

Professional update

Accounting and auditing developments |



October 2013

Hot Topics

Employee fraud – lessons learned

A recent [report](#) by the Queensland Crime and Misconduct Commission (CMC) into Joel Barlow's fraud at Queensland Health (QHealth) is compelling reading. The report highlights key failures in basic checks and balances at QHealth that allowed the State's single largest fraud to be perpetrated and remain undetected for a long time. It reiterates the need for organisations to remain vigilant to fraud risks in their businesses.

Over four years from 2007 to 2011, Barlow defrauded QHealth of \$16.69 million through 65 fraudulent transactions. Staff had complained about Barlow's poor work quality, constant absences from work, irregular hours, his bullying and his inability to meet project deadlines. Barlow explained away his extravagant lifestyle and generous gifts to co-workers by claiming he was a Tahitian prince. An earlier, anonymous complaint to the CMC accusing Barlow of fraud was investigated, but finalised as 'not substantiated' and no follow-up investigation into his activities occurred.

The CMC report exposes the following internal control deficiencies at QHealth that allowed Barlow's fraud to occur and remain undetected:

- failure to properly investigate information provided in audits and complaints
- failure to respond appropriately to a similar and earlier fraud by another employee
- pre-employment checks failed to identify Barlow's previous convictions in New Zealand
- pre-employment checks failed to validate the academic qualifications and awards Barlow falsely claimed to gain employment in the finance department
- low levels of compliance with existing policy and procedures by other staff
- failures of financial management and accountability
- failures in supervision and performance management that allowed Barlow to be promoted to positions of trust, despite unsatisfactory performance
- inadequate change management processes, following a major restructure, that failed to identify risk, respond with appropriate internal controls and provide an effective follow-up review process
- low awareness of the risk of fraud among staff at all levels.

The report also includes the following important messages for all public sector employees, whatever their agency:

- compliance with policy and procedures is a strong defence against fraud
- public servants are accountable officers under the relevant legislation
- proactive, engaged supervision is fundamental to public sector integrity
- effective change management should identify emerging risks or vulnerabilities
- fraud awareness and prevention is the responsibility of all employees

This edition includes:

- **Employee fraud – lessons learned**
- **ASIC releases guidance – financial reporting responsibilities for directors**
- **Public Accounts Committee report into the Audit Office**

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- information from complaints and audits are important early warnings.

The report identifies five areas where agencies should be particularly vigilant:

- financial management
- managerial standards and accountability
- acceptance of gifts and benefits
- managing risk in a context of organisational change
- fraud awareness and prevention.

ASIC releases guidance – financial reporting responsibilities for directors

The Australian Securities and Investments Commission (ASIC) recently released Information Sheet 183 ([INFO 183](#)) outlining the financial reporting responsibilities of a director.

Five key responsibilities in the information sheet are highlighted below.

• General Duties

A director's general duties are to guide and monitor the management of the company. Directors must ensure they meet their duty of care and diligence obligations under general law and the *Corporations Act 2001*. They must also comply with the financial reporting and audit responsibilities under the Act.

Director's responsibilities are not limited to their areas of specialist expertise. They must be familiar with an entity's overall operations and ensure it is properly managed.

• Keeping proper books and records

Directors must ensure the entity keeps written financial records that are complete and accurate. ASIC's information sheet 76 ([INFO 76](#)) provides information on what books and records should be kept.

• Preparing a financial report

Directors must lodge a director's declaration with ASIC in conjunction with the financial report. INFO 183 provides what must be included in this declaration.

Directors can seek professional advice to help them understand information in the financial report. However, this does not reduce a director's responsibility to read the financial report thoroughly and understand its contents.

• Financial literacy

Directors must have sufficient knowledge and ensure they keep up-to-date with accounting standards, principles and practices as well as the financial reporting requirements of the *Corporations Act 2001*. This knowledge needs to be applied in understanding how the entity's operations are reflected in the financial report.

Directors should challenge accounting treatments applied in the financial report, seek explanations and appropriate professional advice where the substance of the transactions is not in line with their understanding.

INFO 183 provides links to financial literacy courses, publications and other resources.

