Tasmanian Audit Office

ACCOUNTING & AUDITING DEVELOPMENTS

Newsletter

June 2016

PERFORMANCE AUDIT REPORT

Compliance with legislation

Legislation is the mechanism by which laws are made, amended and repealed in Australia. Legislation can only be enacted through an Act of parliament. Australia follows the Westminster system of parliamentary supremacy, where legislation legally passed by a parliament must be complied with.

Tasmania, as a state of the Commonwealth of Australia, has had responsible government since 1856, with the power to pass legislation and make laws governing Tasmania. Today, the Tasmanian Parliament is a bi-cameral legislature that annually passes numerous pieces of legislation.

The public sector, which is controlled by the executive arm of government, is required to adhere and enforce laws passed by parliament. There are approximately 2281 enacted Acts of parliament (including amendments) that are implemented and administered by government entities. Because of the vast array of legislation currently enacted there is a risk that state entities may not comply with all applicable legislation.

The audit objective was to express an opinion as to whether or not entities were complying with the implementation and administration of legislation and supporting regulations.

The audit covered the enforcement of selected legislation and supporting regulations by:

- local government councils
- government departments.

We also restricted our examination to the period from January 2011 (previous five years).

AUDIT CONCLUSIONS

These audit conclusions are based on criteria that we developed to support the audit's objective.

Had entities complied with the legislation and supporting regulations, when last relevant?

Councils fully complied with 95 per cent and departments with 91 per cent of our sampled legislation.

See COMPLIANCE page 2

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Mt Wellington (kunanyi) from the Rosny Point Lookout. (Cox photo)

COMPLIANCE from page 1

Did entities have systems to ensure ongoing compliance?

With few exceptions both departments and councils had effective systems to ensure ongoing compliance with their legislative responsibilities with:

- councils achieving 92 per cent
- departments achieving 89 per cent.

Effective compliance systems generally involved defined responsibilities, the inclusion of review history and next review date on policy documents, use of registers and use of automated reminders.

OVERALL CONCLUSION

In undertaking this audit, we considered what was an acceptable level of compliance. Some would argue that 100 per cent compliance was appropriate, but we recognise that this may not always be achievable due to the:

- level of awareness of legislative requirements
- level of resources available to entities to ensure compliance
- adequacy of systems in place to ensure compliance.

This still leaves the question unanswered. The response may depend on a number of factors such as the consequences of non-compliance and the risk tolerance of entities in dealing with the adverse outcomes of non-compliance.

