a discussion – The Future of Audit and Assurance'. Its aim is to promote discussion and debate in the profession, in light of the significant new developments in audit policy being considered around the world. Comments close 30 June 2014.

## **Treasury – NSW Government**

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

- [TPP 14-01](#) Accounting Policy: Valuation of Physical Non-Current Assets at Fair Value
- [TPP 14-02](#) Accounting Policy: Financial Reporting Code for NSW General Government Sector Entities

- [NSW TC 14/03](#) Mandates of Options and Major Policy Decisions under Australian Accounting Standards
- [NSW TC 14/04](#) Accounting for Long Service Leave and Annual Leave.

## **Department of Premier and Cabinet**

#### **New Ministerial Memoranda and Department Circulars**

- [C2014-02](#) Statute Law Revision program 2014
- [C2014-03](#) Payment of fees for use of copyright material
- [C2014-04](#) Cabinet Standing Committee on Expenditure Review – Procedures and Operational Rules – 2014 .

## **Public Service Commission (PSC)**

The PSC has released the following circulars:

- [PSCC 2014-03](#) Role Description Development Guideline and Template (24 February 2014)
- [PSCC 2014-04](#) Government Sector Employment Act 2013 (24 February 2014).

## **Public Accounts Committee**

#### **Inquiries**

The NSW Parliament's Public Accounts Committee has commenced the 'Follow up of the Auditor-General's Performance Audits September 2012 – March 2013 Inquiry', examining the following reports of the Auditor-General which the committee considers ought to be brought to the notice of the Legislative Assembly:

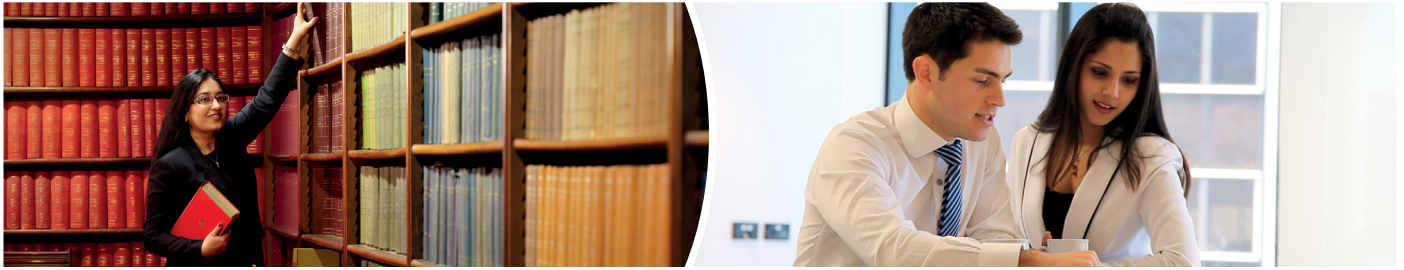
- Monitoring Local Government
- The Impact of the raised School Leaving Age
- Managing Drug Exhibits and Other High Profile Goods
- Managing Gifts and Benefits.

#### **Reports**

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

- Tourism in local communities (6 March 2014)
- Deadlines for government bills – Regulation of the consumption of alcohol by members during sitting hours – Government responses to petitions (4 March 2014)
- Removing or reducing station access fees at Sydney Airport (28 February 2014).





## Australian Securities and Investments Commission (ASIC)

Recent [regulatory guides](#) released:

- [INFO 191](#) Unsolicited (or unexpected) offers to buy your shares
- [INFO 193](#) Disputes about share registry services
- [INFO 194](#) Protecting yourself when you provide goods and services on credit last point
- [INFO 195](#) ePayments Code: Reporting data on unauthorised transactions.

Recent [reports](#) released:

- [Report 385](#) Response to submissions on CP 211 Facilitating electronic offers of securities: Update to RG 107 (3 March 2014).

Recent [speeches](#) released:

- Regulatory update 2014: Insights from the Australian Securities and Investments Commission (28 February 2014)
- Self-managed superannuation funds and complex products: ASIC update (21 February 2014)
- Senate inquiry into the performance of the Australian Securities and Investments Commission – Opening statement (19 February 2014).

ASIC [Media Releases](#):

- [14-032](#) MR ASIC information sheet on whistleblower and whistleblower protection.

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

[Recent ACNC releases](#):

- ACNC leads red tape reduction in the NFP sector (25 February 2014)
- the Commissioner's latest column (25 February 2014).

## New Publications by Other Audit Offices

### Australian National Audit Office (ANAO)

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

- Report 20: Management of Central Movement Alert List: Follow-on Audit (20 February 2014)
- Report 21: Pilot Project to Audit Key Performance Indicators

(27 February 2014)

- Report 22: Air Warfare Destroyer Program (6 March 2014).

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

- Department of Internal Affairs and grants administration (March 2014)
- Treasury: Learning from managing the Crown Retail Deposit Guarantee Scheme Report (March 2014).

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

- 2013-14:23 Apprenticeship and Traineeship completion (March 2014).

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

- Water Corporation: Management of Water Pipes (19 February 2014)
- Charging Card Administration Fees (12 March 2014).

## Useful Resources

### Commonwealth Government Treasury

- State of Supply [Report](#): Changes in how we live (24 February 2014)
- [Presentation](#) on the Implications of Economic and Financial Trends and Globalisation for the Demand and Supply for Skills (28/02/2014).

### Productivity Commission

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

- Action needed on public infrastructure – Draft Report (13 March 2014)
- Competition and Deregulation: challenges and choices – Chairman's speech (7 March 2014)
- Productivity in Government – Chairman's speech (21 February 2014).

### Independent Pricing & Regulatory Tribunal (IPART)

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

- WACC update (27 February 2014)
- Review of rate of return and remaining mine life from 1 July 2014 (5 March 2014)
- Our role in local government rate settings and special variations (6 March 2014)







- Council applications for special variations in 2014–15 (6 March 2014)
- Water and sewerage prices for residential and non-residential customers in Broken Hill (10 March 2014).

### Australian Competition & Consumer Commission (ACCC)

ACCC [media releases](#):

- December 2013 Quarterly report (19 February 2014)
- ACCC does not object to postage increase by Australia Post (20 February 2014)
- ACCC to adopt price monitoring role on Carbon Tax repeal (24 February 2014)
- ACCC opposes AGL's proposed acquisition of Macquarie Generation (4 March 2014)
- Lower Bulk water charges for NSW irrigators (5 March 2014).

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

ASFA has relaunched the Super Guru [website](#) to assist people in understanding and getting the most out of their superannuation.

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