



Issue 2007/2
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ACCOUNTING UPDATE

New AASB 101 'Presentation of Financial Statements'

The AASB has issued a revised AASB 101 as a result of the International Accounting Standards Board (IASB) issuing a revised IAS 1 'Presentation of Financial Statements'.

The revised AASB 101 will result in significant changes to Australian financial reports. Income and expenses must be presented in either a single statement or in two statements. The single statement is referred to as a statement of comprehensive income. Alternatively, an entity can present a separate income statement and a statement of comprehensive income. The intent is that owner changes in equity are presented separately from non-owner changes in equity.

A further standard, AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101' contains the consequential amendments to other Standards (and Interpretations).

The Standard is available on the AASB's website. The new AASB 101, and AASB 2007-8, will apply for annual reporting periods beginning on or after 1 January 2009.

Source: AASB Media Release, 3 October 2007.

New AASB 1049 'Whole of Government and General Government Sector Financial Reporting'

The AASB has approved for issue a new version of AASB 1049. The existing AASB 1049 addresses financial reporting of General Government Sectors. This new version also includes requirements for whole of government financial reporting.

The new Standard includes different presentation and disclosure requirements. This means that whole of government financial reporting will look different from previous reports prepared under the old requirements.

The Standard is expected to be released on the AASB's website shortly. The new AASB 1049 will apply for annual reporting periods beginning on or after 1 July 2008.

Source: AASB Media Release, 10 October 2007.

The Tasmanian Audit Office

Ground floor

144 Macquarie Street

Hobart, Tasmania, 7000

Telephone: (03) 6226 0100

Fax: (03) 6226 0199

Website:

www.audit.tas.gov.au

New AASB 1048 'Interpretation and Application of Standards'

This Standard outlines the Interpretations applicable to financial years ending on or after 30 September 2007. A copy is available from the AASB's website: www.aasb.com.au.

Compiled Standards

The following compiled standards have been issued which include amendments arising from AASB 2007-4, AASB 2007-7 and Erratum:

- AASB 2 'Share-based Payment'
- AASB 3 'Business Combinations'
- AASB 4 'Insurance Contracts'
- AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'
- AASB 6 'Exploration for and Evaluation of Mineral Resources'
- AASB 7 'Financial Instruments: Disclosures'.

These compiled standards apply from 1 July 2007. Copies of compiled standards are available from the AASB's website: www.aasb.com.au.

Source: AASB website.

Exposure drafts

ED 157 Joint Arrangements

This exposure draft is based upon the International Accounting Standards Board (IASB) ED 9 'Joint Arrangements'. It proposes several changes to the current accounting required by AASB 131 'Interests in Joint Ventures'. It also proposes new disclosure requirements.

ED 157 proposes shifting the focus from the legal form of a joint arrangement to reflect the rights and obligations agreed by the parties to the arrangement.

ED 158 Proposed Amendments to AASB 139 Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting

ED 158 proposes changes to AASB 139 'Financial Instruments: Recognition and Measurement' in relation to exposures qualifying for hedge accounting. The proposals would clarify what can be designated as a hedged item in a hedge accounting relationship.

ED 159 Proposed Improvements to Australian Accounting Standards

ED 159 proposes amendments to 27 Australian Accounting Standards. The exposure draft is based upon the IASB's 'Proposed Improvements to International Financial Reporting Standards', which was released as part of the IASB's annual improvements project.

The changes proposed include a restructuring of IFRS 1 'First-time Adoption of International Financial Reporting Standards' and removing unintended inconsistencies between IFRS.

Copies of all three exposure draft are available from the AASB's website: www.aasb.com.au. Comments are requested in all instances by 30 November 2007.

Sources: AASB Media Releases, 12 October 2007, 17 October 2007 and 18 October 2007.

Australian Accounting Standards Board (AASB) meeting 3-4 October 2007

GAAP/GFS harmonisation

The Board has approved AASB 1049 'Whole of Government and General Government Sector Financial Reporting'. Refer above for more information.

Review of AAS 27, AAS 29 and AAS 31

The Board commenced its review of responses to ED 156 'Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31'. The Board will continue this process at its November 2007 meeting.

Exposure drafts

The Board agreed to issue an Australian exposure draft based on the international exposure draft ED 9 'Joint Arrangements'. Refer above for more information.

They also agreed to issue an Australian exposure draft based on the international exposure draft ED 'Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting'. Refer above for more information.

