

# Professional update

Accounting and auditing developments |



March 2013

## Hot Topics

### Key Agency reporting requirements – June 2013

Treasury has released two new pronouncements. Both are key pronouncements and must be applied in agency financial statements for financial years ending on or after 30 June 2013. Agencies should **review and incorporate the pronouncements in their early close procedures** to ensure the proforma financial statements and accounting policies comply with the updated requirements.

- [TC 13/02 Mandates of Options and Major Policy Decisions under Australian Accounting Standards](#)

This circular updates the mandates of accounting policy options under Australian Accounting Standards. The circular applies to all entities required to prepare general purpose financial statements under the *Public Finance and Audit Act 1983* (PF&A Act), including Statutory State Owned Corporations.

The circular:

- updates the terminology and references for the statement of comprehensive income
- includes a mandate regarding reserve accounting, which previously lapsed with Treasury Circular NSWTC 07/16
- updates the list of standards issued but not yet effective
- confirms Accounting Standards cannot be early adopted.

- [TPP 13-01 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.

The Code is issued to all GGS entities under delegation from the Treasurer in accordance with the PF&A Act. The Code incorporates the requirements of Australian Accounting Standards applicable to GGS entities.

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 requires disclosures not covered by the Code, entities must ensure they include such disclosures in the financial statements.

This edition of the Code supersedes the previous version, issued as NSW Treasury Policy and Guidelines Paper TPP 12-1. The Code is applicable to all GGS entities for financial years ending on or after 30 June 2013, except for special purpose service entities, which are exempt from the requirements of the Code (refer to Treasury Circular [NSWTC 11/19](#)).

## This edition includes:

- **Key agency reporting requirements – June 2013**
- **IAASB proposes increasing an auditor's responsibilities**
- **Query of the month – what are the financial reporting and audit obligations for a small proprietary company?**

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## IAASB proposes increasing an auditor's responsibilities

The IAASB has released for comment an exposure draft [ISA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon \(Revised\)](#).

The exposure draft seeks to:

- extend the scope of the standard to include documents accompanying audited financial statements
- extend an auditor's responsibilities to include not only reading the other information for consistency with the audited financial statements, but also reading and considering the other information for consistency with the auditor's understanding of the entity and the environment
- bring transparency to the auditor's work through new suggested auditor reporting responsibilities with respect to other information
- improve audit quality by bringing greater consistency to auditors' consideration of information accompanying audited financial statements
- increase the value of an audit, without changing its scope, in a cost beneficial manner
- narrow the expectations gap by requiring auditors to articulate in their reports their responsibilities under the proposed ISA, and the outcomes of their work relative to the other information.

The IAASB's proposals are a response to developments in the reporting environment, which has seen significant changes to the nature and extent of information included in documents containing and accompanying audited financial statements. These include:

- a change in emphasis towards more qualitative disclosures and narrative information to meet users' needs for information to better inform their analysis and understanding of complex financial statements
- moves to explore ways to better integrate explanatory information in financial statements
- an evolution in the ways entities disseminate and communicate information to stakeholders, increasingly through electronic communications
- ever increasing and more diverse use of documents **accompanying** the audited financial statements, and documents which contain the financial statements, for

example, management reports, statements on corporate governance and/or internal control and risk assessments.

The exposure draft obliges auditors to read and consider other information presented with the financial statements, and to respond to inconsistencies (including omissions) between the other information and the financial statements. However, it does not propose that auditors should provide assurance over this information in the form of either an audit or a review.

### Query of the Month

**Query:** My statutory body has a controlled entity that is a small proprietary company. What financial reporting and audit obligations apply to this company?



### Answer:

Where a company is controlled by a statutory body, the company is subject to the requirements of both the PF&A Act and the [Corporations Act 2001](#) (Corps Act). However, whilst the Corps Act recently relaxed its requirements of smaller companies, the PF&A Act did not. For instance, some companies no longer have to prepare financial statements under the Corps Act, but must still do so to meet the requirements of the PF&A Act, which also requires the Auditor-General audit the financial statements.

While the Corps Act seeks to hold company management and directors accountable for protecting the interests of investors, the changes to the Act acknowledge small companies generally have tightly held shareholdings. The Corps Act continues to provide shareholders with the right to demand financial statements, appoint an auditor, vote, and otherwise hold management and the directors accountable, if they so wish. Shareholders may also appeal to the corporate watchdog, ASIC.





