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News

Exposure Draft: Not-for-profit lessees may elect not to fair value 'peppercorn leases'

The AASB has released an Exposure Draft **ED 286** *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities*. The proposed Standard would provide a temporary option for not-for-profit lessees to measure right-of-use assets at initial recognition for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives ('peppercorn leases'), either:

- at cost, in accordance with AASB 16 *Leases* paragraphs 23–25, which incorporates the amount of the initial measurement of the lease liability; or
- at fair value, in accordance with AASB 16 paragraph Aus25.1 (as proposed in this Exposure Draft to be amended).

The existing requirement is for not-for-profit entities to measure right-of-use assets at initial recognition at fair value for peppercorn leases when AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 become effective in reporting periods beginning on or after 1 January 2019. The proposed temporary option would allow not-for-profit entities to continue their work on fair valuing right-of-use assets under peppercorn leases if they intend to measure the right-of-use assets at initial recognition at fair value.

The Exposure Draft also proposes additional disclosures to AASB 16 for not for profit entities that elect to measure the right-of-use assets at initial recognition at cost rather than at fair value. The additional disclosures would provide users of financial statements with further information about the peppercorn leases and the right-of-use assets in the absence of fair value information.

The proposed optional measurement approach will be reassessed by the AASB when further guidance has been developed to assist not for profit entities in fair valuing right-of-use assets and the financial reporting requirements for private sector not for profit entities have been finalised.

Comment on the Exposure Draft closed on 7 December 2018. The final amending Standard is expected to be released before the end of 2018.

One-year deferral of AASB 1059 for service concession grantors

To assist implementation efforts, the AASB has deferred the effective date of AASB 1059 Service Concession Arrangements: Grantors to annual periods beginning on or after 1 January 2020, instead of 2019.

The AASB issued AASB 2018-5 *Amendments to Australian Accounting Standards – Deferral of AASB 1059* to defer the effective date after considering comments from stakeholders preparing for the implementation of AASB 1059. Some stakeholders requested a deferral of the mandatory effective date. The AASB will further consider some implementation issues raised by stakeholders.

Conceptual Framework (ITC39 Phases 1 & 2) – No More Special Purpose Financial Statements

In May the AASB issued **ITC 39 Applying the IASB’s revised conceptual framework and solving the reporting entity and special purpose financial statement problems** to deal with the misalignment of the “reporting entity” concept between AASs and the IASBs approach. For the full background refer to our August 2018 Newsletter. In the AASB meeting in November the Board resolved to progress with Phase 1

Phase 1 will be limited to for-profit private sector entities that have public accountability and are required by legislation to comply with Australian Accounting Standards, and to other for-profit entities that elect to apply the revised Conceptual Framework for Financial Reporting (RCF). The intention of Phase 1 is to allow entities to maintain compliance with IFRS Standards, not to extend requirements for entities to prepare general purpose financial statements (GPFS). For example, Phase 1 will permit for-profit public sector entities to continue to state compliance with IFRS Standards where they elect to do so, but will not otherwise require public sector entities to adopt the RCF at this stage.

The Financial Reporting Framework project will reconsider the requirements for other for-profit entities not covered by Phase 1, after further research and outreach.

An Exposure Draft is proposed to be issued in January 2019 and will include the Basis for Conclusions to explain the proposals and the Board’s rationale in finalising Phase 1. The ED will have a two-month comment period, with requested feedback limited to any fatal-flaw issues.

Phase 2 includes the application of the RCF to all entities required by legislation or otherwise to comply with AAS. As part of the AASB’s consultation process a number of for-profit Roundtables have been held around Australia. A **roundtables summary** is available on the AASB website. The AASB are due to consider this feedback along with submission for Phase 2 early in 2019.

Accounting Updates

Australian update – Australian Accounting Standards Board (AASB)

Topics discussed included:

AASB Meeting Highlights – 14 November 2018

- Income of NFP Entities – Peppercorn Leases
- Conceptual Framework – For-Profit Entities (ITC 39 Phase 1)
- Conceptual Framework – Approach to NFP Entities (ITC 39 Phase 2)

The Board also discussed the following topics:

- Financial Instruments with Characteristics of Equity
- Amendments to Standards – Definition of a Business
- ITC 39 Phase 2 – Summary of Feedback from Phase 2 Outreach

AASB Meeting Highlights – 4 September 2018

- Revenue from Licences Issued by NFP Public Sector Licensors
- Conceptual Framework – Securitisation Funds and Public Accountability

- Conceptual Framework – Consequential Amendments
- Effective Date of AASB 1059 Service Concession Arrangements: Grantors

The Board also discussed the following topics

- AASB 17 Insurance Contracts for the Public Sector
- Financial Instruments with Characteristics of Equity
- Research Activities – CF and Extractive Industries
- Climate-related Disclosures

Latest **news**, **accounting standards** and **publications** documents from the AASB included:

- ED 286 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* - Exposure draft (23 Nov 2018)*
- Treasury proposals to increase thresholds for small/large companies - Media Release (16 Nov 2018)
- Roundtable Summaries – Enhancing financial reporting (Phase 2 ITC39) - News (15 Nov 2018)*
- AASB 1059 for service concession grantors (One-year deferral) - Accounting standard (1 Nov 2018)*
- ATO supports the AASB's consultation to enhance transparency for entities preparing SPFS - News (20 Sept 2018)
- AASB 2018-4: Implementation Guidance for Not-for-Profit Public Sector Licensors - Accounting standard (5 Sept 2018)

* For more information, please refer to News above

International Update – International Accounting Standards Board (IASB)

Topics discussed included:

