

## ACCOUNTING & AUDITING DEVELOPMENTS

Issue 2008/6  
November/December

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#### **OUR PURPOSE**

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

#### **OUR VALUES**

Professionalism, Respect, Camaraderie, Customer Focus & Continuous Improvement

## SEASONS GREETINGS

We extend our best wishes to you and your staff for a merry Christmas and a prosperous New Year.

*The Tasmanian  
Audit Office*



## AUDIT OFFICE UPDATE

### Audit Act 2008

New audit legislation has now been passed by Parliament. Likely to commence in first quarter of 2009. Full analysis in our next newsletter.

## ACCOUNTING UPDATE

### Australian Accounting Standards

#### *AASB 2008-10 Amendments to Australian Accounting Standards – Reclassification of Financial Assets [AASB 139 and AASB 7]*

The amendments to AASB 139 permit an entity to:

- reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair-value-through-profit-or-loss category when the financial asset is no longer held for the purpose of selling or repurchasing in the near future, and either of the following apply:
  - there are rare circumstances; or
  - it would have met the definition of loans and receivables (if the financial asset had not been required to be held for trading at initial recognition);
- transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The amendments to AASB 7 specify the disclosures required when the entity reclassifies financial assets out of fair value through profit or loss.

The amendments do not apply to financial assets that are derivatives. The Board will discuss at a future meeting whether or not the amendments should apply to financial assets backing insurance liabilities.

The application dates are as follows:

- reclassifications may not be applied retrospectively before 1 July 2008
- the decision to reclassify a financial asset on or after 1 July 2008, but on or before 31 October 2008, must be completed **before 1 November 2008**
- all reclassification made **on or after 1 November 2008** shall be effective from the date of reclassification, irrespective of when the accounting period started.

Source: AASB News (22 October 2008), AASB 2008-10 and Deloitte Accounting Alert 2008/14.

#### *AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101*

The AASB has finally released AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101', which makes amendments to Australian Accounting Standards, including Interpretations and the 'Framework for the Preparation and Presentation of Financial Statements'. These amendments arise from the issuance of the revised AASB 101 'Presentation of Financial Statements' in September 2007.

The main change introduced by AASB 2007-10 is to change the term 'financial report' to 'financial statements'. This will ensure Australian accounting standards are consistent with the terminology of IFRS.

This new amending standard is applicable to annual reporting periods beginning on or after 1 January 2009, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005, provided that the revised AASB 101 is also adopted for the same period.

Source: Accounting & Assurance News Today (ANT) Issue 42 (31 October 2008).

## **Exposure Drafts and Consultation Papers**

### *AASB ED 169 Improving Disclosures about Financial Instruments: Proposed amendments to AASB 7*

ED 169 is in response to recommendations made to the IASB Board to consider disclosures similar to those included in Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS157), issued by the US Financial Accounting Standards Board (FASB). These disclosures are based on a three-level hierarchy for the inputs to the valuation techniques that are used to measure fair value.

The AASB has reproduced the IASB Exposure Draft 'Improving Disclosures about Financial Instruments: Proposed Amendments to IFRS 7'.

The ED is available on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au) and comments are due to the AASB by 1 December 2008.

Source: AASB News (24 October 2008) and ED 169.

### *AASB ED 168 Additional Exemptions for First-Time Adopters: Proposed amendments to AASB 1*

ED 168 invites comments on proposed amendments to AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'. The proposals address the retrospective application of IFRS in selected areas and are aimed at minimising cost and effort for entities applying IFRS.

ED 168 is the AASB's reproduction of the IASB's Exposure Draft 'Additional Exemptions for First-time Adopters: Proposed amendments to IFRS 1'.

The main features of the ED are:

- to exempt entities from retrospective application of IFRSs for oil and gas assets using the full cost method and for operations subject to rate regulation; and
- to exempt entities with existing leasing contracts accounted for in accordance with IFRIC 4 'Determining whether an Arrangement contains a Lease' from reassessing the classification of those contracts according to IFRSs when the same classification has previously been made in accordance with national GAAP.

The ED is available on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au) and comments are due to the AASB by 5 December 2008.

Source: AASB News (16 October 2008) and ED 168.

### *AASB ED 167 Discontinued Operations: Proposed amendments to AASB 5*

ED 167 is the AASB's reproduction of the IASB's Exposure Draft 'Discontinued Operations: Proposed amendments to IFRS 5', which proposes that a disposal activity should be presented as a discontinued operation only when an entity has made a strategic shift in its operations. The IASB's exposure draft is a result of a joint project between the IASB and FASB.