Interpretations

The Board will make submissions on the international proposals:

- IFRIC Draft Interpretation D21 Real Estate Sales
- IFRIC Draft Interpretation D22 Hedging of a Net Investment in a Foreign Operation.

Differential reporting/SMEs

The closing date for comments on ITC 12 'Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of a Proposed IFRS for Small and Medium Sized Entities' has passed. The Board considered submissions received on the proposed IFRS for SMEs. The Board will consider submissions on the differential reporting proposals at its December meeting.

Joint meeting with the New Zealand Financial Reporting Standards Board (FRSB)

The AASB's October meeting included a joint meeting with the New Zealand Financial Reporting Standards Board (FRSB). Matters discussed included:

- The potential for removing the requirement for for-profit entities to disclose compliance with 'Australian equivalents to IFRS' (and 'New Zealand equivalents to IFRS'). The terms may wrongly imply that the national Standards are not IFRS compliant
- A draft Issues Paper on identifying and accounting for non-exchange transactions. The Boards are developing a joint Discussion Paper as a first step towards common Standards on income from non-exchange transactions. In Australia, that Standard would replace AASB 1004 'Contributions'
- The approach to modifying IFRSs for application by not-for-profit/public benefits entities. Most members support the approach of modifying IFRS only when there is an entity specific reason for doing so. The Boards agreed to jointly develop a paper to form the basis of a policy for identifying such reasons
- The Boards agreed that they held similar views on the proposals set out in the International Accounting Standards Board's Discussion paper 'Preliminary Views on Insurance Contracts'
- Sectors of the economy in which the two Boards could co-operate when working on changes to their respective differential reporting regimes. They agreed there was scope in the public benefit/not-for-profit sectors
- The Boards agreed to a goal of the same not-for-profit/public benefit entity requirements in both Australia and New Zealand.

Source: AASB Action Alert 108, 8 October 2007.

Development in accounting by superannuation funds

The Australian Accounting Standards Board (AASB) has released a consultation paper that affects superannuation entities. The Paper outlines a case for superannuation entities being required to prepare consolidated financial statements in accordance with a fair value model.

Fair values or market values provide relevant information because this reflects the superannuation entity's ability to pay benefits to members. However, some of the requirements applicable to consolidated financial statements do not compel parent entities to measure their subsidiaries' assets at fair value.

The consultation paper is available on the AASB's website: www.aasb.com.au. Comments on matters discussed in the Paper are requested by 30 November 2007.

Source: AASB Media Release, 24 September 2007.

AUDITING UPDATE

Australian Auditing and Assurance Standards Board (AUASB)

Meeting 10 September 2007

At its meeting, the AUASB discussed:

- The proposed Standard on Review Engagements ASRE 2400 'Review of Financial Reports and Other Financial Information'. This was subsequently issued as an exposure draft, refer below
- A final draft of proposed Guidance Statement GS 004 'Audit Implications of Prudential Reporting Requirements for General Insurers'. The Board approved the proposed Guidance Statement for release subject to the ratification of certain legislative changes
- A first draft of proposed Standard on Assurance Engagements ASAE 'Compliance Engagements'. The Board will consider a revised draft at its next meeting
- A first draft of proposed Standard on Assurance Engagements ASAE 'Performance Audits'. The Board will consider a revised draft at its next meeting
- A further draft of proposed Guidance Statement GS 005 'Using the Work of an Actuary' (revision of AUS 524). The Board will consider a revised draft at its next meeting
- A first revision of proposed Guidance Statement 'Audit Issues Relating to the Electronic Presentation of Financial Accounts' (revision of AGS 1050). The Board will consider a revised draft at its December 2007 meeting
- A first draft of proposed Guidance Statement 'Electronic Commerce – Effect on Audit of a Financial Report' (revision of AGS 1056). The Board requested certain amendments to give more Prominence to automated transactions in the current environment, security control issues and IT platforms. The Board will consider a revised draft at its December 2007 meeting
- A project plan to develop a Guidance Statement on the 'Audit of Self Managed Superannuation Funds'. The Board approved the Plan and the formation of a Project Advisory Group.

Source: AUASB website.

Proposed Standard: ASRE 2400 Review of Financial Reports and Other Historical Information

The AUASB has issued an exposure draft proposing requirements and guidance for certain review engagements. ASRE 2400 is split into two parts. Part A addresses the review of financial reports and Part B addresses the review of other financial information.