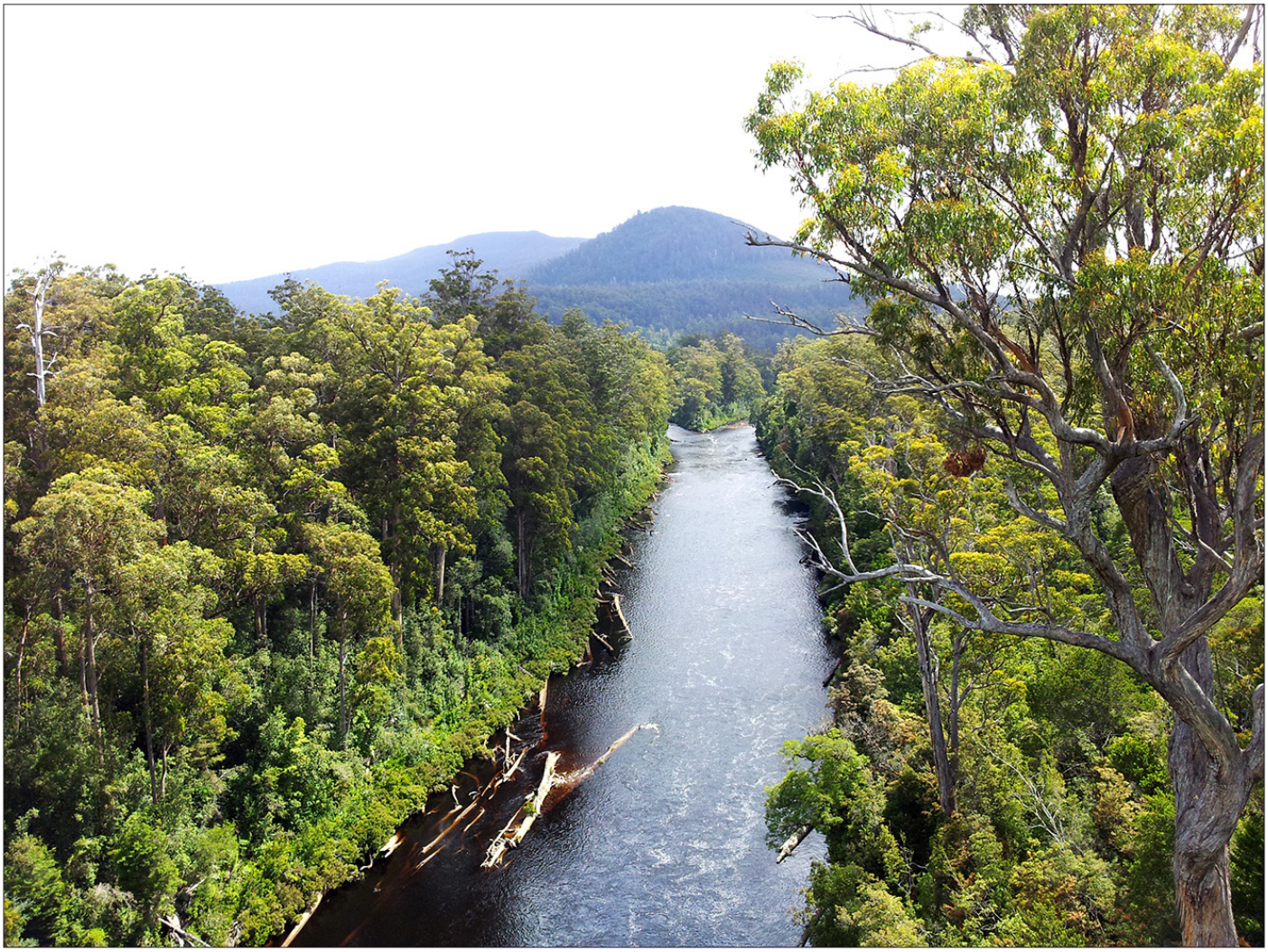
It is not for us to suggest that anything less than 100 per cent compliance is appropriate. Our expectation is that all entities should examine the systems and processes they have in place to ensure compliance. They should also periodically conduct assessments on the adequacy of those systems to ensure they remain fit for purpose and achieve the overall objective of ensuring compliance with all legislation.

Financing Activity Disclosures in the Statement of Cash Flows

In March 2016 the AASB issued AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.* It aims to improve disclosure of information relating to financing liabilities, and is in response to requests from investors to help them better understand changes in an entities debt. The amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, both changes arising from cash flows and non-cash changes. Disclosure is also required for changes in financial assets, (for example, assets that hedge liabilities arising from financing activities), if cash flows from those financing assets were, or in future cash flows will be, included in cash flows from financing activities.

One way to fulfil the disclosure requirements, included as an example in the amendment, is by providing a reconciliation between opening and closing balances in the statement of financial position for liabilities arising from financing activities. Such an approach needs to include sufficient information to enable users to link items included to the Statement of Financial Position and Statement of Cash Flows. Another approach would be to provide the disclosure requirements as part of a reconciliation of net debt.

The AASB decided not to make a not-for-profit specific amendment, citing that whilst less relevant to the sector, the benefits of compliance outweighed the cost of making the additional disclosure. While the amendment applies to annual reporting periods beginning on or after 1 July 2017, early adoption is permitted.



Tahune Airwalk lookout. (Cox photo)

Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* was issued by the AASB in December 2014. The new standard enhances quality and consistency in how revenue is reported. It was initially to be applied from 1 January 2017, but application date has now been pushed out to reporting periods commencing on or after 1 January 2018, consistent with the international equivalent. This provides entities with additional time to assess potential impacts and implement any changes in processes. Early adoption is permitted. It replaces AASB 118 *Revenue,* AASB 111 *Construction contracts* and five other revenue related interpretations.

