



Institute of  
Public Works  
Engineering  
Australia



# AUSTRALIAN INFRASTRUCTURE FINANCIAL MANAGEMENT GUIDELINES



**Version 1.2 – 2011**

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The Australian Infrastructure Financial Management Guidelines is a joint initiative of the Institute of Public Works Engineering Australia's National Asset Management Strategy committee (NAMS.AU) and the National Local Government Financial Management Forum. The Guidelines were developed with both public sector and private industry input from throughout Australia. They have been developed to promote best asset and financial management practice for all infrastructure assets regardless of ownership or location.

## **Important Note to Readers**

This is Update 2 to the first version of the Australian Infrastructure Financial Management Guidelines.

**For amendments, corrections and updates to this Version, please visit [www.ipwea.org.au/AIFMG](http://www.ipwea.org.au/AIFMG).**

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## **Updates**

Minor updates and corrections to the Guidelines will be available in PDF format for download free of charge from the Guidelines web site [www.ipwea.org.au/AIFMG](http://www.ipwea.org.au/AIFMG).

Major updates will be published as a new Version of the Guidelines. Information on purchase and availability of major updates will be available from the Guidelines web site [www.ipwea.org.au/AIFMG](http://www.ipwea.org.au/AIFMG).

**AUSTRALIAN INFRASTRUCTURE FINANCIAL MANAGEMENT GUIDELINES**

**VERSION 1.2 2011**

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## Excellence in Financial Reporting

Meeting Your Financial Reporting and Auditing Needs

This information is provided as a complimentary service to owners of the Australian Infrastructure Financial Management Guidelines by GAAP Consulting. GAAP is an acronym for Generally Accepted Accounting Principles; the Australian equivalent to International Financial Reporting Standards (IFRS).

Note: The Tables below do not cover all developments in the Law and Financial Reporting Standards commencing in the first half year to 31 December 2011.

GAAP Consulting helps entities manage their financial reporting and auditing risks by providing leading edge solutions for professional advice and training services on Generally Accepted Accounting Principles. GAAP Consulting may be contacted at [www.gaap.com.au](http://www.gaap.com.au).

### Table of changes for 31 December 2010 annual financial statements

#### Corporate Reporting Reform

##### Pronouncements:

[Corporations Amendment \(Corporate Reporting Reform\) Act 2010](#)

##### Applies to:

Different parts apply to differing classes of companies. Legislation is effective from 28 June 2010.

##### Summary:

Changes various reporting requirements, including:

- Removes obligation to produce parent entity financial statements when consolidated accounts are prepared, provided key parent entity items are disclosed in a note;
- Removes annual reporting obligations for small companies limited by guarantee, allows Tier 2 companies to be reviewed by a public practice certificate holder of a recognised professional accounting body rather than audited by a registered company auditor;
- Changes test for ability to pay dividend from profits to solvency;
- Requires operational review from non-corporate listed entities;
- Requires directors' declaration to state compliance with IFRS if this is achieved;
- Relaxes conditions to be satisfied for a change in balance date.

Each of these requirements is briefly explained in the Appendix to this Update.

## New/Amended Accounting Standards

### Business Combinations

**Pronouncement:**

[AASB 3 Business Combinations](#)

[AASB 127 Consolidated and Separate Financial Statements](#)

[AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127](#)

[AASB 2008-11 Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities \[AASB 3\]](#)

**Applies to:**

First annual reporting period, prospectively, of any reporting entity beginning on or after 1 July 2009 which includes the acquisition date of a business combination, or which includes a change in ownership interest in subsidiaries.

**Summary:**

Makes a series of amendments to the accounting for business combinations and reductions in ownership interests in subsidiaries, both when retaining or losing control. Replaces the parent entity approach to goodwill with an economic entity approach. Fair value of consideration includes contingent consideration and requires expensing of transaction costs. In step acquisitions, fair value of existing investment is part of purchase consideration and any increase in fair value is recognised in income. Potentially impacts earnings reported in the year of acquisition and later years.

Scope includes business combinations of not-for-profit entities.

### Financial Instruments

**Pronouncement:**

[AASB 9 Financial Instruments Reissued](#)

**Applies to:**

The revised AASB 9 applies to periods beginning on or after 1 January 2013, but can be applied earlier.

**Summary:**

AASB 9 now incorporates the classification and measurement requirements for financial liabilities, and the recognition and derecognition requirements for financial instruments, in addition to the classification and measurement requirements for financial assets that appeared in the December 2009 version of AASB 9.

In respect of financial assets, AASB 9 simplifies the classifications to amortised cost and fair value, based on the entity's business model and the contractual cash flows of the instrument. Entities will be required to reclassify their financial assets when there is a change in the entity's business model, which is expected to occur only rarely.

AASB 9 also simplifies requirements for embedded derivatives within financial asset hosts and removes the tainting rules associated with held-to-maturity assets. For financial assets carried at amortised cost, there will no longer be a need to separate and fair value embedded derivatives. Also, if financial assets need to be sold prior to maturity of the asset, it will no longer harm their classification.

In relation to investments in equity instruments, AASB 9 provides an opportunity to fair value those investments to other comprehensive income, with no separate impairment test, whilst taking dividends to income. It is recognised that where there is insufficient recent information available to determine fair value, cost may be an appropriate estimate of fair value.

"The pieces of new financial instrument standard are now starting to fall into place so directors and CFOs can get a clearer picture of the new rules. AASB 9 will be of several new and revised accounting standards that will be require detailed examination in 2011", stated David Sauer, GAAP Consulting Network.



## New/Amended Accounting Standards

### Amendments from the first and second improvements project

**Pronouncement:**

[AASB 2008-6 Amendments to Australian Accounting Standards arising from the Annual improvements Project](#)

**Applies to:**

All reporting entities, retrospectively, for annual reporting periods beginning on or after 1 July 2009

**Summary:**

When there is a plan to sell a controlling interest in a subsidiary, all of its assets and liabilities are classified as held for sale. Clarifies the disclosures required when the subsidiary is part of a disposal group that meets the definition of a discontinued operation.

**Pronouncement:**

[AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Process](#)

**Applies to:**

All reporting entities, for annual reporting periods beginning on or after 1 July 2009

**Summary:**

- Consequential amendments arising from the new business combinations rules.
- Allows qualifying hedging instruments to be held by any entity within the group, subject to satisfying the requirements for effective hedges in AASB 139.

**Pronouncement:**

[AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process](#)

**Applies to:**

All reporting entities for annual reporting periods beginning on or after 1 January 2010.