The PF&A Act seeks to ensure public accountability for all entities in the NSW public sector, including small companies, and the people who manage and direct them. Companies controlled by NSW Government agencies have nominee shareholders who have a fiduciary duty to exercise their rights

in a way that benefits the people of NSW.

The table below describes the obligations the Corps Act currently imposes (some limited exceptions) on the various types of companies subject to its requirements.

Type of company	Criteria	Reporting and audit requirements
Listed Company	A company listed on the Australian Securities Exchange (ASX).	Must prepare and lodge half-year and annual audited financial statements, which comply with Australian Accounting Standards, with ASIC and send the financial statements to its members.
Large Proprietary Company	The consolidated company (including entities it controls) satisfies at least two of the following: <ul style="list-style-type: none"> <li>revenue <math>\geq</math> \$25m</li> <li>gross assets <math>\geq</math> \$12.5m</li> <li>has <math>\geq</math> 50 employees.</li> </ul>	Prepare and lodge audited financial statements that comply with Australian Accounting Standards with ASIC.
Small Proprietary Company	The consolidated company (including entities it controls) satisfies at least 2 of the following: <ul style="list-style-type: none"> <li>revenue <math>&lt;</math> \$25m</li> <li>gross assets <math>&lt;</math> \$12.5m</li> <li>has <math>&lt;</math> 50 employees.</li> </ul>	Does not have to prepare and lodge audited financial statements, unless: <ul style="list-style-type: none"> <li>shareholders with at least 5% of the voting shares request this</li> <li>ASIC requests this</li> <li>it is controlled by a foreign company.</li> </ul>
Small Company Limited by Guarantee – Tier 1	Annual consolidated revenue $<$ \$250k and does not hold deductible gift recipient (DGR) status under tax legislation.	Exempt from reporting and auditing requirements, unless required to do so under a members' or ASIC direction.
Company Limited by Guarantee – Tier 2	Annual consolidated revenue $<$ \$250k with DGR status. Annual consolidated revenue between \$250k and \$1m (irrespective of DGR status).	Must prepare financial statements which comply with Australian Accounting Standards, but the company may elect to have these reviewed rather than audited.
Company Limited by Guarantee – Tier 3	Annual consolidated revenue of $>$ \$1m irrespective of DGR status.	Must prepare audited financial statements that comply with Australian Accounting Standards.

The ACNC currently has open for public consultation its [2014 Annual Information Statement](#) which proposes relaxing reporting and audit requirements for certain entities in the not-for-profit and charities sector, for regulatory purposes. Where one of those entities is also subject to the PF&A Act however, it must continue to comply with the requirements of that Act.





The table below describes the obligations the PF&A Act imposes (some limited exceptions) on entities subject to its requirements.

Type of entity	Criteria	Reporting and audit requirements
A department and its controlled entities, including Corps Law companies	An entity or a controlled entity listed in Schedule 3 of the PF&A Act or controlled by a minister.	Annual financial statements that comply with Australian Accounting Standards. Audited by the Auditor-General.
A Statutory Body and its controlled entities, including Corps Law companies	An entity or a controlled entity listed in Schedule 2 of the PF&A Act or listed in Schedule 1 of the PF&A Regulations. A State Owned Corporation (SOCs), which is a statutory body for the purposes of the PF&A Act.	Annual financial statements that comply with Australian Accounting Standards. Audited by the Auditor-General.

## Audit Office of New South Wales

Peter Achterstraat, New South Wales Auditor-General:

- attended the CPA Australia International Public Sector Convention (20 to 22 February 2013)
- presented at the Intrepid Minds second annual Ethical Leadership & Governance Congress (27 February 2013)
- attended the Institute of Chartered Accountants in Australia's Public Sector Event on Early Close Procedures for 2013 (8 March 2013)
- attended and briefed the Senior Management Council – 'Update from the Auditor-General on financial statement audits' (13 March 2013).

### Auditor-General's Financial Audit Reports to Parliament

- [Volume One 2013](#) focusing on themes from 2012 (26 February 2013)

### Auditor-General's Performance Audit Reports to Parliament

On 28 February 2013, the Auditor-General released the report '[Managing drug exhibits and other high profile goods](#)'. The audit examined how well the NSW Police Force manages the storage and disposal of drug exhibits and other high profile goods once they are recorded in police systems and stored in secure police facilities. It found that NSW Police manages the recording, storage and tracking of drug exhibits and other high profile goods well. These items are kept securely in NSW Police storage facilities, are routinely audited and there are few recorded instances where they have gone missing

or been damaged. However, there is room for improvement, mainly in regard to the effective disposal of drug exhibits and other goods, and improving efficiency by reducing the need to transport drug exhibits for testing.