• Relationship with the auditor

Directors are responsible for the financial report. A director should form his own opinion on the financial report, not defer this responsibility to the external auditor.

Directors are responsible for ensuring the auditor is independent in fact and appearance. Directors must bring to the auditor's attention transactions, risks, and difficult accounting judgements affecting the financial report.

Public Accounts Committee report into the Audit Office of New South Wales

On 18 September 2013, the Public Accounts Committee (PAC) released the [final report](#) from its quadrennial inquiry into the efficiency and effectiveness of the Audit Office of New South Wales. The Chair's forward to the report records:

- 'This inquiry has essentially confirmed the Committee's long held opinion that the Audit Office is doing a very good job and provides value for money to the State of New South Wales in delivering financial and performance auditing services.'
- 'The major recommendations of this report support an expanded role for the Auditor-General, allowing him greater freedom to conduct audits and 'shine a light' on some areas of government spending previously outside of his remit.'

The PAC report also recommends that any expansion of the Auditor-General's legislative mandate should be adequately resourced.





Query of the Month

Query: I am planning the preparation of my entity's next financial report. Which accounting standards have been released and should be retrospectively applied when I prepare the next financial report?



Answer:

The following standards have been issued by the Australian Accounting Standards Board (AASB) and are effective for 31 December 2013 year-ends. The Standards need to be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (AASB 108):

Standard	Summary
AASB 10 Consolidated Financial Statements*	AASB 10 widens the definition of control and requires the following factors to be considered on a continuous basis: • power over the investee's relevant activities • exposure, or rights to variable returns • ability to affect those returns. The wider definition of control in AASB 10 may increase the number of entities defined as controlled and therefore consolidated.
AASB 11 Joint Arrangements*	AASB 11 eliminates the option for joint ventures to be proportionately consolidated as was previously allowed under AASB 131. The standard requires each party to a joint arrangement to recognise its rights and obligations arising from the arrangement. An assessment of the following is required: • legal structure • the existence of joint and several liability • other facts and circumstances surrounding the arrangement.
AASB 119 Employee Benefits	AASB 119 significantly changes the recognition and measurement of defined benefit superannuation plan expense and termination benefits, and the disclosures for employee benefits. The standard also changes the definition of short-term employee benefits.
AASB 127 Separate Financial Statements*	AASB 127 prescribes the accounting and disclosure requirements for subsidiaries when an entity prepares separate financial statements. Not-for-profit entities shall apply the amendments to AASB 127 retrospectively with certain exceptions (para. 45).
AASB 128 Investments in Associates and Joint Ventures*	AASB 128 prescribes the accounting requirements for investments in associates and the equity accounting method requirements for investments in associates and joint ventures. Not-for-profit entities shall apply the amendments to AASB 128 retrospectively (para. 41B and 41E).

* AASB 10, AASB 11, AASB 127 and AASB 128 apply to **not-for-profit** entities for annual reporting periods **beginning on or after** 1 January 2014 (AASB 2012-10).





Depending on the nature of your entity's operations, amending standards issued but not yet effective may also impact your entity. These may include:

- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle.

Paragraph 30 of AASB 108 requires entities to disclose if they have not applied new AASB Standards issued but not yet effective. Where material, the entity must also disclose information about the possible impact of new standards on financial statements in the period of initial application.

It is important for entities to constantly monitor the AASB [website](#) for standards, amending standards and interpretations that may be issued and may apply to them.

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

The Audit Office of NSW has released

- [Reflections of an Auditor-General](#) (20 September 2013)
- [Why large public sector projects sometimes fail](#) (20 September 2013)

Auditor-General's Performance Audit Reports to Parliament

- On 23 September 2013 the Auditor-General released the report '[Government Advertising 2012-13](#)'.

Performance Audits of agency compliance with government advertising guidelines in 2007 and 2009 audits found the legislation applicable at the time was not adequate to prevent the use of public funds for party political purposes. Progressive improvements in these guidelines following these reports were strengthened by the *Government Advertising Act 2011*. This Act requires the Auditor-General to conduct an annual performance audit on agency compliance with the Act, regulations, other laws and the guidelines.

