

Professional update

Accounting and auditing developments |



November 2013

Hot Topics

Interim guidelines released – new *Government Sector Employment Act 2013*

The *Government Sector Employment Act 2013* (the Act) received assent on June 25, 2013. Upon commencement (expected in early 2014) it will replace the *Public Sector Employment and Management Act 2002*.

The Act introduces a range of reforms in the structure and management of the NSW Government sector. Two key areas of reform are:

- changes to the executive structure of the Public Service
- changes to employment arrangements and management practices that apply more generally to non-executive employees of the Public Service.

The NSW Public Service Commission has released interim [guidelines](#) for agencies planning to reorganise executive structures and/or positions before the Act commences. The guidelines are intended to remove or minimise the need for further restructures or assessments after the Act has commenced. The guidelines summarise the requirements of the Act and outline the process for obtaining the Public Service Commissioner's approval for such restructures.

The guideline principles apply to executive restructures and assessment processes for new executive positions. Design of the new executive structures and roles should ensure:

- the agency requires the proposed functions and roles to deliver its strategic and corporate objectives
- executive layers are minimised, with no more than three executive layers reporting below a Director General
- spans of control are based on benchmarks
- heads of human resources and finance report directly to the agency head, rather than through a corporate services head
- a consistent approach is applied to evaluating new executive roles
- a strategy outlining the proposed approach to filling new Senior Executive Service positions is developed
- the assessment process:
 - has regard to qualifications, experience, standard of work and capabilities
 - comprises at least three assessment methods, conducted as separate elements contributing to an overall assessment
 - includes an assessment against the 20 core capabilities in the new [NSW Public Sector Capability Framework](#).

Before the Act commences, agencies should review the interim guidelines and ensure current or proposed executive restructures align with the reforms. Transitional provisions for new executive arrangements must be adopted by all 'in scope' agencies within three years of the Act commencing.

This edition includes:

- **Interim guidelines - new Government Sector Employment Act**
- **Service concessions for grantors – potential changes coming**
- **Accounting for impairment of assets and cash generating units**

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Service Concessions for Grantors – potential changes coming

In Australia, some public sector entities have contractual ‘service concession arrangements’ with private sector entities to develop and deliver infrastructure for public services, such as hospitals, roads and utilities distribution. These arrangements are often referred to as public private partnerships (PPP) or privately financed projects (PFP).

At present, Treasury policy requires accounting for these arrangements to align with accounting for finance leases under [AASB 117 Leases](#). The Australian Accounting Standards Board (AASB) has [updated progress on its project](#) to develop a standard for grantor accounting for service concession arrangements to achieve consistent and comparable reporting for such arrangements. The AASB intends to converge requirements with the International Public Sector Accounting Standards Board (IPSASB)’s [IPSAS 32, Service Concession Arrangements: Grantor](#). Such a standard may result in substantial changes from current Australian accounting treatment by grantors, including:

- bringing assets and liabilities currently off-balance sheet on balance sheet
- greater analysis and judgement will be required to determine recognition and measurement of assets and liabilities by agencies
- analysis of the arrangements will be required to separately identify asset component from service components and account for each component appropriately
- ‘unwinding’ to revenue and expense of deferred revenue liabilities and prepayment assets.

However, until the application date of any new standard developed by the AASB, NSW Treasury Accounting Policy – [Accounting for Privately Financed Projects](#) (TPP 06-8) issued in June 2006, remains authoritative.

Accounting for impairment of assets and Cash Generating Units

Agencies must apply [AASB 13 Fair Value Measurement](#) for annual reporting periods beginning on or after 1 January 2013. AASB 13 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The value should reflect the asset’s highest and best use, but include the

effect of restrictions placed on the asset. After determining fair value under AASB 13 agencies must then apply [AASB 136 Impairment of Assets](#) (compiled).¹

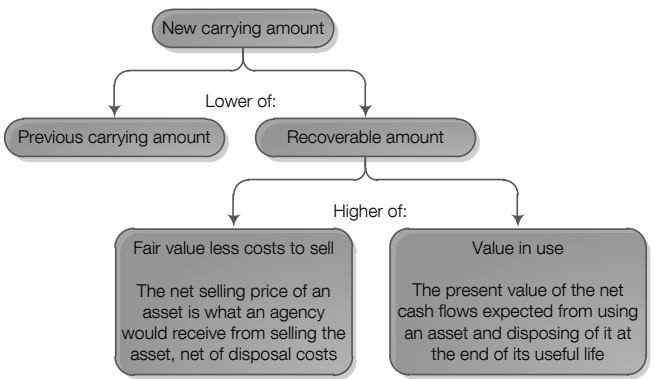
Impairment can be assessed and applied on the basis of single assets, or to cash generating units (CGU) within a business. Most assets in a business typically generate cash inflows by working together as a group of assets rather than generating cash flows individually. A CGU is the smallest group of assets that generate cash inflows largely independent of other assets.