IASB Meeting Highlights - 14-15 November 2018

- IFRS 17 Insurance Contracts
- Primary Financial Statements
- IFRS Implementation Issues
- Management Commentary
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Updating a reference to the Conceptual Framework (Amendments to IFRS 3)
- Rate-regulated Activities

IASB Meeting Highlights – 24-25 October 2018

- Disclosure Initiative: Accounting Policies
- Goodwill and Impairment
- Implementation: Deferred tax—tax base of assets and liabilities
- Insurance Contracts
- Management Commentary
- Rate-regulated Activities
- Updating the Preface to IFRS Standards
- Primary Financial Statements

Latest **news** from the IASB included:

- Podcast on November 2018 IASB meeting on IFRS17 Leases (16 November 2018)
- IASB to propose one-year deferral of insurance contracts Standard (14 November 2018)
- IASB clarifies its definition of 'material' (31 October 2018)
- IASB amends definition of business in IFRS Standard on business combinations (22 October 2018)
- IASB published the Discussion Paper – Financial Instruments with Characteristics of Equity – open for comment until 7 January 2019 (28 June 2018)

International Update – International Financial Reporting Standards (IFRS) Foundation

Latest **news** from the IFRS Foundation included:

IFRS Foundation Technology Initiative. The Foundation is considering which changes in technology are most likely to affect our work, looking at the question from different angles. It builds on work that has been ongoing for several years, but has now brought it all together under one umbrella to continue to develop a strategy and implementation plan. (5 November 2018)

International Update – International Public Sector Accounting Standards Board (IPSASB)

The Board discussed the following topics:

IPSASB Meeting Highlight – 18-21 September 2018

- Leases
- Social benefits
- Non-exchange expenses
- Public sector measurement

Recent **news** from the IPSASB included:

- eNews October (5 October 2018)

IPSASB has recently **issued**:

- Improvements to IPSASB 2018 (26 Oct 2018)
- 2018 Handbook of International Public Sector Accounting Pronouncements (28 September 2018)

Auditing Updates

Australian Update – Auditing and Assurance Standards Board (AUASB)

Topics discussed included:

AUASB Meeting Highlights – 12 September 2018

- Audit Quality
- ISA 315 Exposure Draft

Latest **news** from the AUASB included:

- AUASB-NZAuASB Webinar: ASA 315 Exposure Draft – Question and answer recording available (11 Oct 2018)
- Audit Quality in Australia: The Perspective of Audit Committee Chairs (1 Oct 2018)
- AUASB-NZAuASB Webinar: ASA 315 Exposure Draft – Question and answer (18 Sept 2018)

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

Topics discussed included:

IAASB Meeting Highlights – 17-21 September 2018

- Quality Control at the Firm Level
- Strategy and Work Plan 2020-2023
- Quality Control at the Engagement Level
- Agreed-Upon Procedures (AUP)
- Engagement Quality (EQ) Reviews
- Emerging External Reporting (EER) Assurance
- Audits of Less Complex Entities
- Professional Scepticism.

Latest **news** and **publications** from the AAASB included:

- IAASB Seeks Public Comment on Exposure Draft on Agreed-Upon Procedures (15 Nov 2018)

Ethics, ASIC, ACNC and ACAG Updates

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

Topics discussed included:

IESBA Meeting Highlights – 17-20 September 2018

- Revised and Restructured Code Rollout
- Fees
- Proposed Future Strategy and Work Plan
- Technology
- Professional Scepticism
- Non-Assurance Services
- E-code
- IAASB-IESBA Coordination
- Alignment of Part 4B with ISAE 3000 (Revised)
- IFAC Anti-Corruption and Taxation Initiatives

Latest **publications** from the IESBA included:

- 2018 Handbook of the International Code of Ethics for Professional Accountants (14 August 2018)

Australian Securities and Investments Commission (ASIC)

Recent **speeches** included:

- ASIC's recent initiatives to strengthen underwriting standards (27 November 2018)
- Whistleblowing - new rules, new policies, new vision (16 November 2018)
- Financial regulation in a digital world (15 November 2018)
- ASIC's perspective on small business (1 November 2018)
- Ethics and professionalism post Royal Commission – A regulator's view (1 November 2018)

Recent **media releases** included:

- 18-294MR ASIC continues small business focus for 2018-19 (2 October 2018)
- 18-251MR ASIC reports on corporate finance regulation – January to June 2018 (31 August 2018)

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

Recent **media releases** included:

- ACNC releases new guidance on gifts and honorariums (26 November 2018)

Australasian Council of Auditors-General (ACAG) submissions to AASB

ACAG recently made submissions on:

- ITC 41 - The AASB's Approach to International Public Sector Accounting Standards (30 November 2018)
- AASB 2018-X: Deferral of AASB 1059 (10 October 2018)

TAO Reports

Tabled reports in the 2018-19 financial year so far:

- [Administration of two grant programs by the Department of State Growth](#)
- [Use of Tasmanian Government Cards by Central Agency Executives and Executive Assistants](#)
- [Tasmanian Audit Office Annual Report 2017-18](#)

Auditor-General's Report on the Financial Statements of State entities 2017-18

- Volume 1:
[Treasurer's Annual Financial Report and results of General Government Sector Entities 2017-18](#)
- Volume 2:
[Government Businesses 2017-18](#)
- Volume 3:
[Local Government Authorities 2017-18](#)
- Volume 4:
[Audit Summary 2017-18](#)

Contacts

The Deputy Auditor-General 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.

The Assistant Auditor-General, Performance Audit Services, may be contacted for performance or compliance audit queries on the general office number: (03) 6173 0900.

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The Tasmanian Audit Office gratefully acknowledges the Audit Office of NSW for permitting us to share the link to their [Professional Update newsletter](#).