In 2012–13, NSW Government agencies spent nearly \$62 million on advertising to inform the community of

government services and programs and any changes to them. It also advertises to address social and health issues by influencing behaviours.

The Audit Office reviewed two campaigns under the new legislation; the Cancer Institute NSW 'Break the Chain' anti-smoking campaign and the former Rail Corporation NSW 'Fixing the Trains' recruitment campaign. The Audit Office found both campaigns complied with the Act, Regulations, other laws and the guidelines. However, both campaigns were planned and implemented while the new framework was still being bedded down.

Future audits will provide an assessment of the effectiveness of the new framework on a wider range of campaigns, including capturing advertising in the run up to the next State election in March 2015.

- On 3 October 2013 the Auditor-General released the report '[Management of Casual Teachers](#)'.

Ten years ago, the then Department of Education and Training responded to concerns about classes without teachers by:

- increasing the number of teachers approved to teach casually
- giving temporary employment to extra teachers in hard-to-staff schools
- running a call centre that helped schools find casual teachers at short notice.

These measures significantly improved the supply of casual teachers to schools in South Western and Western Sydney.

'The Department of Education and Communities is to be congratulated for improving casual teacher cover,' said the Acting Auditor-General, Mr Tony Whitfield.

'However, finding casual teacher cover in rural and remote communities continues to be a challenge,' he added.

The report recommended the Department build on its achievement in three areas:

1. Doing more to support rural and remote schools that struggle to attract casual teachers.
2. Collecting and using feedback about teacher performance to decide which casual teachers to assign.
3. Removing inactive teachers from its register, so it can assign casual teachers more efficiently.





Accounting Update

Australian Update – Australian Accounting Standards Board (AASB)

The AASB has issued:

- exposure draft – [Tier 2 Supplement to ED 242 Leases](#) (19 September 2013)
- amending standard [AASB 2013-6](#) Amendments to AASB 136 arising from Reduced Disclosure Requirements (1 October 2013)
- AASB occasional paper advocating a substantial change of thinking on [liabilities](#) (14 October 2013)
- amending standard [AASB 2013-7](#) Amendments to AASB 1038. This standard removes the specific consolidation requirements from AASB 1038 Life Insurance Contracts, leaving AASB 10 Consolidated Financial Statements as the sole source for consolidation requirements applicable to life insurer entities (15 October 2013).

International Update – International Accounting Standards Board (IASB)

[IASB Meeting Highlights – 13 to 18 September 2013](#)

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

- IAS 19 Employee Benefits – Exposure Draft Defined Benefit Plans: Employee Contributions
- IAS 1 Presentation of Financial Statements amendments
- IFRIC Update
- Financial Instruments – Impairment and Classification and Measurement
- Revenue Recognition
- Business combinations under common control
- Separate Financial Statements (Equity Method)
- Rate-regulated Activities.

The IASB has released:

- the [September 2013 IFRIC Update](#) (18 September 2013)
- [A Guide through IFRS 2013 \(Green Book\)](#) (24 September 2013)
- [A Guide to the IFRS Education Initiative](#) (27 September 2013)
- [IFRS for SMEs training Module 26 Share-based Payments](#) (1 October 2013)

- an exposure draft proposing [limited amendments to the IFRS for SMEs](#) (3 October 2013)
- a speech by IFRS Trustees' Chairman Michel Prada '[The bumpy road towards global accounting standards](#)' (16 October 2013).

[IASB Podcasts](#)

Recent podcasts released by IASB include:

- Board Meeting September 2013.

International Update – Interpretations Committee

[IFRIC Meeting Highlights – 10 and 11 September 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 tentative agenda decisions
- Deliberation of comments received on proposal for narrow-scope amendments
- Issues considered for Annual Improvements
- Issues considered for narrow-scope amendments
- Interpretations Committee's work in progress
- Interpretations Committee's other work.

Auditing Update

Australian Update – Auditing and Assurance Standards Board (AUASB)

The AUASB has released:

- [GS 009](#) Auditing Self-Managed Superannuation Funds (30 September 2013)

This newly released guidance statement identifies, clarifies and summarises the existing responsibilities which approved self-managed superannuation fund (SMSF) auditors (the auditor) have with respect to conducting SMSF audit engagements, and provides guidance to the auditor on matters which the auditor considers when planning, conducting and reporting on the financial and compliance engagement of a SMSF audit.

