Issue 6 — April 2001

INFORM magazine

Accounting and Auditing Update, News, Information and QAO Views

Diary Marker

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ABOUT INFORM

INFORM provides information on emerging issues with an emphasis on those relevant to the public sector and QAO's perspectives on these issues. INFORM also provides information on new and revised accounting and audit pronouncements and changes to the Corporations Law.

If you have a particular topic which you would like addressed in this publication, please contact the Audit Policy and Reporting Section of the Queensland Audit Office and we will attempt, wherever possible, to meet your request.

We may be contacted on our email address —

apr@qao.qld.gov.au

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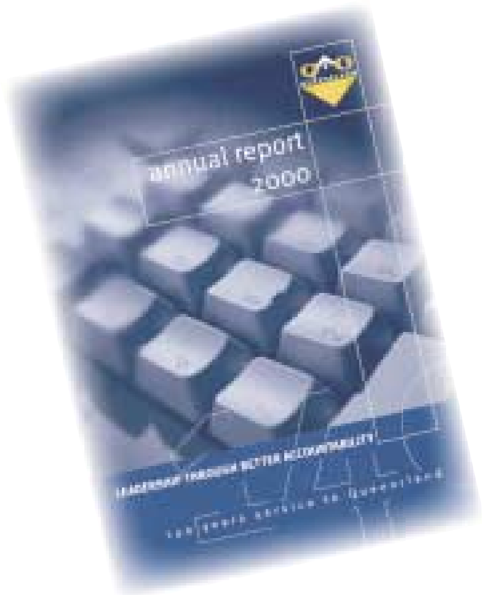
QAO UPDATE

Report No 1 for 2000-2001 was tabled in the Legislative Assembly on 12 December 2000. This Report contained the results of audits performed for 1999-2000 as at 31 October 2000.

Matters covered included —

- Status of audits as at 31 October 2000;
- Reports on audits by Ministerial portfolio;
- Follow-up on *Review of the Administration of Grants and Subsidies;*
- Results of the *Audit of the Management of Reportable Gifts;* and
- Comment on Current and Emerging Issues such as Goods and Services Tax, Information Technology and Recreation Leave Liabilities.



QAO's Annual Report 2000 was tabled in the Legislative Assembly on 26 September 2000. This Report provides a snapshot of the operations of QAO and encompasses QAO's achievements for the 12-month period to 30 June 2000.

TOPICAL ISSUES

Proposed Early Sign-off of Accounts

Proposed changes to the *Financial Administration and Audit Act 1977* will require financial statements to be completed and audited within three months of the end of the financial year. Irrespective of legislative amendments, there is an expectation by Treasury that the financial statement process for 2000-01 will be completed by 30 September 2001. The timetable for each audit should be negotiated between the Engagement Leader and the relevant entity.

In order for some entities to meet the proposed deadline, a hard close at 31 May could be a viable option. This would involve closing the ledgers at 31 May and preparing a set of financial statements with notes, and having these audited. At 30 June, the accounts and notes would be updated for the final month's figures and to reflect any other changes.

This process operated in the Commonwealth sector very successfully last year, as the audit sign-off date for Commonwealth government bodies was 15 August.

Early contact should be made with the relevant QAO Engagement Leader to discuss proposed arrangements and timetables.

Changes in Accounting Standard Setting

The Australian Accounting Standards Board (AASB) will in future be issuing a single series of Standards titled AASB Standards. New Standards and Standards which are presently only included in the AAS series will be issued with a new number and Standards replacing existing Standards will use the AASB number of the replaced Standard. The application of new and revised Standards will be amended to reflect these changes.

Machinery of Government Changes

With the changes to departmental entities announced in late February, a number of matters will require consideration prior to the preparation of end of year financial statements.

The following checklist may provide some guidance in relation to implementing the changes effectively —

Checklist for Organisations on Change of Government

ISSUE	***CONSIDERATIONS***
Corporate Governance	Review accountability arrangements Ensure expectations are clearly communicated Follow up of issues raised in previous reports (eg audit reports, external reviews) prior to reorganisation
Delegations	Review delegations instruments to facilitate decision making Review legislation for adjustment of authority references where necessary Ensure consistency across whole of organisation
Financial and Other Systems	Decide which system will be used Where systems are incompatible, establish a working party to identify and resolve the issues Transfer of ownership and staff Realign for new organisational structure and operating arrangements
Chart of Accounts	Review and align with new organisational structure Review and align financial, reporting requirements
Financial Policies	Review and update policies, instructions and manuals to ensure relevance, appropriateness and accountability
Other Corporate Policies	Review policies to ensure relevance, appropriateness and accountability
Split of Assets, Liabilities, Revenue, Expenses	Perform stocktake with representatives of all affected entities Confirmations and formal signoff between entities Detailed records; Effective handover Resolve split as soon as practicable after transfer
Split of Funds	Confirmations and official sign off between entities Effective handover
Budget Implications	Budget transfers to be made between entities; processing of transactions straddling the handover date
Ownership of Records	Which records need to be transferred Agreement between entities Effective handover
Staff Issues	Morale, Loss of key staff/corporate knowledge Use of consultants Ensure staff are kept informed
Relocation Issues	Relocation of entity or staff or sections
Expenses of Rearrangement	Budget implications
Stationery	Review all stationery for replacement; consider what may still be used
Change Management	Appoint a team early to coordinate all aspects of reorganisation Inform clients of relevant changes to operations etc. Ensure staff are kept informed
GST Issues	Consider becoming part of a GST group, or possibly making changes to existing grouping arrangements. The criteria utilised during the implementation phase should be used to assess the implications of those changes. Liaise with Queensland Treasury's newly formed Commonwealth Taxes Unit to notify the Australian Taxation Office of changes to grouping, new registrations, deregistrations and other administrative changes.