The IASB and FASB have decided that a definition of a discontinued operation is to be based on operating segments as defined in IFRS 8 'Operating Segments'.

The ED is available on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au). Comments are due to the AASB by 5 December 2008.

### *Discussion Paper: Initial Accounting for Internally Generated Intangible Assets*

The purpose of this Paper is to encourage interested parties to think about issues concerning the initial accounting for internally generated intangible assets, and to comment on the views expressed, including the potential conceptual and practical implications of those views.

The Discussion Paper is available on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au). Comments on this Paper are requested by 15 May 2009.

Source: AASB News (31 October 2008).

## **AASB Announcements**

### *AASB Submission on IASB Discussion Paper: Preliminary Views on an Improved Conceptual Framework for Financial Reporting*

The AASB has made a submission to the IASB on its Discussion Paper 'Preliminary Views on an Improved Conceptual Framework for Financial Reporting: The Reporting Entity'.

The AASB strongly supported the group entity perspective and recommended:

- that arguments in favour of the group entity be strengthened
- the term 'business activity' in the description of a reporting entity be clarified
- the proposed description of reporting entity may reduce the need for a common control model as a distinct model for determining the composition of a group reporting entity since any combination of entities can be regarded as a 'circumscribed area of business activity' and therefore a reporting entity.

Source: AASB News (17 October 2008) and AASB Action Alert (13 October 2008).

### *AASB Submission on IASB Exposure Draft: An improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information*

The AASB has made a submission to the IASB on the above ED. The AASB generally supports the IASB ED and recommended the following amendments:

- further explanation should be provided for adopting an entity perspective in financial reports
- the objective of financial reporting should include reference to providing information for evaluating decisions

- the qualitative characteristics should not be classified into 'fundamental' and 'enhancing' categories, unless more convincing reasons are provided for that classification scheme
- the concepts of relevance and materiality should be distinguished more clearly
- that the IASB and FASB reconsider their decision to deal with not-for-profit entity issues in a latter phase of their Conceptual Framework project (The Board also included amendments it would consider necessary when not-for-profit entities are considered in the project).

Source: AASB News (27 October 2008).

#### *AASB Revolutionises the online search for pronouncements*

The AASB has developed a revolutionary electronic solution which enables users to identify and locate the accounting pronouncements relevant to their particular financial reporting period. The new system easily extracts versions for the reporting period specified. Users will no longer have to search and combine a number of lists on the AASB website.

Source: AASB News (3 October 2008) and AASB Action Alert (13 October 2008).

## **Australian Accounting Standards Board (AASB) - Meetings**

### *AASB Meeting Highlights – 10 October 2008*

At its meeting the AASB discussed the following items:

- **Interpretations, Superannuation Contributions Tax** – the Board discussed the recommendations of its Advisory Panel that the measurement of an employer sponsor's defined benefit liability / asset should include the Australian Superannuation Contributions Tax. The Board decided to proceed with issuing an Interpretation and will consider a draft Interpretation at its November meeting.
- **Superannuation Plans and Approved Deposit Funds** – the Board considered a revised version of the draft ED for a replacement Standard for AAS 25 Financial Reporting by Superannuation Plans. The Board will continue its deliberations on a revised version of the draft ED at its November meeting.
- **Modifying IFRS for Not-for-Profit Entities** - the Board received an update on the status of discussions by the FRSB (NZ) on identifying criteria / factors to be considered when determining whether the requirements in IFRS should be modified for application by not-for-profit entities.
- **Legal Process for Adopting IFRSs as Australian Requirements** – the Board received a briefing on discussions with the Office of Legislative Drafting & Publishing (OLDP) of the Attorney-General's Department regarding the legal process for adopting IFRSs in Australia and decided that staff should continue discussions with the OLDP to proceed with establishing a more efficient approach while ensuring that the standards are properly constituted.
- **Credit Crisis** – the Board agreed to monitor IASB developments with a view to ensuring that, in the event that the IASB urgently amends IAS 39, Australian constituents will be able to maintain compliance with IFRSs through a rapid response by the Board.

Source: AASB Action Alert (13 October 2008).

## AUDITING UPDATE

### Guidance Statement

#### *GS 009 Auditing Self Managed Superannuation Funds*

This Guidance Statement has been developed to identify, clarify and summarise the existing responsibilities which auditors have with respect to conducting SMSF audit engagements, and to provide guidance to auditors on matters which the auditor considers when planning, conducting and reporting on the financial and compliance audits of a SMSF.