**Summary:**

- Adds guidance to AASB 118 Revenue on determining whether an entity is acting as principal or agent.
- Amendments and clarifications to a range of standards as a response to diversity in practice and issues identified by the IASB, IFRIC and constituents. Some changes made to ensure consistency between standards and technical corrections.

### First-time adoption

**Pronouncements:**

[AASB 1 First-time adoption of Australian Accounting Standards](#)

**Applies to:**

All entities adopting Australian Accounting Standards for the first time in a reporting period beginning on or after 1 July 2009

**Summary:**

No change in substance – standard restructured to be easier to understand

**Share-based payments****Pronouncement:**

[AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions](#)

**Applies to:**

All reporting entities, retrospectively, for annual reporting periods beginning on or after 1 January 2010

**Summary:**

Recipient of goods and services must account for them even if another member of the group settles the transaction in shares or cash as part of a share-based payment.

Guidance transferred into AASB 2 allowing Interpretations 8 and 11 to be superseded.

**Interpretations of Standards****Pronouncement:**

[AASB 1048 Interpretation of Standards](#)

**Applies to:**

Annual reporting periods ending on or after 31 December 2010, with specific application dates applicable to individual Interpretations.

**Summary:**

This is the service standard which makes the Interpretations effective – refer to the next list for changes in interpretations for this period.

**Distributions of Non-Cash Assets to Owners****Pronouncement:**

[Interpretation 17: Distributions of Non-cash Assets to Owners](#)

**Applies to:**

All reporting entities, prospectively, for annual reporting periods beginning on or after 1 July 2009

**Summary:**

- Requires dividends paid by in-specie distributions of assets to be accounted for at the fair value of the distributed assets with any required adjustment to fair value recognised in profit and loss.
- Clarifies timing of recognition of dividend payable – when appropriately authorised and no longer at discretion of the entity.
- Additional disclosures are required if the net assets held for distribution to owners satisfy the definition of a discontinued operation.

**Pronouncement:**

[AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners](#)

**Applies to:**

All reporting entities for annual reporting periods beginning on or after 1 July 2009

**Summary:**

Deals with flow-on changes to AASB 5 and AASB 110. Additional disclosures are required if the net assets being distributed to owners are a discontinued operation.

**Transfers of Assets from Customers****Pronouncement:**

[Interpretation 18 Transfers of Assets from Customers](#)

**Applies to:**

All reporting entities for transfers of assets from customers received on or after 1 July 2009

**Summary:**

Where assets are provided by a customer as part of a contract for a supply of goods and services, and the assets must be used for a network connection for that supply, the assets are recognised at fair value and revenue in respect of the contributed asset is recognised over the term of the contract.

**Classification of Rights Issues****Pronouncement:**

[AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues](#)

**Applies to:**

All reporting entities for annual reporting periods beginning on or after 1 February 2010

**Summary:**

Changes rights exercisable for a fixed amount of foreign currency to acquire a fixed number of the entity's own equity instruments from being classified as a derivative to an equity instrument in Limited circumstances.

**Pronouncement:**

[AASB 2010-1 Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters – Amendment to AASB 1](#)

**Applies to:**

All entities adopting Australian Accounting Standards for the first time in a reporting period beginning on or after 1 July 2010

**Summary:**

Provides the same relief to first-time adopters as is available to other entities from making some comparative information disclosures under AASB 7.

**Amendments from the improvements project****Pronouncements:**

[AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process](#)

**Applies to:**

All reporting entities for annual reporting periods beginning on or after 1 January 2010

**Summary:**

- Adds guidance to AASB 118 Revenue on determining whether an entity is acting as principal or agent.
- Amendments and clarifications to a range of standards as a response to diversity in practice and issues identified by the IASB, IFRIC and constituents. Some changes made to ensure consistency between standards and technical corrections.

**Pronouncements:**

[AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project](#)

**Applies to:**

All reporting entities for annual reporting periods beginning on or after 1 July 2010

**Summary:**

Amends AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139 as a result of the IASB's annual improvements program, published in ED 188, to provide clarification on matters including:

- The measurement of non-controlling interests in a business combination
- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised AASB 3 *Business Combinations* (2008)
- Transition requirements for amendments arising as a result of AASB 127 *Consolidated and Separate Financial Statements*.

**Debt for Equity Swaps****Pronouncement**

[Interpretation 19 Extinguishing Liabilities with Equity Instruments](#)

[AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19](#)

**Applies to:**

All reporting entities, retrospectively from the beginning of the earliest comparative period presented, for annual reporting periods beginning on or after 1 July 2010

**Summary:**

Requires the use of fair value to account for the extinguishment. Fair value of the equity instruments is preferred. Any difference between the fair value of the equity instrument and the carrying value of the extinguished liability is to be recognised in profit and loss. Does not apply if the conversion terms were included in the original contract, nor to transactions between entities under common control.

**AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process****Applies to:**

All reporting entities for annual reporting periods beginning on or after 1 January 2010

**Summary:**

Amendments and clarifications to a range of standards as a response to diversity in practice and issues identified by the IASB, IFRIC and constituents. Some changes made to ensure consistency between standards and technical corrections. Changes include:

- Cash flows from investing activities are restricted to expenditures that result in a recognized asset
- Allocation of goodwill acquired in a business combination cannot be to a unit larger than a preaggregation operating segment.
- Convertible instruments are not a current liability if they may be settled at any time by the issue of equity instruments.

## Improvements to Standards

The annual improvements project aims make to rectify inconsistencies between accounting standards that have been brought to the attention of the IASB.

### AASB 5 Non- Current Assets Held for Sale and Discontinued Operations

Amendments made to AASB 5 clarify that disclosures in standards other than AASB 5 are not required for these assets unless other standards require specific disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations (AASB 101) or disclosure about measurement of assets and liabilities that are not measured under AASB 5.

### AASB 8 Operating Segments

Changes made to AASB 8 state that a measure of total assets is only required to be disclosed with segment information if it is regularly provided to the chief operating decision maker.

### AASB 101 Financial Statement Presentation

Amendments made to AASB 101 involve the clarification that classification of a liability is not affected by the counterparty having an option for the liability to be settled by the issue of equity instruments. Where there is no requirement to transfer cash or other assets within 12 months, such liabilities can be classified as non-current

### AASB 107 Statement of Cash Flows

Amendments made now mean that only expenditure that results in a recognized asset in the Statement of Financial Position is eligible for classification as cash flows from investing activities. R&D, marketing and exploration expenses written off cannot be classified as cash flows from investing activities.

### AASB 117 Leases

Changes made now mean that very long leases of land can be classified as finance leases where the risks and rewards are effectively transferred, despite there being no transfer of title.