- [ED 04/13](#) ASA 2013-4 Amendments to Auditing Standard ASQC 1 Quality control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements (20 September 2013).





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

[IAASB Meeting Highlights – 16 to 20 September 2013](#)

Topics discussed included:

- ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information
- A Framework for Audit Quality
- ISA 720 The Auditor's Responsibility Relating to Other Information in Documents Containing or accompanying Audited Financial Statements and the Auditor's Report Thereon
- auditing financial statement disclosures
- proposed IAASB strategy for 2015-2019 and related work program.

Ethics Update

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

The APESB has:

- reaffirmed the importance of [APES 230: Financial Planning Services](#).

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

The IESBA recently released:

- a change to the Definition of 'Those Charged with Governance' in, and Related Changes to, the Code of Ethics for Professional Accountants (23 September 2013)

The changes to this pronouncement are intended to more closely align the definition of "those charged with governance" in the Code of Ethics for Professional Accountants with that in the International Auditing and Assurance Standards Board (IAASB)'s International Standard on Auditing (ISA) 260, Communication with Those Charged with Governance, thereby eliminating any potential confusion. The Ethics Board does not expect any changes will be necessary to accounting firms' systems and methodologies or common practice.

[IESBA Meeting Highlights – 16-18 September 2013](#)

The IESBA held its September meeting in Sydney, Australia.

Topics discussed included:

- responding to a suspected illegal act

- long association of senior personnel on audit engagements
- structure of Code of Ethics
- revisions to Part C of the code of ethics (Members in business)
- provision of non-assurance services to an audit client.

Treasury – NSW Government

New Treasury Policy Papers, Circulars and Research Papers

- [TPP13-2](#) Fringe Benefit Tax Manual (September 2013)
- [TPP13-3](#) Total Asset Management (TAM) Submission Requests (October 2013)
- [NSWTC13/07](#) Review of Meal, Travelling and other Allowances (25 September 2013)
- [NSW TC13/08](#) Total Asset Management (TAM) Submission Requirement (15 October 2013).

Department of Premier and Cabinet

New Ministerial Memoranda and Department Circulars

- [M2013-10](#) Christmas Closedown 2013-2014 (2 October 2013)
- [C2013-09](#) 2013 Australian and Overseas Travelling Allowances for Official Travel for Senior Officials (15 October 2013).

Public Accounts Committee

Inquiries

The NSW Parliament's Public Accounts Committee has commenced the [Follow up of the Auditor-General's Performance Audits](#) (19 September 2013).

Reports

[Reports tabled](#) in NSW Parliament:

- Provision of alcohol to minors (12 September 2013)
- Efficiency and Effectiveness of the Audit Office of NSW (18 September 2013)





Australian Securities and Investments Commission (ASIC)

Recent [regulatory guides](#) released:

- [Information Sheet 184](#) Audit transparency reports (INFO 184)
- [Information Sheet 185](#) Using ASIC's reverse mortgage calculator (INFO 185).

Recent [consultation papers](#) released:

- CP 216 Advice on self-managed superannuation funds: specific disclosure requirements and SMSF costs (16 September 2013)
- CP 217 Presentation of financial statements by stapled entities (11 October 2013).

Recent [reports](#) released:

- Report 371: Overview of decisions on relief applications (February to May 2013) (19 September 2013)
- Report 372: Insolvency statistics: External administrators' reports (July 2012 to June 2013) (17 October 2013)
- Report 373: Response to submissions on CP 196 Periodic statements for quoted and listed managed investment products and relief for AQUA products (17 October 2013)
- Report 374: Shaping a National Financial Literacy Strategy for 2014-17: Consultation feedback report (18 October 2013)
- Report 375: National Financial Literacy Stocktake Survey 2013 (18 October 2013).