Source: AuASB News and GS 009.

### Australian Auditing and Assurance Standards Board (AUASB) Meetings

#### *Meeting Summary 27-28 October 2008*

At its meeting the AUASB covered the following items:

- approval of the first group of redrafted Auditing Standards arising from the clarity project (ASAs 240, 260, 315, 330)
- approval of release of the third Group of 'Clarity' EDs for ASAs 200, 250, 320, 450, 510, 550, 580, 720
- amendments to GS 001 as a consequence to changes to AASB 1039 and the *Corporations Act 2001*, and inclusion of reference to the auditor's report on the Remuneration Report in the illustrative auditors reports. The revised GS 001 is anticipated for release in mid November 2008
- agreement that a formal submission should be made to the Department of Climate Change on its 'External Audit Consultation Paper', which was release on 17 October 2008
- discussion on the need to revise and reissue AUS 904 Engagements to Perform Agreed upon Procedures. A project plan is to be developed for consideration at the December 2008 meeting
- discussion of the format of the consultative meeting to be held on 2 December 2008.

Source: AUASB Meeting Highlights (27-28 October 2008).

## ETHICS UPDATE

### Invitations to Comment

*Consultation Paper on the Review of Miscellaneous Professional Statement APS 12 Financial Advisory Services Standards*

This consultation paper encourages discussion and debate on the key issues surrounding the professional conduct of members of the accounting profession in the provision of financial advisory services.

The consultation paper is available at [www.apesb.org.au](http://www.apesb.org.au) Submissions must be made by 31 December 2008.

Source: APESB, What's New.

## AUSTRALIAN AND SECURITIES AND INVESTMENTS COMMISSION (ASIC) UPDATE

### ASIC Commences action Against KPMG over Westpoint collapse

ASIC has commenced action against KPMG over its auditing of companies in the Westpoint Group which collapsed in early 2006. The claims are for negligent conduct by KPMG of audits of financial accounts for the years ended 30 June 2002, 2003 and 2004.

ASIC allege that KPMG negligently carried out audits by failing to identify issues related to the continuing solvency of companies and failing to qualify the audits of the companies. The claim also alleges that KPMG should have notified ASIC that it had grounds to suspect that breaches of the Corporations Act were taking place with in the companies, including breaches of directors' duties and rules against insolvent trading.

Source: ASIC Media Releases (08-207) (13 October 2008).

## INTERNATIONAL UPDATE

### International Accounting Standards Board – EDs, Discussion and Consolation Papers

*Discussion Paper: Preliminary Views on Financial Statement Presentation*

Arising from concerns that IFRS and US GAAP provide only limited presentation guidelines, and user dissatisfaction with the lack of linking of information across the different statements due to aggregation, the IASB and FASB have released this discussion paper to present initial thinking on how these concerns can be addressed.

The discussion paper introduces 'cohesiveness' and 'disaggregation' as the two main objectives for financial statement presentation. Cohesiveness would ensure that a reader can follow the flow of information through the different financial statements of an entity. Disaggregation would ensure that items that respond differently to economic events are shown separately.

The discussion paper can be downloaded from the 'open for comment' section of the IASB website ([www.iasb.org](http://www.iasb.org)). Comments are due by 14 April 2009.

Source: IASB News (16 October 2008).

## International Accounting Standards Board – Notices & Reports

### *IASB publishes educational guidance on the application of fair value measurement when market become inactive*

The educational guidance takes the form of a summary document prepared by IASB staff and the final report of the expert advisory panel established to consider the issue.

The report provides useful information and educational guidance about the processes used and judgements made when measuring and disclosing fair value.

The summary document sets out the context of the expert advisory panel report and highlights important issues associated with measuring the fair value of financial instruments when markets become inactive. It takes into consideration and is consistent with recent documents issued by the US FASB and SEC.

The final report of the expert advisory panel and the IASB staff summary can be downloaded from here

(<http://www.iasb.org/News/Press+Releases/IASB+publishes+educational+guidance+on+the+application+of+fair+value+measurement+when+markets+become.htm>)

Source: IASB New (31 October 2008).

### *IASB and FASB commit to a global approach to enhance market confidence*

The IASB and FASB have announced the details on their joint approach to dealing with reporting issues arising from the global financial crisis. Expanding on their 16 October announcement regarding the establishment of a joint advisory group, the boards agreed to the following measures:

Rapid appointment of a high-level advisory group – tasked with considering how improvements in financial reporting could help enhance investor confidence in financial markets, identifying the accounting issues requiring urgent attention and those requiring longer-term consideration.