### AASB 118 Revenue

The guidance AASB 118 has been updated. Example 21 is added to the Appendix of examples to provide guidance on agency v. principal relationships and how this impacts revenue recognition.

### AASB 136 Impairment of Assets

Amendments have been made to Cash-generating units to which goodwill is allocated stating that they cannot be larger than an operating segment as defined in AASB 8 Operating Segments.

**Application Date:** Annual reporting periods commencing on or after 1 January 2010

## APPENDIX Corporations Law Reporting changes explained

### 1. Introduction

Exemptions from some accounting and auditing obligations were provided through the passing of the Corporations Amendment (Corporate Reporting Reform) Act on 28 June 2010.

The main reductions are:

- the introduction of a tiered structure to reporting by companies limited by guarantee; and
- the abolition of parent entity accounts.

A solvency basis for determining eligibility to make dividend payments is another major reform.

Other changes included:

- Mandating of an IFRS compliance statement in the Directors Declaration by those companies who do comply with IFRS
- Reduced obligations to distribute annual reports for companies limited by guarantee
- Easing of the current restrictions for changing financial reporting periods
- Extension to listed registered schemes of directors' report disclosure of a review of operations
- Some administrative changes and clarity in the law.

Proposals to legislate for legal professional privilege to apply to solicitors representation letters given to auditors were dropped from the bill as technical difficulties remain. Most of the changes had immediate effect. This means all dividends declared after the change, and all financial reports for periods ending on or after 28 June 2010 are affected.

#### 1.1 Changes to tests enabling dividend payments

It had been a longstanding provision in successive versions of the Corporations Act that dividends can only be paid from profits. This was based on capital maintenance concepts. A number of difficulties stemmed from this requirement. The Corporations Act does not provide any guidance or a definition for the term 'profits', which makes the legal requirements of dividend distribution unclear. The legal precedents on this issue are outdated, complex and not in line with current accounting principles, which made it difficult for directors to understand the legal requirements when paying dividends.

The nature of accounting principles for the calculation of profits has changed over time. Australian Accounting Standards are increasingly linked to the fair value of the reporting entity's assets with changes in the fair value impacting on the profitability of the company. This makes the profitability of Australian companies increasingly volatile with a larger number of non-cash expenses being included in the net result. Such circumstance may mean that a company has sufficient cash to pay a dividend to shareholders but would be unable to do so under the previous law when the accounting profits of the company had been eliminated by non-cash expenses.

The requirement for companies to pay dividends only out of profits is inconsistent with the move to lessen the dated capital maintenance doctrine in Australia. Under the new law, the rule that dividends may only be paid out of profits of a company is removed from the legislation (but note that it may still apply, for example if it remains in a company's constitution). Companies are able to pay a dividend if:

- Company assets exceed liabilities by more than the amount of dividend proposed;
- It is fair and reasonable to shareholders as a whole; and
- The dividend does not materially prejudice the company's ability to pay its creditors.



Some confusion has arisen as to whether the change permits the payment of a dividend from share capital. Although the intent of the legislation was to leave the taxation consequences of a dividend payment unchanged (there are specific clauses stating so), other sections of the Law such as those on share buy-backs and capital reductions remain. If a dividend was proposed to be paid from capital, it may be a transaction that is addressed by those provisions and thus requires shareholder approval.

The law now states that if a company is not required to prepare an annual financial report, eligibility to pay a dividend by being solvent can be determined from the accounting records. This introduces uncertainty as to the basis of those records, and the extent to which accounting standards must be applied in order to determine whether a dividend can be paid. Care needs to be taken in respect of entities such as small proprietary companies that prepare special purpose financial statements, or do not have formal financial statements. If there is doubt on whether the company would have a surplus of assets over liabilities in a general purpose financial report, clarification of the company's position seems necessary prior to making a resolution to pay a dividend.

## **1.2 Companies limited by Guarantee**

### **1.2.1 Introduction of tiered structure for reporting**

A new class of company now exists – the small company limited by guarantee (first tier). No audited annual financial statement is required from companies in this class, unless specifically directed to ASIC or over 5% of members. Tier 1 comprises companies with annual revenue less than \$250,000 and without deductible gift recipient status.

For companies limited by guarantee with revenue of \$1,000,000 or more (third tier), an annual audited financial report is still required. However, the Directors' Report is changed to remove disclosures considered not relevant, such as details of dividends and options. There is more focus on narrative information for users, with rationalised disclosures that include descriptions of short-term and longterm objectives of the entity and the strategy for achieving them.

Other companies limited by guarantee form the second tier. Smaller charities generally fall within this category because of their public fundraising activities and significant community involvement. In contrast, member-focused companies limited by guarantee (for example, sporting clubs) may have a significantly lower level of public interest. It is important to consider such factors when differentiating between companies limited by guarantee for reporting purposes. All deductible gift recipients continue to prepare a financial report, irrespective of whether they fall above or below the threshold.

They also have the streamlined Directors' Report, and if in Tier 2 may elect to have the financial report reviewed rather than audited. The lesser level of assurance required is aimed at reducing audit costs. Reviews may be conducted by either a registered company auditor, as is currently required, or a member of the ICAA, CPA or NIA holding a public practice certificate.

A summary of the tiers and their requirements is set out below:

**Tier 1** Annual revenue, determined in accordance with Australian Accounting Standards, less than \$A 250,000

Exempt from preparing financial report and directors' report

Any financial report and audit would be optional, and does not involve lodgement with ASIC

**Tier 2** Annual revenue (in accordance with AAS) less than \$A 250,000 but holds deductible gift recipient status OR Annual revenue (in accordance with AAS) \$A 250,000 up to \$1,000,000  
Assurance opinion: may elect for review, not audit Directors' report is "streamlined"  
Annual report – notify members it is available and how to access it

**Tier 3** Annual revenue (in accordance with AAS) of \$A 1,000,000 or more  
Still has full audited financial report Directors' report is "streamlined"  
Annual report – notify members it is available and how to access it

#### 1.2.2 Revised Directors' Report

The previous directors' report disclosure requirements for companies included some provisions that were not relevant for not-for-profit companies. These included disclosures relating to the payment of dividends, and options issued to directors as remuneration. It is noted that not-for-profit companies are generally purpose or objective driven. As such, stakeholders in not-for-profit companies are likely to be particularly interested in the objectives of the organisation and how the activities conducted during the period contributed achieving those objectives.

The new rules attempt to address these issues by introducing a set of tailored, non-financial disclosure requirements for companies limited by guarantee that recognises the not-for-profit nature of these entities.