The core principle of the standard is that an entity will only recognise revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities will need to apply a five-step model to determine when to recognise revenue, and at what amount.

The standard requires retrospective application, but the transitional requirements allow two alternative retrospective methods. The lengthy period before application reflects the fact that the standard's new rules are likely to have significant impacts on a wide range of organisations. Entities are encouraged to prepare early in anticipation by:

- establishing a complete and accurate register of contracts
- considering potential changes that may be required to revenue recognition
- considering whether changes need to be made to the organisation's IT systems and recording and recognition of revenue transactions
- considering forecast budgetary impacts
- planning appropriate training for affected staff
- consider if any disclosures are required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- discussing concerns about the impact of the proposed requirements with financial advisors and/or auditors.

AASB 15 will apply to contracts of not-for-profit entities that have reciprocal transactions.
AASB 1004 *Contributions* will continue to apply to non-reciprocal transactions until the Income of Not-for-Profit Entities standard is issued.

ACCOUNTING UPDATE

Australian Update – Australian Accounting Standards Board (AASB)

Latest news from the AASB included:

- International Edition (20-16) (19 May 2016)
- International Edition (21-16) (26 May 2016)
- International Edition (22-16) (2 June 2016)
- Agenda and Board Papers for AASB meeting. 21 to 22 June 2016
- AASB Action Alert
- Income of NFP Entities
- Service Concession Arrangements: Grantor
- Insurance Contracts
- Reduced Disclosure Requirements
- International Edition (23-16) (9 June 2016)
- New AASB subscription service (16 June 2016)
- International Edition (24-16) (16 June 2016).

The Board also discussed the following topics:

- Financial Reporting Framework
- Public Sector Combinations
- International Projects
- Research Update
- Emerging Issues
- AASB Agenda Consultation
- Classification and Measurement of Shared-based Payment Transactions

International Update – International Accounting Standards Board (IASB)

IASB Meeting Highlights – 17 to 19 May 2016

Topics discussed included:

- 2015 Agenda Consultation
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 2 Share-Based Payment
- Financial Instruments with Characteristics of Equity
- Income Taxes
- Conceptual Framework
- Disclosure Initiative
- Equity Method of Accounting
- Goodwill and Impairment
- Revenue from Contracts with Customers.

IASB Podcasts

Recent podcasts released by the IASB:

- May 2016 IASB meeting

International Update – Interpretations Committee

IFRIC Meeting Highlights – 10 May 2016

The committee discussed the following topics:

- Items on the current agenda:
  - IFRS 9 Financial Instruments and IAS 28 Investments in Associates and Joint Ventures – Measurement of longterm interests
  - IAS 12 Income Taxes – Expected manner of recovering indefinite life intangible assets when measuring deferred tax
  - IAS 21 The Effects of Changes in Foreign Exchange Rates – Foreign currency transactions and Advance Considerations

Deliberation of comments received on proposed narrowscope amendments:

  - IAS 40 Investment Property – Exposure Draft of proposed amendments to IAS 40 Transfers of Investment Property

- Interpretation Committee's tentative agenda decisions:
  - IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement – Fees and costs included in the '10 per cent' test for the purpose of derecognition
  - IAS 32 Financial Instruments: Presentation – Accounting for a written put option over non-controlling interests to be settled by a variable number of the parent's shares
  - IFRIC 12 Service Concession Arrangements Accounting for service concession arrangements for which the infrastructure is leased

- Interpretation Committee's agenda decisions:
  - IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement – Derecognition of modified financial assets
  - IAS 20 Accounting for Government Grants and Disclosure of Government Assistance – Accounting for repayable cash receipts
  - IAS 36 Impairment of Assets – Recoverable amount and carrying amount of a cash-generating unit

International Update – International Valuation Standards Council (IVSC)

The IVSC has released the following Exposure Drafts for comment with a deadline of 31 August 2016:

- IVS 101 Scope of Work, IVS 102 Investigation and Compliance and IVS 103 Reporting
- IVS 200 Business and Business Interests
- IVS 300 Plant and Equipment
- IVS 400 Real Property Interests
- IVS 500 Financial Instruments.