ASRE will not apply to the review of an interim financial report by the auditor of the entity. Auditors will continue to use ASRE 2410 in those circumstances. ASAE 3000 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' is relevant for review engagements not addressed by ASRE 2410 and the proposed ASRE 2400, such as the review of prospective financial information.

A copy of the exposure draft is available from the AUASB's website: www.auasb.gov.au. Comments are requested by 31 October 2007.

Source: AUASB Media Release, 21 September 2007.

Auditing Small and Medium Sized Entities

The AUASB previously issued a Discussion Paper on 'Auditing Small and Medium Sized Entities'. In September 2007 the AUASB issued a Bulletin as a follow up to the Discussion Paper. The Bulletin outlines the AUASB's responses to issues identified in the Discussion Paper. It also sets out constituent comments received on the Statements of Principle and Specific Questions posed by the Paper.

The Bulletin is available from the AUASB's website: www.auasb.gov.au.

INTERNATIONAL UPDATE

International Accounting Standards Board (IASB)

New international pronouncement

The IASB has released a revised version of IAS 1 'Presentation of Financial Statements'. The revised Standard applies to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted.

A copy of the revised Standard is available from the IASB's website: www.iasb.org.

Exposure draft

The IASB has issued 'Proposed Improvements to International Financial Reporting Standards', which was released as part of the IASB's annual improvements project. Comments are requested by 11 January 2008. A copy of the exposure draft is available from the IASB's website: www.iasb.org.

Meeting 18-21 September 2007

At this meeting, the IASB discussed:

- conceptual framework
- short-term convergence: earnings per share
- fair value measurements
- annual improvements process
- update on IFRIC activities
- financial instruments puttable at fair value and obligations arising on liquidation
- technical plan
- post-employment benefits
- IAS 24 'Related Party Disclosures'
- accounting standards for small and medium-sized entities
- IFRS 1 amendments.

Source: IASB Update, September 2007

International Auditing and Assurance Standards Board (IAASB)

New international pronouncement

The IAASB has released ISA 600 (Revised and Redrafted) 'Special Considerations, the Audit of Group Financial Statements (Including the Work of Component Auditors)'.

ISA 600 specifies the type of work that the group engagement team, or component auditors on its behalf, should perform on the financial information of significant components.

A copy of the revised Standard is available from the IASB's website: www.iasb.org. ISA 600 applies for group financial statements for periods beginning on or after 15 December 2009.

Source: IAASB Media Release, 3 October 2007.

Exposure drafts

The IAASB has released the following exposure drafts as part of its project to re-write the Standards under its Clarity Project:

- ISA 505 (Revised and Redrafted) 'External Confirmations'
- ISA 620 (Revised and Redrafted) 'Using the Work of an Auditor's Expert'.

Comments on the proposals are requested by 15 February 2008. Copies of the exposure drafts are available from IFAC's website: www.ifac.org.

Source: IAASB Media Release, 15 October 2007.

MISCELLANEOUS PUBLICATIONS

Tasmanian Audit Office

- Special Report No 69 – Public Building Security

These publications are available at www.audit.tas.gov.au.

Australian Capital Territory Auditor-General's Office

- Annual Report

This publication is available at www.audit.act.gov.au.

Australian National Audit Office

- Annual Report
- The Senate Order for Departmental and Agency Contracts (Calendar Year 2006 Compliance)
- Proof of Identity for Accessing Centrelink Payments
- Australian Apprenticeships
- Whole of Government Indigenous Service Delivery Arrangements
- Better Practice Guide: Public Sector Internal Audit
- Speech: Project Management – some reflections on the management of projects on the Australian Public Sector

These publications are available at www.anao.gov.au.

Northern Territory Auditor-General's Office

- August 2007 Report to the Legislative Assembly

This publication is available at www.nt.gov.au/ago.

New South Wales Audit Office

- Auditor-General's Report to Parliament Volume Three 2007
- Government Advertising

These publications are available at www.audit.nsw.gov.au

Victorian Auditor-General's Office

- Improving our Schools: Monitoring and Support
- Management of Specific Purpose Funds by Public Health Services

These publications are available at www.audit.vic.gov.au.

Office of the Auditor General for Western Australia

- Fourth Public Sector Performance Report 2007
- First Do No Harm: Reducing Adverse Events in Public Hospitals

These publications are available at www.audit.wa.gov.au.

Queensland Audit Office

- Auditor-General of Queensland Report to Parliament No. 6 for 2007: Beyond Agency Risk
- Better Practice Guide: Risk Management

These publications are available at www.gao.qld.gov.au.