This should result in more relevant information being provided to stakeholders, whilst reducing the range of reporting requirements previously imposed on companies limited by guarantee. Companies above the Tier 1 threshold, or companies that seek tax deductible donations from the public, continue to prepare financial reports in accordance with Australian Accounting Standards. However, these companies now include the following in their directors' report:

- Description of short and long term objectives
- Strategy for achieving those objectives
- Principal activities during the year
- How those activities assisted in achieving the entity's objectives
- How the entity measures its performance, including any KPI's used
- Name of directors during or since financial year and period of term
- Director's qualifications, experience and special responsibilities
- Number of board meetings held
- Number attended by each director
- Liability on winding up of each member, disclosed for each class of member
- Total amount of members liability if company wound up

#### 1.2.3 Distribution of annual reports

To reduce the costs of distribution of annual reports, Tier 2 and 3 companies limited by guarantee are required only to notify members that the annual report has been prepared and how members may obtain a copy. This provides companies with more and cheaper options for distribution of electronic or hardcopy reports. A logical way of making the notification would be to include a statement of availability with the notice of annual general meeting.

#### 1.2.4 Payment of Dividends

There is an explicit prohibition of payment of a dividend by a company limited by guarantee to members.

### 1.2.5 Concise financial report

One outcome of the amendments appears to be that a Tier 2 or 3 company limited by guarantee is no longer able to issue a concise financial report. This was a tool used by some companies to reduce their costs when they had a wide membership. The changes to the rules on annual report distributions may mitigate the inability to continue with concise reports.

### 1.3 Declaration of IFRS Compliance

An additional statement is required in a company's Directors' Declaration identifying whether, in the opinion of directors, the financial statements and notes are prepared in accordance with IFRS as made by the International Accounting Standards Board. The current declarations are made only in respect of Australian Accounting Standards made by the AASB.

The statement is required only in respect of companies that already declare compliance with IFRS in their notes to the accounts. Section 295(4)(ca) now states:

*"if the company, registered scheme or disclosing entity has included in the notes to the financial statements, in compliance with the accounting standards, an explicit and unreserved statement of compliance with international financial reporting standards—that this statement has been included in the notes to the financial statements; and"*

This will be straightforward for corporate for-profit entities producing a general purpose financial report that have always applied all of the Accounting Standards since first-time adoption, for example on transfer to AIFRS in 2005. However entities that have applied a provision which is built into an Australian standard that does not appear in an IFRS equivalent, (i.e. one of the Aus clauses) will need to consider whether that clause means they are unable to make a positive declaration.

### 1.4 Parent Entity Financial Statements

The Corporations Act previously required companies to prepare audited financial statements for both the consolidated entity and the parent entity. The presentation of the full parent entity financial statements together with the consolidated financial statements is considered to be overly burdensome and potentially confusing to users. The issue of the usefulness and value of separate parent entity financial statements has been debated in Australia for a number of years. A number of stakeholders have noted that full parent entity financial statements do not provide useful and relevant information to most users of financial information, however they have noted that there would be value in the presentation of key financial information on the parent entity in a summarised form.

Under the rules, where accounting standards require the preparation of consolidated financial statements for annual or half-year reports, parent entity accounts will no longer be required. Instead, a note to the consolidated financial statements must include the following details of the parent entity for the current and comparative periods:

- Current and total assets
- Current and total liabilities
- Shareholders' equity, showing separately issued capital and each reserve
- Profit or loss
- Total comprehensive income
- Details of any guarantees entered into by the parent entity in relation to debts of its subsidiaries
- Details of any contingent liabilities, and
- Details of any contractual commitments for the acquisition of property, plant and equipment.

These provisions apply to financial years ending on or after 38 June 2010 or to half-years of a disclosing entity ending on or after 28 June 2010. The disclosures are to be calculated with the accounting standards in force at the end of the financial year to which they relate.

An unintended consequence of the changes was that issue of parent entity statements became prohibited. Class orders issued by ASIC allow parent entity statements to be produced, provided they meet all the requirements of the Corporations Act that apply to parent entity statements – for example, all statements and notes are presented, all information is audited, directors declarations are made etc. There is debate about whether the revised wording of the law now allows consolidated accounts to be prepared as special purpose financial statements, or only as full general purpose financial statements.

### 1.5 Changing Reporting Periods

Previously, under the provisions of the Corporation Act 2001, a financial year is 12 months long. The balance date could only be changed by up to seven days each year to accommodate entities with week-based internal reporting. This inflexible arrangement made it difficult for companies to change their year-end date for reasons other than those contained in the Corporations Act and the requirements are stricter than comparable jurisdictions.

Under the revised Law, previous restrictions that kept a balance date from varying by no more than 7 days unless, for example, synchronising with a parent entity have been relaxed. The change is conditional upon there having been no financial reporting period of other than 12 months in the last 5 years. A company may change its balance date provided that any change is made in good faith, investors and other users of company information are not disadvantaged and the change does not conflict with the requirements of other legislation.

**Examples of Reduced Disclosure Requirements: Amendments to AASB 110 *Events after Balance Date* for early adoption at 30 June 2010**

The disclosures listed below are examples of the Australian Accounting Standards – Reduced Disclosure Requirements (Tier 2) that entities may elect to apply to their financial statements:

- If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with AASB 101 *Presentation of Financial Statements*,
- If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to these conditions, in the light of the new information.

Note: These disclosures may be included in a Directors Report or a Report by the Governing Body of the entity. However, all Tier 1 entities must include all of the above disclosures, if applicable, in their General Purpose Financial Statements.

**8.5. Summary**

The principles discussed are integral to understanding the information contained in financial statements prepared on the basis of Australian Accounting Standards.

AASB 1031 *Materiality*, Australian Accounting Standards Board, Melbourne, July 2008.

AASB 1048 *Interpretation and Application of Standards*, Australian Accounting Standards Board, Melbourne, June 2010.

AASB 1053 *Application of Tiers of Australian Accounting Standards*, Australian Accounting Standards Board, Melbourne, June 2010.

**References**

AASB 1 *First Time Adoption of Australian Accountings Standards*, Australian Accounting Standards Board, Melbourne, February 2010.

AASB 101 *Presentation of Financial Statements*, Australian Accounting Standards Board, Melbourne, June 2009.

AASB 107 *Cash Flow Statements*, Australian Accounting Standards Board, Melbourne, June 2009.

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, Australian Accounting Standards Board, Melbourne, December 2009.

AASB 110 *Events after the Balance Sheet Date*, Australian Accounting Standards Board, Melbourne, December 2009.

AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*, Australian Accounting Standards Board, Melbourne, June 2010.

**Appendix A: Management Commentary now an IFRS Practice Statement**

The International Accounting Standards Board (IASB) published an International Financial Reporting Standard (IFRS) Practice Statement ‘Management Commentary’, a broad, non-binding framework for the presentation of narrative reporting to accompany financial statements prepared in accordance with IFRSs. Management commentary fulfils an important role by providing users of financial statements with a historical and prospective commentary on the entity’s financial position, financial performance and cash flows. It serves as a basis for understanding the management’s objectives and strategies for achieving those objectives.

The Practice Statement permits entities to adapt the information provided to particular circumstances of their business, including the legal and economic circumstances of individual jurisdictions. This flexible approach will generate more meaningful disclosure about the most important resources, risks and relationships that can affect an entity’s value, and how they are managed. The Practice Statement is not an IFRS. Consequently, an entity need not comply with the Practice Statement to comply with IFRSs.

Sir David Tweedie, Chairman of the IASB, said: “Management commentary is one of the most interesting parts of the annual report. It provides management with an opportunity to add context to the published financial information, and to explain their future strategy and objectives. It is also becoming increasingly important in the reporting of non-financial metrics such as sustainability and environmental reporting. The publication of this Practice Statement will benefit both users and preparers by enhancing the international consistency of this important source of information.”

“Many entities disagree with some of the disclosures they are required to include in the financial statements under IFRS – the Management Commentary section is a great opportunity for entities to explain their performance for the year and personalise the narrative information to ensure the users have the complete picture”, said Carmen Ridley, GAAP Consulting Network.



## SECTION 10

# ACCOUNTING FOR IMPAIRMENT

### Key Points

Impairment testing is a very important component of accounting for infrastructure as it reduces the possibility that the carrying amounts of assets are not in excess of their recoverable amounts. The recoverable amount is defined as the higher of 'fair value less costs to sell' and 'value-in-use'. The testing must be performed at each reporting date, when there is an indication that the carrying amount of an asset may be greater than its recoverable amount.

When it is not possible to associate cash flows with an individual asset a Cash Generating Unit (CGU) is used for impairment testing. A CGU is the *smallest* identifiable group of assets that generate cash inflows *independent* of cash inflows from other assets.

AASB 136 *Impairment of Assets* requires reporting entities to systematically identify indicators of impairment and to use a highly structured approach to impairment testing once those indicators have been triggered.

An impairment loss is recognised immediately in the profit or loss, unless the asset or CGU is carried at the revalued amount under another standard. In such cases the impairment loss is treated as a revaluation decrement under that Standard.

This section examines the difficulties in determining and measuring the recoverable amount and also explains how to determine and measure a CGU.

### 10.1 Introduction

A significant concern for preparers and users of financial statements is whether the values of the assets have been overstated. The purpose of the impairment test is to reduce the possibility that the carrying amounts of assets included in the financial statements are not in excess of the recoverable amounts. For management to determine if one or more assets are impaired, they shall assess economic and market based indicators. Impairment testing may be undertaken for individual assets or for groups of assets constituting cash-generating units.

When the carrying amount of an asset is greater than its recoverable amount, the asset must be reduced to its recoverable amount; this reduction is an impairment loss. An impairment loss is recognised immediately in the profit or loss, unless the asset is carried at the revalued amount under another standard (e.g. AASB 116 *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrement under that Standard.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset, a liability is recognised only when required by another standard.

After the recognition of an impairment loss, the depreciation or amortisation charge must be adjusted *prospectively* to allocate the revised carrying amount, less residual value, on a systematic basis over its remaining useful life.

Under AASB 136 *Impairment of Assets* (AASB 136) all reporting entities will need a system to identify impairment indicators and a highly structured approach to impairment testing once those indicators have been triggered.

The most important features of AASB 136 are:

1. An assessment of whether an indicator of impairment exists must be performed at each reporting date. Where an indicator of impairment is identified, the recoverable amount test must be estimated at the individual asset level or the cash-generating unit (CGU) level. The recoverable amount is the higher of 'fair value less costs to sell' and 'value-in-use'.
2. When it is not possible to associate cash flows with an individual asset, a higher level of aggregation is necessary to assess recoverability. The notion of a CGU is introduced, i.e., is the *smallest* identifiable group of assets that generate cash inflows *independent* of cash inflows from other assets. Corporate assets are defined and must be allocated to a CGU.
3. The recoverable amount of an intangible asset with an indefinite useful life, or one that it is not available for use, must be determined at the same time each year and compared to its recoverable amount. Goodwill allocated to CGU is also subject to impairment testing at the same time each year.
4. An asset is impaired when the carrying amount exceeds the recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell, and value-in-use.
5. Value-in-use is determined by applying present value techniques to management estimates of future net cash flows using a pre-tax discount rate applicable to that asset or the CGU.
6. Value-in-use for a not-for-profit entity is the depreciated replacement cost where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash flows and if deprived of the asset, would replace its remaining future economic benefits.
7. An impairment loss is recognised as an expense in the income statement. The reversal of an impairment loss for goodwill is prohibited.

8. An impairment loss on a revalued asset is a revaluation decrement, and taken initially to the asset revaluation reserve for that specific asset. Where the asset revaluation reserve no longer exists for that asset, the impairment loss is recognised in the income statement.

## 10.2 Application of AASB 136 'Impairment of Assets'

Accounting Standard AASB 136 *Impairment of Assets* prescribes *procedures* for an entity to ensure that its assets are carried at no more than their recoverable amounts, the requirements for recognition and measurement of an impairment loss and its reversal, and disclosures about an impairment loss. The requirements of AASB 136 apply to a financial report where the information relating to their application is material under AASB 1031 *Materiality*. This standard applies to all assets with the exception of assets which are inventories, construction contracts, deferred tax assets, employee benefits asset, financial assets, investment property, biological assets and assets held for sale.

## 10.3. When to undertake an Impairment Test?

At each reporting date an assessment must be made as to whether there is any *indication* that the carrying amount of an asset may exceed its recoverable amount. Where such an indication is identified, the recoverable amount of the asset must be measured.

The indicator threshold is skipped for certain intangible assets and goodwill. The recoverable amount of an intangible asset with an indefinite useful life, or an intangible asset not yet available for use, must be tested for impairment, regardless of whether there is any indication of impairment. This testing can be undertaken at any time during reporting period provided that it done at the same time every year ('same time anytime' rule). Different intangible assets may be tested at different times. Where such an intangible asset was recognised for the first time during the current annual reporting period, it must be tested for impairment before the end of that period. Goodwill acquired in a business combination is tested for impairment annually.