ACCOUNTING UPDATE

International Update – International Federation of Accountants (IFAC)

IFAC recently hosted:

- Representatives From Over 30 Countries Discuss Public Financial Management for Economic Prosperity in Asia at CAPA and World Bank Forum (18 May 2016).

AUDITING UPDATE

Australian Update – Auditing and Assurance Standards Board (AUASB)

AUASB Meeting Highlights – 14 June 2016

Topics discussed included:

- Auditor Reporting – Special Purpose Reports and Single Element Reports
- Auditor Reporting Project
- CPA Presentation – Assurance on the Integrated Report
  - Insights from Development of the Framework, Practical Implication and Research Findings
- ASAE 3100 Compliance Engagements.

AUASB has recently released:

- Exposure Draft 01/16 Proposed Auditing Standard ASA 800 Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks
- Exposure Draft 02/16 Proposed Auditing Standard ASA 805 Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

Comments are requested by 18 July 2016.

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

Latest news from the IAASB:

- The IASB's Work to Enhance Audit Quality (18 May 2016)
- IAASB Welcomes US PCAOB's Efforts to Enhance the Auditor's Report (23 May 2016).

IAASB has recently released:

- The New Auditor's Report: A Comparison between the ISAs and the PCAOB Reproposal (23 May 2016).

ETHICS UPDATE

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

Latest news from the APESB:

- New board appointment heralds new era for APESB (23 May 2016).

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

Latest news from IESBA:

- IESBA Releases 2015 Annual Report, Elevating Global Ethics (27 May 2016)

OTHER UPDATES

Australian Securities and Investments Commission (ASIC)

Recent consultation papers released included:

- CP 260 Further measures to facilitate innovation in financial services.

Recent reports released included:

- REP 478 Overview of licensing and professional registration applications: July to December 2015.

Recent speeches released:

- Why culture matters (24 May 2016)
- ASIC's focus on culture – digging into the detail (25 May 2016)
- Building trust and confidence: ASIC priorities (2 June 2016)
- Directors' duties and culture (19 June 2016)
- Tone from the top: Influencing conduct and culture (21 June 2016).

ASIC Media Releases included:

- 16-174MR ASIC calls on directors to apply realism and clarity to financial reports (2 June 2016).

Australian Prudential Regulation Authority (APRA)

Recent APRA releases included:

- APRA releases superannuation statistics for March 2016 (24 May 2016).

Bruny Island, Tasmania (Cox photo)

NEW PUBLICATIONS

Australian National Audit Office (ANAO)

Recent publications released:

- A reflection of how far performance auditing has come from its roots in the 1970s to where we are today and where we are heading (15 March 2016)
- Opinions Autumn 2016 (18 April 2016)
- Strategies and Activities to Address the Cash and Hidden Economy (26 April 2016).

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

- Immigration New Zealand: Supporting new migrants to settle and work (June 2016)
- Education for Maori: Using information to improve Maori educational success (June 2016)
- District health boards' response to asset management requirements since 2009 (June 2016)
- Crown Fibre Holdings Limited: Managing the first phase of rolling out ultra-fast broadband (June 2016)
- Home-based support services for older people: Follow-up audit (June 2016)
- Collecting and using information about suicide (June 2016).

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

- ACT Policing Arrangement (26 May 2016)
- The management of the financial arrangements for the delivery of the Loose-Fill Asbestos (Mr Fluffy) Insulation Eradication Scheme (27 May 2016)
- Initiation of the Light Rail Project (16 June 2016).

Audit Office of New South Wales (AONSW)

Auditor-General's Financial Audit Reports to Parliament

- Volume Two 2016 focusing on Universities (2 June 2016).

Auditor-General's Performance Audit Reports to Parliament

- Early childhood education (26 May 2016).

Queensland Audit Office (QLD AO)

- Report 17: Results of audit: local government entities 2014–15 (24 May 2016)
- Report 18: Results of audit: education sector entities 2015 (24 May 2016)
- Report 19: Early childhood education (7 June 2016).

Tasmanian Audit Office (TAS AO)

- Accounting & Auditing Developments newsletter – May 2016 (30 May 2016)
- Report of the Auditor-General No.11 of 2015–16: Compliance with legislation (21 June 2016).