Recent [speeches](#) released:

- The regulator's perspective on the regulation of SMSFs (17 September 2013)
- ASIC response to ABC TV's Four Corners' questions (30 September 2013)
- What matters to ASIC, the insolvency profession and the wider insolvency market (16 October 2013).

ASIC [Media Releases](#):

- 13-268MR ASIC releases further guidance on hedge fund disclosure
- 13-277MR ASIC reports on corporate insolvencies 2012-2013.

Australian Prudential Regulation Authority (APRA)

Recent [APRA releases](#):

- APRA release draft reporting standards for the supervision of conglomerate groups (26 September 2013).

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

Recent [ACNC releases](#):

- First 3,000 charities submit their 2013 Annual Information Statement (3 October 2013)
- Commissioner's Column – Reducing red tape (7 October 2013)

New Publications by Other Audit Offices

Australian National Audit Office ([ANAO](#))

- Report 4: Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2012 Compliance) (26 September 2013)
- Report 5: Administration of the Taxation of Personal Services Income (15 October 2013).

ANAO [Better Practice Guides](#):

- AUDITfocus September 2013 (26 September 2013).

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

- Annual Report 2012–13 (September 2013)
- Using the United Nations' Madrid indicators to better understand our ageing population (October 2013).

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

- 2013-14:4 Managing Telecommunications Usage and Expenditure (September 2013)
- 2013-14:5 Performance Reporting Systems in Education (September 2013)
- 2013-14:6 Prevention and Management of Drug Use in Prisons (October 2013)
- 2013-14:7 Implementation of the Strengthening Community Organisations Action Plan (October 2013).

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 2013 to 30 June 2013 (September 2013)

- Annual Report of the Auditor-General for the year ended 30 June 2013 (October 2013).

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

- Annual Report (12 September 2013)
- Report on Sustainable Funding and Contracting with the Not-for-Profit Sector – Component I (18 September 2013)
- Public Trustee: Administration of the Financial Affairs of Vulnerable People (18 September 2013).

Queensland Auditor-General's Office ([QAO](#))

- Report 2: Supply of specialist subject teachers in secondary schools (15 October 2013).

Australian Capital Territory Auditor-General's Office ([ACT AGO](#))

- ACT Auditor-General's Annual Report 2012-13 (September 2013).

Useful Resources

Australian Stock Exchange ([ASX](#))

The ASX has released:

- ASX AGM – Chairman and Managing Director and CEO's address (25 September 2013).

Independent Commission Against Corruption ([ICAC](#))

- NSW public sector – allegations concerning security companies and public authorities (Operation Tilga) (26 September 2013)
- Corrective Services NSW – allegations concerning possession and supply of steroids by a Corrective Services NSW corrections officer (Operation Torino) (26 September 2013).

Productivity Commission

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

- productivity and the national income outlook (18 September 2013)
- import of processed tomato products (26 September 2013)
- import of processed fruit products (26 September 2013)
- regulators can do more for small business (9 October 2013)

- looking back on structural change in Australia 2002 – 2012 (11 October 2013).

Independent Pricing & Regulatory Tribunal (IPART)

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

- changes in metropolitan and outer metropolitan maximum bus fares from January 2014 (27 September 2013)
- our role in local government rate setting and special variations (3 October 2013)
- community awareness and engagement for special variation applications (3 October 2013)
- benchmark costs for local council infrastructure contributions – October 2013 (11 October 2013)
- taxi fares across NSW and Sydney taxi licences from July 2014 (15 October 2013).

Australian Competition & Consumer Commission ([ACCC](#))

ACCC [media releases](#):

- efficient infrastructure regulation and rules – key to productivity gains (30 September 2013)
- ACCC authorises Homeworkers Code of Practice (3 October 2013)
- Court confirms salespeople must not ignore 'do not knock' signs (11 October 2013).

Australian Institute of Company Directors ([AICD](#))

AICD media releases:

- set measurable objectives to achieve diversity goals (26 September 2013).

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

- ASFA has released '[Changes to regulatory settings for financial products dealing with longevity](#)' by Ross Clare of the ASFA Research Centre (October 2013).

Water Accounting Standards Board

The WASB published [National Industry Guidelines for hydrometric monitoring](#).





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