At the end of each reporting period agencies must:

- assess whether there are indications assets or CGUs are impaired
- test intangibles with indefinite lives or not yet available for use for impairment
- test goodwill acquired in a business combination for impairment.

Agencies must consider internal and external indicators to determine if an asset or CGU is impaired (paragraph 12 of AASB 136). If an agency determines an asset or CGU is impaired, it must be written-down to its recoverable amount. Unless an asset’s fair value less cost to sell is greater than its carrying amount, an asset within a CGU must be tested for impairment as part of the value in use of the CGU to which it belongs.

The new carrying amount of the asset or CGU is calculated as:



When an entity determines its asset or CGU is impaired, it must comply with the requirements of AASB 136 and write-down the asset or CGU by applying the impairment losses to all the assets within the CGU.

Impairment is first allocated to purchased goodwill (if any)

¹ Note AASB 136 Impairment of Assets is presented in two versions: FP – for for-profit entities, and NFP – for not-for-profit entities. Ensure you apply the version appropriate to your agency.





and then across all assets in the CGU on a pro-rata basis. Impairment can be reversed on all assets except goodwill.

In applying impairment, each asset in the CGU should be reduced to the highest of:

- its fair value less costs to sell (if determinable)
- its value in use (if determinable)
- zero.

An impairment loss to reduce an asset's value to its recoverable amount must be recognised immediately in profit or loss or, if carried at a revalued amount, treated as a revaluation decrease. While not-for-profit entities may treat increments and decrements by class; for-profit entities must treat revaluation increments and decrements on an individual asset basis.

Where a not-for-profit (NFP) entity's assets are not traded in an active market, they may use depreciated replacement cost (DRC) instead of the 'value in use' criteria (AASB 136 paragraph Aus32.1). DRC may be used as a basis for valuation only where the future economic benefits are not primarily dependent on the asset ability to generate cash **and** the agency would replace the asset if deprived of it.

NSW Treasury is currently drafting new guidance to help agencies deal with the new requirements and accounting for revaluations and impairments of assets.

Query of the Month

Query: Valuation expertise – management's responsibilities and those of the auditors?

Our organisation needs to hire experts² to help us determine appropriate values for certain assets and liabilities. What is management at our organisation expected to do with respect to hiring of such experts and what can we expect our auditors to do and ask of us with respect to the use of these experts?

Management Responsibilities

Management and those charged with governance are responsible for ensuring:

- the financial statements comply with accounting standards, are presented fairly and are free from material misstatement
- they have an appropriate level of financial literacy, understand the business and how this is reflected in the financial statements and apply knowledge of transactions and events to the financial statements.

Engagement of an expert does **not** relieve management of its responsibilities in specialist areas, including ensuring:

- engagement terms are agreed and formalised
- the expert has adequate knowledge and experience of the applicable accounting standards and NSW Treasury requirements
- the expert understands how the information will be used
- accounting data given to the expert is complete and accurate
- there is adequate quality review to ensure:
 - cashflows and assumptions are reviewed for reasonableness and are in line with management's knowledge of the business
 - indices and rates used by the expert are reasonable
 - significant and unusual movements are understood and are reasonable
 - staff with adequate knowledge of applicable accounting standards and NSW Treasury requirements are involved in the review process.

Auditor Responsibilities

Where the work of management's expert will be used as audit evidence, [ASA 500 Audit Evidence](#) paragraph 8 summarises the auditor's responsibilities, which include:

- evaluating the competence, capabilities and objectivity of the expert
- obtaining an understanding of the work of the expert
- evaluating the appropriateness of the expert's work as audit evidence.

ASA 500 application guidance paragraphs A37–A38 details procedures an auditor may perform to meet their responsibilities.

² Including superannuation, long-service-leave, annual leave and valuation of assets.





An auditor may engage an expert to help assess the work of management's expert, particularly where the valuation is complex or involves specialist skills, significant estimates and/or judgements.