South Australian Auditor-General's Department

- Report of the Auditor-General for the year ended 30 June 2007 – Part A Audit Overview
- Report of the Auditor-General for the year ended 30 June 2007 – Part B Report on Individual Agencies
- Report of the Auditor General for the year ended 30 June 2007 – Part C State Finances and Related Matters: Some Audit Observations
- Report on the operations of the Auditor-General's Department for the year ended 30 June 2007

These publications are available at www.audit.sa.gov.au.

Independent Commission Against Corruption

- Report on an investigation into corrupt issuing of drivers licences

This publication is available at www.icac.nsw.gov.au

Australian Securities and Investments Commission

ASIC has released two regulatory guides about the general obligations of Australian financial services licensees:

- Regulatory Guide 104 Licensing: Meeting the general obligations
- Regulatory Guide 105 Licensing: Organisational Competence

The guides are available at www.asic.gov.au

TAO UPDATE

Staff News

The TAO welcomes the following new staff members:

Andrew Barron – Principal Financial Auditor

Anthony Knight – Principal Financial Auditor

Early Sign-Offs

With reporting deadlines tightening and likely to tighten further we need to consider ways of achieving earlier signoff. The following article taken from the Queensland Audit Office newsletter provides some useful tips. If clients are interested in achieving earlier sign-offs they should discuss the possibility with their respective audit managers.

Financial statements using an “early close”

With John Harten, Assistant Auditor General
Queensland Audit Office



◀ A Checklist for the Preparation of Financial Statements has been developed by QAO based on experiences of better practice noted at client agencies. This checklist may assist entities to implement an early close. It is available on our website www.qao.qld.gov.au.

▶ “Good financial management throughout the year enables better management of risks and a more efficient financial statement process ...”



In recent years, the Auditor General has advocated “early closes” as a means of achieving earlier completion of financial statements.

It is a strategy which can assist both the entity preparing financial statements and QAO in compressing financial statement verification timeframes. An early close typically involves notionally closing the general ledger at a date prior to year end, for example 30 April or 31 May, and:

- Reconciling key accounts
- Analysing account balances
- Examining material transactions for the remainder of the financial year
- Indexing asset valuations
- Verifying physical balances through stock counts
- Analysing current period transactions and balances to detect classification or posting errors
- Establishing some predictive analysis against which to measure or compare the final year-end ledger.

This means that QAO can audit the results of these activities prior to the year-end balance date. Assistant Auditor-General John Harten, explains that by carrying out an early close, an entity is better placed to identify issues that could impact on its year-end processes and outcomes.

QAO’s year-end audit process can place significant reliance on a review of the movements between the date of the early close and the year-end balance date. However, management need to provide explanations for any material transactions occurring in the intervening period and variations from estimated outcomes.

The Queensland Treasurer has proposed bringing forward the statutory reporting deadline for the completion and audit of public sector entities' financial statements.

"Large public sector entities have been encouraged to attempt early closes over the past two years in preparation for what is being proposed as a statutory requirement from the 2007-08 financial year. For 2006-07 the majority of the large public sector entities attempted some form of early close, albeit with mixed success," said John.

What worked well

The following strategies contributed to the success of early closes:

- Detailed financial statement preparation timetables were prepared, agreed and monitored
- Regular meetings were held between external and internal audit, finance staff and shared services providers (where applicable)
- Presentations were made by finance managers to the accounting teams about what was required for early close
- All previous year audit issues were cleared by QAO early in the financial year
- Key issues were resolved early by finance staff developing position papers and seeking audit sign-offs in a timely manner
- Work was carried out by internal audit especially in relation to key reconciliations
- The financial statements were examined to assess which line items were suitable for early close and which should be excluded, e.g. where there would be material movements between the early close date and balance date.

What could be improved

The following issues contributed to some early closes not being fully successful:

- Timetables and key milestones were not clearly understood and monitored by all parties
- The purpose of the early close reviews was not clearly understood which resulted in not all of the required information being captured and provided to QAO
- Some key issues were not resolved during the early close finance resourcing shortfalls arose because the extent of work required for an early close was underestimated
- Quality workpapers and/or key finance staff were not available to support the early close.

Other observations

While most large entities that attempted early closes in 2006-07 were successful to varying levels, our auditors noticed:

- Duplication of some audit work caused by reworking numerous versions of the financial statements
- Extra audit work required for variance analyses between early close and balance date
- Entities which have robust monthly reporting processes achieved greater success with early closes in 2006-07.