# SECTION 11

## AUDITING OF INFRASTRUCTURE ASSETS

### Key Points

The principal purpose of an audit is to provide the auditor with sufficient evidence to be able to express an opinion in writing with reasonable assurance as to the extent that the financial statements present fairly the financial performance, the financial position and the cashflows for the period under audit of an entity.

The audit report will provide either an unmodified opinion or a modified opinion. An unmodified opinion is expressed when the auditor is satisfied in all material respects that the financial report is presented fairly in accordance with accounting standards and interpretations and the relevant statutory and other requirements.

The modifications will either be a qualified opinion, an adverse opinion, a disclaimer of opinion or an emphasis of matter.

For infrastructure assets, the primary objective of the auditing procedures is to obtain reasonable assurance that these assets are not materially overstated in the financial statements of the entity.

Auditing Standards require entities to provide adequate documentation to justify and substantiate all assertions and data. This responsibility not only applies to accountants but extends to engineers, asset managers and others responsible for managing service from the infrastructure.

An effective audit committee plays an active role in overseeing an entity's accounting and financial reporting. The importance of this role and the contribution of an audit committee to the audit of infrastructure assets is examined in this section.

In October 2009, the Auditing and Assurance Standards Board (AUASB) revised all auditing standards with significant implications for auditors and those entities subject to an audit.

Appendix A '**Clarity Auditing Standards – An Introduction**' provides a very summarised overview of the revised Auditing Standards to assist those being audited understand the implications of the 'Clarity' rewrite of all Auditing Standards.

Appendix B '**New code of Ethics for Auditors**' outlines a revised version of APES 110 'Code of Ethics for Professional Accountants' (the Code), which aligns Australia's professional requirements with international standards, and also includes Australian specific requirements relating to inadvertent violations and multiple threats to auditors' independence.

### 11.1 Introduction

The purpose of this section is to provide an understanding of the significance of the work of the independent auditor to the process of the financial management of infrastructure assets. To achieve this purpose the section firstly undertakes a high level overview of the basic elements of the financial report audit process and of the reporting obligations of the auditor. Secondly, the main audit processes and procedures as they are applied to infrastructure assets are explained; finally, the role and responsibilities of an audit committee is addressed and the importance of such a committee to governance is explained.

The entire audit process, involving planning and evidence collection, is geared toward the expression of an opinion on the financial report.

The differences between accounting and auditing are examined to provide a basis for understanding how an audit is accomplished in conformity with Australian Auditing Standards. Most of the auditor's work in forming an opinion on the financial report consists of obtaining and evaluating evidence about the assertions in the financial report.

The audit of a financial report is undertaken within the framework of the audit risk model and the client's business risk. Hence it is important to understand audit evidence, assertions and audit procedures. The auditor must maintain adequate working papers and be aware of the professional requirements when either using the work of another auditor or an expert.

### Audit Report

When reporting, the auditor is required to express an opinion as to whether the financial report “gives a true and fair view” or “presents fairly”, in all material respects, in accordance with an applicable financial reporting framework.

The auditor's primary reporting responsibility is normally to the governing body or the members of the entity as outlined in the engagement letter. The auditor must decide the form of the audit report and what modifications are appropriate to reflect the basis of the opinion on the particular circumstances. The auditor's reporting options range from issuing an unqualified report, through a range of modified or qualified reports or to stating an inability to provide an opinion in a worst case scenario.

In explaining the main audit processes and procedures as they are applied to infrastructure assets, it is stressed that the primary objective of the auditing procedures is to obtain reasonable assurance that infrastructure assets are fairly presented and not materially overstated in the financial statements of the entity.

### Audit Opinion

To obtain a reasonable assurance, the auditor must form an opinion as to whether:

- all additions to infrastructure assets are authorised capital expenditure,
- all disposals are fairly recorded,
- infrastructure assets exist and the rights and benefits are secured by the entity,
- the rates of depreciation have been calculated to write down the book value of the infrastructure assets to their residual value over their anticipated useful lives,
- assets are not carried at amounts that exceed their recoverable amount.

Assurance providers not only undertake to provide reports giving a high level of positive assurance in the form of an audit report, but also provide reports offering a moderate level of assurance in the form of a review report which provides a negative assurance that the auditor is not aware of any negative issue impacting on the financial report or other report in question.

The role and responsibilities of an audit committee should provide invaluable support to the audit processes, to identifying and managing risks and to improving the governance of the entity.

## 11.2 The Financial Audit Process

### 11.2.1 The difference between accounting and auditing

Accounting involves measuring and recording data, while auditing is about obtaining sufficient appropriate evidence as to the propriety and accuracy of the data. Accounting involves the preparation of the financial report while auditing involves giving an opinion on the financial report.

### 11.2.2 Assertions in the financial report and the objectives of an audit

Directors and management make assertions about the financial performance, financial position and cash flows of an entity which are implicit in the presentation of the financial report. These assertions, which are summarised in Table 11.2.2 below, involve the recognition and measurement of the various elements of the financial report and related disclosures.

The practice of auditing in Australia experienced significant evolutionary change when the Auditing and Assurance Standards Board (AUASB) approved the suite of 41 Clarity Auditing Standards in October 2009. All auditing standards now have a revised format and the whole suite of standards has a new look and feel. While the broad framework and principles behind auditing remains intact, the number of mandatory requirements for auditors has increased from 412 to 586.

### 11.7 Corporate Governance and the Financial Management of Infrastructure

The governing body of the entity has the overriding responsibility for all matters associated with the operations and performance of the entity and that these are conducted within ethical and legal guidelines.

In the context of the financial management of infrastructure, the governing body should be mindful that the key goals of the auditor are to obtain sufficient and appropriate audit evidence to express an opinion about the financial statements of the entity.

### 11.8 'Clarity' Communication with Governance

The suite of 41 'Clarity' Auditing Standards are operative for 31 December 2010 reporting periods for the first time. There are substantial new requirements for documentation, group audits, audit reporting, and communication with governance. The number of mandatory requirements that auditors are required to follow has increased from 412 to 586. (Refer Appendix A: Clarity Auditing Standards – An Introduction)

In relation to communication with governance, the auditor now has to communicate with those charged with governance regarding:

- The audit views on significant qualitative aspects of the entity's accounting practices
- Any significant difficulties encountered during the audit
- Any significant matters communicated to management (where management is separate from those charged with governance)
- All written representations requested from management (where management is separate from those charged with governance), and
- Any other matters the auditor considers significant to the oversight of the financial reporting process.