Public roundtables in Asia, Europe and North America – In the coming weeks the IASB and FASB will organise three roundtables for the purpose of gathering input on reporting issues emanating from the current global financial crisis (including responses by governments and other). The information gathered should enable the Boards to act rapidly and advance the advisory groups deliberations efficiently.

Common long-term solutions to reporting of financial instruments – both Boards emphasised their commitment to developing common solutions aimed at providing greater transparency and reduced complexity in the accounting of financial instruments. The Boards will use their joint discussion paper, *Reducing Complexity in Reporting Financial Instruments*, as a starting point for this longer term objective.

Source: IASB New (20 October 2008).

### *IASB Foundation publishes XBRL Taxonomy Guide*

The IASB Foundation has released the 'IFRS Taxonomy Guide 1.00 - All you need to know about the IFRS Taxonomy as a preparer, supervisor, software developer'.

This guide address both the accounting and technological aspects of the IFRS Taxonomy and aims to assist in its implementation, application and further application.

The 'IFRS Taxonomy Guide' is available for download from the IFRS Taxonomy support materials website (<http://www.iasb.org/XBRL/IFRS+Taxonomy/Support+materials.htm>)

Source: Accounting & Assurance News Today (ANT) Issue 34 (5 September 2008).

## **IASB Meetings**

The table below notes the topics discussed at the Board meeting of the IASB. For further information follow the links provided.

### *IASB Meeting Summaries*

#### **2 October 2008 Meeting**

Topics discussed:

- Amendments to IFRS 7 'Financial Instrument Disclosures'
- Consolidation
- Disclosures: off balance sheet entities

For further information see the IASB Update for 2nd October 2008.

<http://www.iasb.org/NR/ronlyres/7C0BB7E9-FBA3-43C7-9BF2-8855F9007CF7/0/IASBUpdateExtraOctober.pdf>

#### **13-17 October 2008 Meeting**

Topics discussed:

- Credit Crisis
- Annual Improvements
- Fair value measurement
- Financial instruments with characteristics of equity
- IFRS for private entities
- Insurance contracts
- Share-based Payment
- Technical plan

For further information see the IASB Update for October.

<http://www.iasb.org/NR/ronlyres/92B14B81-1377-4CDF-A292-AD172079D42F/0/IASBUpdateOct08.pdf>

### 20-21 October 2008 Meeting

Topics discussed:

- Credit Crisis
- Conceptual framework
- Consolidation
- Derecognition
- Emissions trading
- Fair value measurement
- Financial instruments: reducing complexity
- Financial instruments with characteristics of equity
- Liabilities: uncertainties and expected cash flows

For further information see the IASB Update for October.

<http://www.iasb.org/NR/rdonlyres/92B14B81-1377-4CDF-A292-AD172079D42F/0/IASBUpdateOct08.pdf>

## International Federation of Accountants (IFAC) – General

### *Forum of Firms focus on Audits of Financial Institutions*

On 8 October 2008 over 60 partners from 21 international networks of accounting firms met to share their experiences, industry insights and current practices for audits of financial institutions at a symposium of Audit of Financial Institutions organized by the Forum of Firms.

The symposium identified specific audit responses appropriate in the audits of financial statements of financial institutions. These include the importance of strong risk management, transparent disclosure for restoring market confidence, and heightened sensitivity to going concern issues.

Source: IFAC News (9 October 2008).

## MISCELLANEOUS PUBLICATIONS

### *New South Wales Department of Local Government issues guidance for Internal Audit*

The New South Wales Department of Local Government has put out its guidelines for internal audit for local government. The guidelines have been developed with extensive input from a range of volunteers from the Local Government Internal Audit Network and the New South Wales Chapter Council. Consultation on the guidelines right through the sector has taken place and hence, despite being voluntary, a high level of take up is expected.

The guidelines can be accessed here:

<http://www.dlg.nsw.gov.au/dlg/dlghome/documents/Information/08-64%20Internal%20Audit%20Guidelines.pdf>

Source: IIA-Australia members' e-newsletter, NSW members (16 October 2008).

### *Joint Accounting bodies submission to AICD*

The Joint Accounting Bodies have lodged a submission to the Australian Institute of Company Directors on the joint FINSIA/AICD discussion paper on underlying profit. The bodies support the

efforts being made to improve the quality and consistency of the non-statutory profit information communicated by entities. The seven principles outlined in the paper are generally supported, but the bodies have some concerns with the definition of underlying profit, the resultant adjustments and the example provided.