John says that entities need comprehensive monthly reporting processes in place, to the same standard as year-end processes to allow management to identify and address issues that have the potential to adversely affect the year-end preparation of their financial statements.

"Good financial management throughout the year enables better management of risks and a more efficient financial statement process. With tightening timeframes, it is no longer enough to only rely on year-end financial reporting processes to produce the financial statements."

Through regular reporting, processes such as calculating and estimating accruals, performing reconciliations, processing journal entries and clearing suspense accounts can be streamlined and simplified.

Preparation of trial-run financial statements early in the financial year could also be considered to ensure information from various sources can be readily collated into the financial statements.

For larger organisations which gather financial and other information from a number of sections or locations, financial statement preparation “packages” which detail the format of the information required can be prepared and provided in line with the “early close” timetable.

“The Auditor-General strongly supports the early completion of financial statements to improve the accountability of the public sector to Parliament and the community,” said John.

In recent years, timeframes have been agreed informally at officer level rather than directly with the Auditor-General. For the 2007-08 financial year, we will be reinstating a more formal protocol between the Auditor-General and accountable officers to ensure enough time is allowed to audit the financial statements within the statutory timeframe. The agreed timeframe must include a minimum of ten clear working days for QAO to audit the financial statements.

Queensland Audit Office
GPO Box 1139
Brisbane QLD 4001
Phone: (07) 3405 1100
Website:
www.qao.qld.gov.au



ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
AIFRS/AEIFRS	Australian Equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
AUASB	Auditing and Assurance Standards Board
ED	Exposure Draft
FASB	Financial Accounting Standards Board (USA)
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GG	Government Gazette
GG SS	Government Gazette Special Supplement
GGS	General Government Sector
GPFR	General Purpose Financial Report
IAASB	International Auditing and Assurance Standards Board
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
PCAOB	Public Company Accounting Oversight Board
UIG	Urgent Issues Group

ACKNOWLEDGEMENTS

The Tasmanian Audit Office gratefully acknowledges the Audit Office of NSW for permitting us to use material from its Awareness newsletter.

COPIES OF REPORTS AND PUBLICATIONS

Tasmanian Audit Office reports are available on the office's web site at www.audit.tas.gov.au.

Publications of the Australian Auditing and Assurance Standards Board (AUASB) including auditing and assurance standards, guidance statements, other guidance and exposure drafts are available direct from the AUASB as follows:

Australian Auditing and Assurance Standards Board
Phone: (03) 8080 7400
Fax: (03) 8080 7450
Postal Address: PO BOX 204 Collins Street West, Victoria 8007
Website: www.auasb.gov.au.

Publications of the Australian Accounting Standards Board (AASB), including Accounting Standards and Exposure Drafts are available direct from the AASB as follows:

Phone: (03) 9617 7600
Fax: (03) 9617 7608
Postal Address: PO BOX 204 Collins Street West, Victoria 8007
Website: www.aasb.com.au

Copies of International Federation of Accountants (IFAC) publications may be obtained direct from IFAC, 535 Fifth Avenue, 14th Floor, New York, NY 10017, USA (tel 212/286.9344 or fax 212/286.9570 or by visiting the IFAC web site at www.ifac.org).

Copies of International Accounting Standards, Exposure Drafts and International Accounting Standards Board (IASB) publications may be obtained direct from the IASB, 30 Cannon Street, London EC4M 6XH, United Kingdom (tel +44 (020) 7332-2730 or fax +44 (020) 7332-2749 or email publications@iasb.org or Internet www.iasb.org).

CONTACTS

For matters arising in this Newsletter

The Deputy Auditor –General and / or the relevant Managers are usually your first point of contact for the application of financial audit queries on the general office number (03) 6226 0100.

Deputy Auditor-General	Ric De Santi	ric.desanti@audit.tas.gov.au
Manager, Financial Audit	Neville I'Anson	neville.ianson@audit.tas.gov.au
Manager, Financial Audit	Jeff Tongs	Jeff.Tongs@audit.tas.gov.au
Manager, Quality Assurance	Rob Luciani	Rob.Luciani@audit.tas.gov.au

The Director of Performance Audit may be contacted for performance or compliance audit queries on the general office number (03) 6226 0100.

Director, Performance Audit	Geoff Driscoll	geoff.driscoll@audit.tas.gov.au
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The Tasmanian Audit Office postal address is GPO Box 851, Hobart, TAS, 7001.

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