The auditor is required to assess the adequacy of the communication process, between the auditor and those charged with governance, for the purposes of the audit.

If it has not been adequate, the auditor has to evaluate any effect on the assessment of the risks of material misstatement and the ability to obtain sufficient appropriate audit evidence, and take appropriate action.

### Arriving at an Audit Opinion

In arriving at the audit opinion the auditor will undertake analysis and assessment to determine:

- (a) the level of corporate governance exercised by the council over assets (e.g. asset management plans, governance framework, commitment to asset management, capability to deal with evolving asset management issues),
- (b) that the valuation and depreciation methodology is in accordance with relevant Australian Accounting Standards and other prescribed requirements,
- (c) that the methodology is logical and provides a reasonable measure of the level of remaining service potential and the pattern of consumption of the service potential. This includes consideration of the asset's life-cycle and renewal treatments,
- (d) that all critical assumptions are supported with sufficient and appropriate evidence (e.g. useful life, residual value, pattern of consumption, etc),
- (e) the asset register is complete and accurate,
- (f) that valuations have been kept up to date to ensure 30 June figures are materially correct and reflect a true and fair view. This may require annual valuations,
- (g) that capitalisation and maintenance definitions comply with AASB 116 Property, Plant & Equipment and that Impairment testing has been completed in accordance with AASB 136 Impairment of Assets.

In summary, the best and most successful entities will have open lines of communication between the governing body, its audit committee, its internal audit function and its external independent auditor. The process of auditing should provide a level of certainty and credibility that supports the valuable place of financial reporting by all entities within the community.



## Audit Glossary

### Adverse opinion

The auditor expresses an adverse opinion when the financial report is misleading or of little use to the addressees of the audit report. This type of opinion arises either from a disagreement with management or when the report conflicts with an accepted accounting framework and the effects are material and pervasive.

### Agreed-upon procedures engagement

The auditor provides a report of factual findings to parties that have agreed to the procedures to be performed. As no conclusions are made and no assurance is expressed, the user draws their own conclusions and derives assurance from the procedures undertaken during the engagement.

### Analytical procedures

The analysis of relationships between data to assess whether there are inconsistencies with other relevant information from predicted amounts.

### Assessing control risk

Evaluating the effectiveness of the design and operation of an entity's internal controls in preventing or detecting material misstatements in the financial report.

### Assurance engagement

The auditor expresses a conclusion designed to enhance the degree of confidence of the intended users about the outcome of the evaluation or measurement of the subject matter against criteria.

### Audit

The auditor's objective is to provide a high level of assurance through the issue of a positive expression of opinion that enhances the credibility of an assertion about an accountability matter.

### Audit committee

A committee of directors responsible for overseeing external financial reporting and liaising with the external and internal audit functions.

### Audit evidence

The information obtained by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence is gathered at all stages of the audit and includes documents and accounting records underlying the financial report and corroborating evidence from other sources.

### Audit opinion

A positive written expression within a specified framework, indicating the auditor's overall conclusion based upon audit evidence obtained that provides a reasonable high but not absolute level of assurance.

### Audit report

A report issued by the auditor that expresses a high level of assurance about an accountability matter that is capable of evaluation against an identified framework.

### Audit risk

The risk that an auditor gives an inappropriate audit opinion when the financial report is materially misstated and comprises 3 components being inherent risk, control risk and detection risk.

**Detection risk** – means the risk that the auditor will not detect a misstatement that exists in an assertion that could be material, either individually or when aggregated with other misstatements.

**Inherent risk** – means the susceptibility of an assertion to a misstatement that could be material, either individually or when aggregated with other misstatements, assuming that there are no related controls.

**Control risk** – means the risk that a misstatement that could occur in an assertion and that could be material, either individually or when aggregated with other misstatements, will not be prevented or detected and corrected, on a timely basis by the entity's internal control.

### Audit trail

A chain of evidence that connects account balances and other summary results with the original transaction data.



### **Auditing Standards and Auditing Guidance Statements**

Are issued by the Auditing & Assurance Standards Board. The standards set down the basic principles and essential procedures. The guidance statements cover procedural matters or clarify and explain principles.

### **Control environment**

includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment sets the tone of an organisation, influencing the control consciousness of its people. It is the foundation for effective internal control, providing discipline and structure. The control environment is a component of internal control.

### **Going concern basis**

means the accounting basis whereby in the preparation of the financial report the reporting entity is viewed as a going concern: that is, the entity is expected to:

- (a) be able to pay its debts as and when they fall due, and
- (b) continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

### **Internal control**

means the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. It follows that internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives.

Internal control consists of the following components:

- (a) the control environment,
- (b) the entity's risk assessment process,
- (c) the information system, including the related business processes, relevant to financial reporting, and communication,
- (d) control activities, and
- (e) monitoring of controls.

### **Limitation on scope**

means a limitation of scope on the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable.

### **Modifications to the Auditor's report**

means the auditor's report wording is modified in the following situations:

#### *Matters that Do Not Affect the Auditor's Opinion*

*Emphasis of matter* – means an auditor's report is modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial report which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion.

#### *Matters that Do Affect the Auditor's Opinion*

*Qualified opinion* – means the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with those charged with governance, a conflict between applicable financial reporting frameworks, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion shall be expressed as being 'except for' the effects of the matter to which the qualification relates. The opinion paragraph shall be headed "Qualified Auditor's Opinion".

*Disclaimer of opinion* – means when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial report. The opinion paragraph shall be headed "Disclaimer of Auditor's Opinion".

*Adverse opinion* – means the effect of a disagreement or a conflict between applicable financial reporting frameworks is so material

and pervasive to the financial report that the auditor concludes that a qualification of the auditor's report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph shall be headed "Adverse Auditor's Opinion".

#### **Other Matter**

A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

#### **Professional scepticism**

means the auditor's attitude adopted when conducting an audit. The auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained from management and those charged with governance.

#### **Relevant Ethical Requirements**

means ethical requirements that apply to the auditor, assurance practitioner, engagement quality control reviewer and audit firm. In Australia, these include the applicable requirements of APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board (February 2008), the applicable provisions of the Corporations Act 2001 and other applicable law or regulation.

#### **Significant deficiency in internal control**

means a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of those charged with governance.

#### **Summary financial statements**

means historical financial information that is derived from a financial report but that contains less detail than the financial statements.