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.

Audit Office of New South Wales

Auditor-General's Financial Audit Reports to Parliament

- [Volume Three](#) 2013 focusing on New South Wales State Finances
- [Volume Four](#) 2013 focusing on Electricity
- [Volume Five](#) 2013 focusing on Education
- [Volume Six](#) 2013 focusing on Law, Order and Emergency Services.

Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The AASB has released:

- [new compiled versions of Standards from 1 January 2013](#):
 - AASB 119 Employee Benefits
 - AASB 120 Accounting for Government Grants and Disclosure of Government Assistance
 - AASB 121 The Effects of Changes in Foreign Exchange Rates [FP version]
 - AASB 121 The Effects of Changes in Foreign Exchange Rates [NFP version]
 - AASB 124 Related Party Disclosures [FP version]
 - AASB 124 Related Party Disclosures [NFP version]
 - AASB 132 Financial Instruments: Presentation [FP version]
 - AASB 132 Financial Instruments: Presentation [NFP version]
 - AASB 133 Earnings Per Share [FP version]
 - AASB 133 Earnings Per Share [NFP version]

- AASB 134 Interim Financial Reporting
- AASB 136 Impairment of Assets [FP version]
- AASB 136 Impairment of Assets [NFP version]
- AASB 137 Provisions, Contingent Liabilities and Contingent Assets

- [AASB 2013-8](#) Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities
- [comment letter](#) on IASB ED/2013/7 Insurance Contracts
- [comment letter](#) on IASB ED/2013/8 Agriculture: Bearer Plants
- [Invitation to Comment](#) – ITC 29 A Review of the IASB's Conceptual Framework for Financial Reporting – July 2013. Comments close 14 January 2014.

[AASB Meeting Highlights – 23 to 24 October 2013](#)

Topics discussed by the AASB at its meeting included:

- guidance on control to accompany AASB 10 Consolidated Financial Statements
- the withdrawal of AASB 1031 Materiality in light of comments received on AASB ED 243 Withdrawal of AASB 1031 Materiality
- recent developments relating to the accounting for Emission Trading Schemes
- an update on the joint FASB and IASB Revenue from Contracts with Customers project
- an update on the IASB's Financial Instruments project
- an update on the IFRS Interpretations Committee activities
- an update on IPSASB activities
- consideration of the potential reinstatement of AASB 7 Financial Instruments: Disclosures.

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 28 October to 1 November 2013](#)

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

- revenue recognition
- financial instruments: classification and measurement
- IAS 19 Employee Benefits





- IFRIC Update
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets exposure draft Clarification of Acceptable Methods of Depreciation and Amortisation

- Impairment.

The IASB has released:

- narrow-scope amendments to [IAS 19 Employee Benefits](#) (21 November 2013)
- the [November 2013 IFRIC Update](#) (21 November 2013)
- a speech by IFRS Trustees' Chairman Michel Prada '[A la carte accounting will not deliver globally consistent standards](#)' (12 November 2013).

International Update - International Valuation Standards Council (IVSC)

The IVSC has released a paper '[Minimizing goodwill impairment differences globally: No fast or simple solution](#)', by Greg Forsythe, Director and Centre of Valuation Excellence Leader for Deloitte Financial Advisory Services LLP and Chair of the Professional Board of the IVSC.

International Update – International Financial Reporting Standards (IFRS) Foundation

[IFRS Foundation Meeting Highlights – 15 to 17 October 2013](#)

The trustee meeting discussed:

- the IFRS Foundation has signed a 'Statement of Protocols' for cooperation with the International Organisation of Securities Commissions (IOSCO)
- a proposed stakeholder engagement programme
- IFRS developments around the world
- leases
- impairments in financial instruments
- revenue recognition
- the conceptual framework project
- insurance contracts.

International Update – Interpretations Committee

[IFRIC Meeting Highlights – 12 to 13 November 2013](#)

The committee discussed the following topics:

- IAS 19 Employee Benefits – Employee benefit plans with a guaranteed return on contributions or notional contributions
- Interpretations Committee agenda decisions

- Interpretations Committee's work in progress.

International Update – Advisory Council

[IFRS Advisory Council Meeting Highlights – 14 to 15 October 2013](#)

The Council discussed the following topics:

- impairment of financial assets
- the Conceptual Framework project
- interaction of International Valuation Standards with IFRS
- post-implementation review of IFRS 3 Business Combinations
- use of IFRS around the world
- the Leases project.