## Accounting Update

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

[AASB 1055 Budgetary Reporting](#) and amending standard [AASB 2013-1 Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements](#)

The AASB has released AASB 1055 and AASB 2013-1 containing requirements for budgetary reporting for not-for-profit entities within the General Government Sector of the Federal, State and Territory governments.

The AASB has:

- issued ED 236 Novation of Derivatives and Continuation of Hedge Accounting (proposed amendments to AASB 9 and AASB 139). Comments close 25 March 2013.

### [Research Centre and Standard-setting Directorate](#)

The AASB has established a new Research Centre and Standard-Setting Directorate; these initiatives will be effective from 1 July 2013.

### [AASB Meeting Highlights – 20 to 21 February 2013](#)

Topics discussed by the AASB at its meeting included:

- budgetary reporting by not-for-profit (NFP) public sector entities





- implementation guidance for NFP entities in relation to the definition of control in AASB 10 Consolidated Financial Statements
- financial reporting by superannuation entities
- IASB projects addressing revenue from contracts with customers and financial instruments.

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

#### • [IASB Meeting Highlights – 18 to 22 February 2013](#)

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

- revenue recognition
- leases
- the conceptual framework
- hedge accounting – novation of derivatives
- employee benefits
- rate regulated activities.

A podcast of this meeting will be made available on the website.

The IASB has released:

- [ED 2013/3](#) Financial Instruments – Expected Credit Losses.

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

#### [IFRS Foundation Meeting Highlights – 22-24 January 2013](#)

Topics discussed:

- international strategy
- IASB reports
- outcomes of the Due Process Oversight Committee.

## Auditing Update

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

#### [AUASB Meeting Highlights – 25 February 2013](#)

Topics discussed:

- review engagements
- ISA 720 exposure draft
- composite engagements
- Framework for Audit Quality
- direct assistance by internal auditors.

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

#### [IAASB Seeks Input on Strategic Review](#)

The IAASB released an online survey seeking public comment, insights, and views from stakeholders to help shape its future direction for 2015 and beyond. Interested parties may identify issues for discussion. Comments close 7 May 2013.

#### [IAASB Meeting Highlights – 12-14 February 2013](#)

The committee:

- discussed issues relating to the concept of auditor commentary introduced in its June 2012 Invitation to Comment, Improving the Auditor's Report
- approved for issue ISA 610 (Revised 2013), Using the Work of Internal Auditors, subject to confirmation from the Public Interest Oversight Board that due process has been followed. Material on direct assistance in the revised ISA is effective for audits of financial statements for periods beginning on or after 15 December 2014
- discussed the process for developing its Future Strategy and Work Program for the period commencing 2015. The IAASB agreed to explore changing the period for its future Strategy from three years to five years (that is, 2015 to 2019).

## Ethics Update

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

#### [APESB Meeting Highlights – 8 February 2013](#)

Topics discussed:

- proposed APES GN 30 Outsourced Services
- comments on ED 05/12 APES 305 Terms of Engagement (Revised)
- the proposed strategy for the period 2013 to 2015.

#### [Independence Guide](#)

Australia's three professional accounting bodies released a new edition of 'The Independence Guide' for members in public practice. It explains the conceptual approach to independence set out in sections 290 and 291 of APES 110 Code of Ethics for Professional Accountants.





## Financial Reporting Council (FRC)

The FRC released [new material](#) on the topics:

- 'What do we mean by the term 'Financial Reporting', especially in relation to Integrated Reporting?'
- 'Public Sector Financial Reporting in Australia'
- 'How the AASB sets Accounting Standards for the Australian Public Sector'
- 'International Perspectives on Sovereign Financial Reporting'

## Treasury – NSW Government

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

- [TPP13-1](#) Accounting Policy: Financial Reporting Code for NSW General Government Sector Entities (February 2013)
- [NSW TC13/02](#) Mandates of Options and Major Policy Decisions under Australian Accounting Standards (19 February 2013)
- [NSW TC 13/03](#) Budget Controls – Labour Expense Cap.