The submission can be downloaded from here:

[http://www.charteredaccountants.com.au/A121076661?z\\_d=1grn](http://www.charteredaccountants.com.au/A121076661?z_d=1grn)

Source: Accounting & Assurance News Today (ANT) Issue 42 (31 October 2008).

#### *Institute of Chartered Accountants on the Credit Crunch*

The institute's website now contains a page of links to various local and international resources relating to the credit crisis. The page can be accessed from here:

[http://www.charteredaccountants.com.au/financial\\_reporting/current\\_issues/current\\_economic\\_conditions?z\\_d=1grn](http://www.charteredaccountants.com.au/financial_reporting/current_issues/current_economic_conditions?z_d=1grn)

Source: Accounting & Assurance News Today (ANT) Issue 42 (31 October 2008).

#### *Department of Climate Change releases NGER Consultation paper on External Audit*

As part of consultation for the National Greenhouse and Energy Reporting System, the Department of Climate Change has released for public comment the 'National Greenhouse and Energy Reporting Act 2007 and Carbon Pollution Reduction Scheme - External Audit Consultation Paper'.

This consultation paper is designed to inform stakeholders and seek feedback on the development of external auditor regulations (professional expertise and qualifications) and external audit guidelines (conduct of audits and reports) under the 'National Greenhouse and Energy Reporting Act 2007' (the NGER Act). The external audit arrangements will support regulatory needs of both the NGER Act and the Carbon Pollution Reduction Scheme.

The consultation paper can be accessed from here:

<http://www.climatechange.gov.au/reporting/publications/external-audit.html>. Submissions should be made by 14 November 2008.

Source: Accounting & Assurance News Today (ANT) Issue 41 (24 October 2008).

#### *SEC Commences Work on Congressionally Mandated Study on Accounting Standards*

The SEC Commission announced additional details on the process and initial steps undertaken to conduct a study on 'mark-to-market' accounting, as authorised by Sec. 133 of the Emergency Economic Stabilization Act of 2008, signed into law by President Bush on 10 October.

Under that legislation, the SEC is required to conduct a study of 'mark-to-market' accounting. The study is to be completed by 2 January 2009, in consultation with the Secretary of The Treasury and the Board of Governors of the Federal Reserve System. Under the terms of the EESA, the study will focus on:

- Effects of such accounting standards on a financial institution's balance sheet
- Impacts of such accounting on bank failures in 2008
- Impact of such standards on the quality of financial information available to investors
- The process used by the FASB in developing accounting standards
- Advisability and feasibility of modifications to such standards, and
- Alternative accounting standards to those provided in FASB Statement Number 157.

The results of this study are likely to impact on AASB 139 'Financial Instruments: Recognition and Measurement'.

Source: GAAP Alert (15 October 2008).

## **ACT Auditor-General's Office**

- The ACT Auditor-General's Office Annual Report 2007-08.

This report is available at [www.audit.act.gov.au](http://www.audit.act.gov.au).

## **Australian National Audit Office**

- Working with Auditors.
- Centrelink's Tip-off System.
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These publications are available at [www.anao.gov.au](http://www.anao.gov.au).

## **Office of the Auditor-General, Western Australia**

- Improving Resource Project Approvals.
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This publication is available at [www.audit.wa.gov.au](http://www.audit.wa.gov.au).

## **Queensland Audit Office**

- Report No. 7 for 2008: Administration of Grants and Funding to Community Organisations by Local Governments in Queensland, A Performance Management Systems Audit.
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This report is available at [www.qao.qld.gov.au](http://www.qao.qld.gov.au).

## **Victorian Auditor-General's Office**

- CASES21 (2008-09:6).
- Working with Children Check (2008-09:5).
- Private Practice Arrangements in Health Services (2008-09:4).
- 

These publications are available at [www.audit.vic.gov.au](http://www.audit.vic.gov.au).

## **Audit Office of NSW**

- Auditor-General's Report to Parliament 2008 Volume Five

These publications are available at [www.audit.nsw.gov.au](http://www.audit.nsw.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
ASEA	Australian Standard on Assurance Engagements
ASIC	Australian Securities and Investments Commission
ASRE	Australian Standard on Review Engagements
AUASB	Auditing and Assurance Standards Board
ED	Exposure Draft
FASB	Financial Accounting Standards Board (USA)
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
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