## References

- AUSAB, *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, Auditing and Assurance Standards Board, Melbourne, 2009.
- AUSAB, *ASA 230 Audit Documentation*, Auditing and Assurance Standards Board, Melbourne, 2009.
- AUSAB, *ASA 260 Communication with Those Charged with Governance*, Auditing and Assurance Standards Board, Melbourne, 2009.
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- AUSAB, *ASA 330 The Auditor's Responses to Assessed Risk*, Auditing and Assurance Standards Board, Melbourne, 2009.
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‘Clarity’ ASA		Commentary on significant changes which should be considered by those being audited.
ASA 210	‘Agreeing the Terms of Audit Engagement’	<ul style="list-style-type: none"> <li>• <b>Elevated guidance</b> – it is now a requirement that the engagement letter contains certain text that was guidance under the extant ASA.</li> <li>• <b>New requirement</b> – when establishing preconditions for the audit the auditor shall determine whether the financial reporting framework is acceptable.</li> <li>• <b>Elevated guidance</b> – it is a requirement to obtain the agreement of management that it acknowledges and understands its responsibilities.</li> </ul>
ASA 220	‘Quality Control for an Audit of a Financial Report and Other Historical Financial Information’	<ul style="list-style-type: none"> <li>• <b>New definition</b> – “relevant ethical requirements” is as defined in ASA 220.</li> <li>• <b>New requirement</b> – the Engagement Quality Control Reviewer shall discuss with the engagement partner significant matters.</li> </ul>
ASA 230	‘Audit Documentation’	<ul style="list-style-type: none"> <li>• <b>Elevated guidance</b> – the nature of significant matters discussed with management must be documented as to when, and with whom the discussions took place.</li> <li>• <b>Elevated guidance</b> – audit documentation shall be assembled in an “audit file”.</li> </ul>
ASA 240	‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Report’	<ul style="list-style-type: none"> <li>• <b>Elevated guidance</b> – where responses to inquiries of management or those charged with governance are inconsistent, the auditor shall investigate the inconsistencies.</li> <li>• <b>Elevated guidance</b> – revenue recognition is to be presumed a fraud risk by the auditor.</li> <li>• <b>Elevated guidance</b> – the appropriateness of journal entries etc. made in the preparation of the financial report are to be tested regardless of the risks.</li> </ul>
ASA 250	‘Consideration of Laws and Regulations in an Audit of Financial Statements’	<ul style="list-style-type: none"> <li>• <b>Elevated guidance</b> – the auditor is not required to perform extended audit procedures in the absence of identified or suspected non-compliance.</li> <li>• <b>Elevated guidance</b> – if management does not provide sufficient information that supports compliance with laws and regulations and, the effect of the suspected noncompliance may be material to the financial report, the auditor shall consider the need to obtain legal advice.</li> <li>• <b>Elevated guidance</b> – appendix material related to understanding the legal and regulatory framework of the entity and examples of indication of non-compliance have been included in the new application material.</li> </ul>

‘Clarity’ ASA		Commentary on significant changes which should be considered by those being audited.
ASA 260	‘Communication with those Charged with Governance’	<ul style="list-style-type: none"> <li>• <b>New requirement</b> – in cases where those charged with governance and management are the same persons, then communications can be made just once.</li> <li>• <b>New requirement</b> – the auditor is required to communicate with those charged with governance the auditor’s views on (inter alia) significant qualitative aspects of the entity’s accounting practices.</li> <li>• <b>New requirement</b> – the auditor shall communicate the total fees charged during the period covered by the financial report for audit and non-audit services provided by the firm and network firms to the entity.</li> </ul>
ASA 265	‘Communicating Deficiencies in Internal Control to Those Charged with Governance’	<ul style="list-style-type: none"> <li>• <b>New definition</b> – “Significant deficiency in internal control” means a deficiency or combination of deficiencies in internal control that, in the auditor’s professional judgement, is of sufficient importance to merit the attention of those charged with governance.</li> <li>• <b>New requirement</b> – the auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.</li> <li>• <b>New requirement</b> – the auditor shall include in the written communication sufficient information to enable those charged with governance and management to understand the context of the communication.</li> </ul>
ASA 300	‘Planning an Audit of Financial Statements’	<ul style="list-style-type: none"> <li>• <b>Elevated guidance</b> – in establishing the overall audit strategy the auditor shall identify, ascertain and consider specific items such as the nature, timing and extent of resources necessary to perform the engagement.</li> <li>• <b>Elevated guidance</b> – the engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members.</li> </ul>



‘Clarity’ ASA		Commentary on significant changes which should be considered by those being audited
ASRE 2415	‘Review of a Financial Report – Company Limited by Guarantee’	<ul style="list-style-type: none"> <li>This standard is operative for reviews of financial reports for reporting periods ending on or after 30 June 2010. The standard is issued as an auditing standard for the purposes of the <i>Corporations Act 2001</i>.</li> <li>This standard must be used when conducting reviews of companies limited by guarantee. Reviews, rather than audits, are now permitted for some companies meeting defined criteria following recent amendments to the <i>Corporations Act 2001</i>.</li> </ul>

### New Code of Ethics for Auditors

Accountants who are auditors will be subject to strengthened independence requirements after the Accounting Professional and Ethical Standards Board (APESB) issued a new code of ethics. The new code, a revised version of APES 110 ‘Code of Ethics for Professional Accountants’ (the Code), aligns Australia’s professional requirements with international standards, and also includes Australian specific requirements relating to inadvertent violations and multiple threats to auditors’ independence. The new code will be effective from 1 July 2011 with early adoption permitted.

The code encompasses two new concepts – Public Interest Entities and Key Audit Partners and also splits the existing Section 290 dealing with auditor independence into two sections with the inclusion of new Section 291 which deals with independence requirements relating to the provision of assurance services other than Audits and Reviews of financial statements.

A key issue the APESB considered during the development process was which entities in Australia, in addition to Listed Entities, should be captured within the definition of Public Interest Entities. The APESB determined to retain the definition

from the international code and will conduct further work in respect of this issue in 2011. Other revisions to the Code include:

- The use of the word “shall” to identify a mandatory requirement of the Code,
- Extending the independence requirements for audits of Listed Entities to all Public Interest Entities,
- Requiring a cooling-off period before Key Audit Partners of the firm can join public interest audit clients in certain specified positions,
- Extending partner rotation requirements to all Key Audit Partners,
- Strengthening some of the provisions related to the provision of non-assurance services to audit clients,
- Prohibiting Key Audit Partners from being evaluated on or compensated for selling non-assurance services to their audit clients,
- Revising the description of each category of threats, and
- Adopted a footnoting referencing system to assist readers to identify provisions where a higher requirement currently exists in the *Corporations Act 2001*.

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