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

IPSASB has issued the following:

- [Exposure Draft 49](#), Consolidated Financial Statements – comments close 28 February 2014
- [Exposure Draft 53](#), First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) – comments close 15 February 2014.

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

The AUASB has issued:

- [ASA 610](#) Using the Work of Internal Auditors and Amendment to ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements
- [ASA 2013-2](#) Amendments to Australian Auditing Standards which makes consequential amendments to Australian Auditing Standards arising from the revision of ASA 610, and a decision taken by the AUASB to incorporate related services engagements into the scope and application of ASQC1.

[AUASB Meeting Highlights – 28 October 2013](#)

Topics discussed by the AUASB at its meeting included:

- Revision of ASA 610 Using the Work of Internal Auditors and Amendment to ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements





- assurance engagements on controls
- revision of GS 002 Prudential Requirements for Registrable Superannuation Entities
- international matters – discussion of the IAASB exposure draft on auditor reporting
- Trans-Tasman harmonisation
- assurance on water accounting reports.

International Update – Information Systems Audit and Control Association (ISACA)

As highlighted in the January edition of Professional Update, ISACA has undergone a process of updating standards in 2013. A suite of [17 new standards](#) for IS audit and assurance, issued early in the year, became effective on 1 November 2013.

Ethics Update

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

The APESB has [released](#) the following:

- Annual Report for the year ended 30 June 2013 (4 November 2013)
- amendments to auditor independence requirements and conflicts of interest (14 November 2013)
- compiled APES 110 (15 November 2013).

[APESB Meeting Highlights – 4 November 2013](#)

Topics discussed by APESB at its meeting included:

- proposed guidance note APES GN 20 Scope and Extent of Work for Valuation Services
- comments in respect of proposed amendments to APES 110 Code of Ethics for Professional Accountants
- approval of the Compiled Code of Ethics for Professional Accountants
- the progress on the revision of APES 315 Compilation of Financial Information
- the project to revise APES 320 Quality Control for Firms, to remove duplication between APES 320 and ASQC1
- the IESBA's current project to update Part C of the Code.

Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [M2013-11](#) NSW Lobbyist Code of Conduct (29 October 2013)
- [C2013-10](#) Government Gazette (30 October 2013).

Public Accounts Committee

Reports

[Reports tabled](#) in NSW Parliament:

- 2013 General Meetings with the Police Integrity Commission, the Inspector of the Police Integrity Commission, the NSW Crime Commission, the Information and Privacy Commission, the NSW Ombudsman, the Child Death Review Team (17 October 2013)
- Managing donor conception information (17 October 2013)
- Budget Estimates 2013-2014 (23 October 2013)
- Examination of the Auditor-General's Performance Audits, October 2011 – March 2013 (23 October 2013)
- Agistment of horses at Yaralla Estate (24 October 2013)
- Review of the 2011-2012 Annual Report of the Commission for Children and Young People (24 October 2013)
- Review of the 2011-2012 Annual Report of the Health Care Complaints Commission (24 October 2013)
- Budget Estimates 2013-2014 (29 October 2013)
- Review of the 2011-2012 Annual Report of the Independent Commission Against Corruption (29 October 2013)
- Review of the 2011-2012 Annual Report of the Inspector of the Independent Commission Against Corruption (29 October 2013)
- Report No 69: The 2009 Mt Penny return to order (31 October 2013)
- Follow up of the Auditor-General's 2012 Financial Audit Reports (19 November 2013)
- Outsourcing Community Service Delivery – Final Report (19 November 2013)
- Driver licence disqualification reform (21 November 2013).





Australian Securities and Investments Commission (ASIC)

Recent [consultation papers](#) released:

- [CP 218](#) Employee incentive schemes (14 November 2013).

Recent [reports](#) released:

- Report 376: Response to submissions on CP 197 Holding scheme property and other assets.

Recent [speeches](#) released:

- ASIC in 2014: Areas of focus and expected changes to the regulatory landscape (31 October 2013).

ASIC [Media Releases](#):

- 13-279MR Focuses for 31 December 2013 financial reports
- 13-299MR ASIC 2012-13 Annual Report tables
- 13-303MR ASIC launches online hub to support small business
- 13-310MR ASIC to update its employee share scheme policy and class order
- 13-314MR ASIC releases revised guidance on custody.