Victorian Auditor-General's Office (VAGO)

- Monitoring Victoria's Water Resources (25 May 2016)
- Reducing the Burden of Red Tape (25 May 2016)
- Technical and Further Education Institutes: 2015 Audit Snapshot (26 May 2016)
- Universities: 2015 Audit Snapshot (26 May 2016)
- Follow up of Recreational Maritime Safety (8 June 2016)
- Follow up of Asset Confiscation Scheme (8 June 2016)
- Follow up of Residential Care Services for Children (8 June 2016).

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

- Delivering Services Online (25 May 2016)
- Opinions on Ministerial Notifications (8 June 2016)
- Payment of Construction Subcontractors – Perth Children's Hospital (8 June 2016).

Oatlands stone wall. (Cox photo)

USEFUL RESOURCES

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

- Video: Enterprise Risk Management – Aligning Risk with Strategy and Performance (14 June 2016)
- ERM Framework Update Exposure Period Now Open (14 June 2016).

Department of Justice NSW

Department of Justice NSW recent releases included:

- Budget delivers big on cultural infrastructure (21 June 2016)
- Record investment in justice in NSW Budget (21 June 2016).

Independent Commission Against Corruption (ICAC)

- Public inquiry into allegations concerning former City of Botany Bay Council CFO resumes tomorrow (2 June 2016).

Productivity Commission

The Productivity Commission's recent media releases included:

- Placing users at the heart of service delivery (16 June 2016).

The Productivity Commission's recent research:

- Digital Disruption: What do governments need to do? (15 June 2016).

Independent Pricing & Regulatory Tribunal (IPART)

IPART has released the following information/fact sheets:

- Fact Sheet and information paper – Hunter Water operating license – Issues Paper (31 May 2016)
- Fact Sheet – Metering and consent transaction charges for WAMC (7 June 2016)
- Fact Sheet – Prices for the Water Administration Ministerial Corporation from 1 July 2016 (7 June 2016)
- Fact Sheet – Review of WAMC's water management prices – Final Report and prices (7 June 2016)
- Fact Sheet – Unregulated pricing agreements – Sydney Water and Hunter Water price reviews (14 June 2016)
- Fact Sheet – WaterNSW – Greater Sydney price review (14 June 2016)
- Fact Sheet – Hunter Water price review – non-residential customers (14 June 2016)
- Fact Sheet – Hunter Water price review – residential customers (14 June 2016)
- Fact Sheet – Sydney Water price review – non-residential customers (14 June 2016)
- Fact Sheet – Sydney Water price review – residential customers (14 June 2016)

Australian Competition & Consumer Commission (ACCC)

ACCC media releases included:

- ACCC issues final decision on WaterNSW's 2016–17 changes in the Murray-Darling basin (19 May 2016).

Australian Institute of Company Directors (AICD)

AICD media releases included:

- Company Directors call for AGM overhaul (20 June 2016).

Layers of sandstone. (Cox photo)

ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ACAG	Australasian Council of Auditors-General
ACCC	Australian Competition and Consumer Commission
ACNC	Australian Charities and Not-for-profits Commission
ACT AGO	Australian Capital Territory Auditor-General's Office
ANAO	Australian National Audit Office
ASA	Australian Auditing Standard
ASD	Australian Signals Directorate
ASIC	Australian Securities and Investments Commission
AUASB	Auditing and Assurance Standards Board
DPAC	Department of Premier and Cabinet
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board of Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPART	Independent Pricing and Regulatory Tribunal
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
NSWAO	Audit office of New South Wales
QAO	Queensland Audit Office
TAO	Tasmanian Audit Office
TI	Treasurer's Instruction
VAGO	Victorian Auditor-General's Office

Tesselated Pavement, Eagle Hawk Neck (Cox photo)

COPIES OF REPORTS AND PUBLICATIONS

For matters arising in this newsletter:

The Chief Operating Officer and/or the relevant Director/ Assistant-Auditor-General are usually your first point of contact for the application of financial audit queries on the general office number: (03) 6173 0900.

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Disclaimer

All material published in this newsletter is of a general nature only and is not intended to be a substitute for or relied upon as specific professional advice.

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