## Public Accounts Committee

### Inquiries

The NSW Public Accounts Committee appointed a Reviewer to examine auditing practices and standards of the Auditor-General and determine whether the Auditor-General is complying with those practices and standards in the carrying out his functions under the Act. The Committee will also inquire into the [efficiency and effectiveness of the Audit Office of NSW](#) (21 February 2013).

## Australian Securities and Investments Commission (ASIC)

### Recent [regulatory guides](#) released:

- RG 246 Conflicted remuneration.

### Recent [consultation papers](#) released:

- CP199 Debentures: Reform to strengthen regulation
- CP200 Managed discretionary accounts: Updates to RG 179.

### Recent [reports](#) released:

- Report 326: Market assessment report: NSX Group (22 February 2013)

- Report 327: ASIC supervision of markets and participants: July to December 2012 (26 February 2013)
- Report 328: Response to submissions on CP 189 Future of Financial Advice: Conflicted remuneration (4 March 2013)
- Report 329: Response to submissions on CP 191 FOFA: Approval of codes for exemption from opt-in requirement (1 March 2013).

### ASIC [Media Releases](#):

- 13-036MR ASIC publishes fifth market supervision report
- 13-037MR ASIC releases guidance on code approval under FOFA
- 13-043MR ASIC consults on regulatory approach to managed discretionary accounts
- 13-044MR female and financially fit.

## Australian Prudential Regulation Authority (APRA)

### [Recent APRA releases](#):

- quarterly superannuation statistics for December 2012 (21 February 2013)
- discussion papers on changes to general insurance and life insurance statistical publications (22 February 2013)
- [Approved Audit Report Form](#) for superannuation funds with reporting periods commencing on or after 1 July 2013.

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

### [Recent ACNC releases](#):

- the [regulation](#) to introduce governance standards to charities under the *Australian Charities and Not-for-Profits Commission (ACNC) Act 2012* was released on 1 March 2013 and were [tabled](#) in Parliament the week of 11 March 2013
- Treasury released revised [Commonwealth Grant Guidelines](#) intended to reduce red tape and improve collaboration between government and the not-for-profit sector. These Guidelines [establish the policy framework](#) under which government agencies undertake their own grants administration activities.





## New Publications by Other Audit Offices

### Australian National Audit Office (ANAO)

- Report 22: Administration of the Tasmanian Forests Intergovernmental Contractors Voluntary Exit Grants Program (21 February 2013)
- Report 23: The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Victoria (26 February 2013)
- Report 24: The Preparation and Delivery of the Natural Disaster Recovery Work Plans for Queensland and Victoria (26 February 2013)
- Report 25: Defence's Implementation of Audit Recommendations (27 February 2013)

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

- Inquiry into the government's decision to negotiate with SkyCity Entertainment Group Limited for an international convention centre (February 2013)
- Ministry for Primary Industries: Preparing for and responding to biosecurity incursions (February 2013)

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

- Implementation of School Infrastructure Programs (2012-13:21)
- Rating Practices in Local Government (2012-13:22)
- Management of Unplanned Leave in Emergency Services (2012-13:23)

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

- Report on the Adelaide Oval redevelopment (February 2013)

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

- Report 6: Implementing the National Partnership Agreement on Homelessness in Queensland (12 February 2013)

- Report 7: Results of audits: Queensland state government financial statements 2011-12 (5 March 2013)

### Northern Territory Auditor-General's Office (NT AO)

- February 2013 Report to the Legislative Assembly (February 2013)

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

- Care and Protection System Report No. 01/2013 (March 2013)

## Useful Resources

### Independent Pricing & Regulatory Tribunal (IPART)

IPART released [new publications](#) relating to local government and the electricity industry.

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

- State Waters Operating Licence (20 February 2013)
- Council notifications received by IPART for 2013/14 special variations (updated 8 March 2013).

### Australian Competition & Consumer Commission (ACCC)

- ACCC released new Compliance and Enforcement Policy (21 February 2013)
- ACCC launched its new website (26 February 2013)
- ACCC and NZCC signed a cooperation agreement to drive closer ties across the Tasman (27 February 2013)
- ACCC targets door-to-door sales tactics (8 March 2013).

### Australian Institute of Company Directors (AICD)

- International report finds that mentoring is critical to [increasing board diversity](#) (8 March 2013)





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