Australian Prudential Regulation Authority (APRA)

Recent [APRA releases](#):

- second set of final prudential practice guidelines (PPGs) for superannuation (7 November 2013).

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

Recent [ACNC releases](#):

- the Commissioner's column (11 November 2013)
- the ACNC has launched the Charity Portal (6 November 2013).

New Publications by Other Audit Offices

Australian National Audit Office (ANAO)

- Report 6: Capability Development Reform (30 October 2013)
- Report 7: Agency Management of Arrangements to Meet Australia's Treaty Obligations (31 October 2013)

- Report 8: The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland (6 November 2013)
- Report 9: Determination and Collection of Financial Industry Levies (7 November 2013).

ANAO [Corporate Publications](#):

- Guidelines for the Conduct of Performance Audits (14 November 2013).

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

- Earthquake Commission: Managing the Canterbury Home Repair Programme (October 2013)
- Effectiveness and efficiency of arrangements to repair pipes and roads in Christchurch (November 2013)
- Regional services planning in the health sector (November 2013).

Victorian Auditor-General's Office (VAGO)

- 2013-14:8 Clinical ICT Systems in the Victorian Public Health Sector
- 2013-14:9 Implementation of the Government Risk Management Framework.

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

- Annual Reports of the Auditor-General for the year ended 30 June 2013 (22 November 2013).

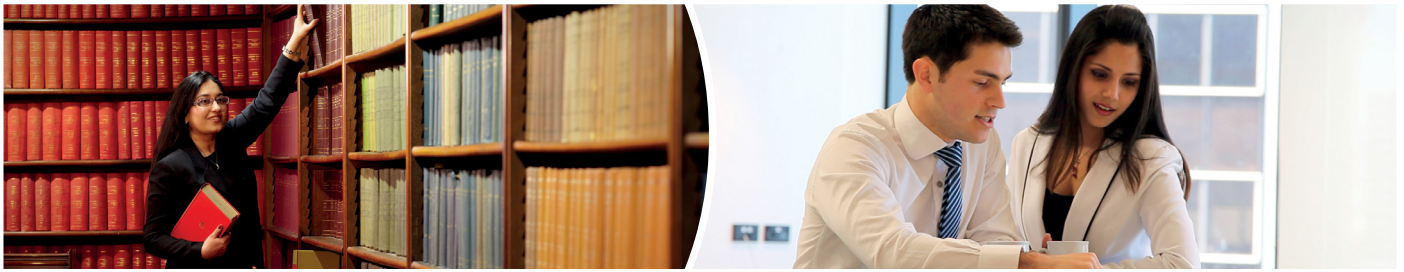
Western Australia Office of the Auditor-General (WA OAG)

- Audit Results Report Annual 2012-13 Assurance Audits (13 November 2013)
- Opinions on Ministerial Notifications (13 November 2013)
- Western Power's Management of its Wood Pole Assets (20 November 2013).

Queensland Auditor-General's Office (QAO)

- Report 3: Follow up of selected 2011 audits – Report 9 for 2011: Acquisition and public access to Museum, Art Gallery and Library collections (29 October 2013)
- Report 4: Follow up of selected 2011 audits – Report 1 for 2011: Management of offenders subject to supervision in the community (29 October 2013)
- Report 5: Traffic management systems (19 November 2013)





- Report 6: Results of audit: Internal control systems (19 November 2013)
- Report 7: Results of audit: Water sector entities 2012-13 (21 November 2013)
- Report 8: Results of audit: Hospital and Health Services entities 2012-13 (21 November 2013).

Useful Resources

New South Wales **Attorney General**

- winners of justice awards honoured (22 October 2013)
- Legal Aid helps bushfire victims with insurance claims (3 November 2013)
- New head for Department of Attorney General and Justice (5 November 2013).

Productivity Commission

The Productivity Commission [media releases](#):

- annual report 2012-13 (29 October 2013)
- Australia's automotive manufacturing industry (4 November 2013).

Independent Pricing & Regulatory Tribunal (IPART)

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

- maximum fares for rural and regional buses from 1 January 2014 (8 November 2013).

Australian Competition & Consumer Commission (ACCC)

ACCC [media releases](#):

- ACCC releases free online education units for tertiary institutions (8 November 2013)
- ACCC and the Australian Energy Regulator issue joint 2012-13 annual report (31 October 2013).

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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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