2000-01 Reporting Requirements

Following the introduction of new or revised standards, the revised reporting requirements applicable to all periods ended 30 June 2001 are as follows —

- UIG 15 Early Termination of Foreign Currency Hedges
- UIG 18 Early Termination of Gold Hedges
- UIG 25 Redesignation of Hedges
- UIG 29 Early Termination of Interest Rate Swaps
- UIG 32 Designation as Hedges Rollover Strategy
- UIG 34 Acquisitions and Goodwill — First-Time Application of Accounting Standards
- UIG 35 Disclosure of Contingent Liabilities Issue 13 January 01
- UIG 36 Non Monetary Costs Establishing a Joint Venture Entity
- UIG 37 Accounting for Web Site Costs
- UIG 38 Contributions by Owners Made to Wholly Owned Public Sector Entities
- AASB 1010/AAS 10 Recoverable Amount of Non-Current Assets
- AASB 1015/AAS 21 Acquisition of Assets
- AASB 1018/AAS 1 Statement of Financial Performance
- AASB 1033/ AAS 33 Presentation and Disclosure of Financial Instruments
- AASB 1034/AAS 37 Financial Report Presentation and Disclosures
- AASB 1040/AAS 36 Statement of Financial Position
- AASB 1041/AAS 38 Revaluation of Non-Current Assets

Revised Financial Report Formats

The new accounting standards AASB 1018/AAS 1 and AASB 1040/AAS36 prescribe the following revised terminology and formats, which will apply from 1 July 2000 for the former Profit and Loss Statements and Balance Sheets —

Financial Statements

OLD NAME	NEW NAME
Balance Sheet	Statement of Financial Position
Profit and Loss Statement	Statement of Financial Performance

Changes in Terminology/New Categories for Disclosure

Statement of Financial Position

OLD NAME	NEW NAME
Cash	Cash Assets
Investments	Equity Accounted Investments
-	Other Financial Assets
-	Tax Assets
Intangibles	Intangible Assets
Accounts Payable	Payables
Borrowings	Interest-Bearing Liabilities
-	Tax Liabilities
Accumulated Funds	Equity
Share Capital	Contributed Equity

Other classes may be included if they are necessary in order for users to understand the entity's financial position.

Format of Statement of Financial Position (company disclosures) per AASB 1040/AAS 36

	2001	2000
Current Assets		
Cash Assets	xx	xx
Receivables	xx	xx
Inventories	xx	xx
Property, Plant and Equipment	xx	xx
Other	xx	xx
Total Current Assets	**xx**	**xx**
Non-Current Assets		
Other Financial Assets	xx	xx
Property, Plant and Equipment	xx	xx
Deferred Tax Assets	xx	xx
Intangible Assets	xx	xx
Other	xx	xx
Total Non-Current Assets	xx	xx
Total Assets	**xx**	**xx**
Current Liabilities		
Payables	xx	xx
Interest-bearing Liabilities	xx	xx
Current Tax Liabilities	xx	xx
Provisions	xx	xx
Other	xx	xx
Total Current Liabilities	**xx**	**xx**
Non-Current Liabilities		
Interest-bearing Liabilities	xx	xx
Deferred Tax Liabilities	xx	xx
Provisions	xx	xx
Other	xx	xx
Total Non-Current Liabilities	xx	xx
Total Liabilities	**xx**	**xx**
Net Assets	**xx**	**xx**
Equity		
Contributed Equity	xx	xx
Reserves	xx	xx
Retained profits/(accumulated losses)	xx	xx
Total Equity	**xx**	**xx**

Note: The above format is to be amended appropriately for non-tax or non-corporate entities as per the Minimum Reporting Requirements and Financial Management Standard.

Statement of Financial Performance - Abnormal Items

Amounts, which would have been considered "abnormal" in previous years, are now not disclosed in a separate class on the face of the Statement of Financial Performance, but must be separately disclosed in a note.

Format of Statement of Financial Performance (company disclosures) per AASB 1018/AAS 1

	2001	2000
Revenues from Ordinary Activities		
Revenue from Operating Activities		
Sales Revenue	xx	xx
Service Revenue	xx	xx
Revenue from Non-Operating Activities		
Interest received	xx	xx
Dividends received	xx	xx
Other Revenue	xx	xx
Total Revenue from Ordinary Activities	**xx**	**xx**
Expenses from Ordinary Activities		
Cost of Sales	xx	xx
Distribution Expenses	xx	xx
Administration Expenses	xx	xx
Borrowing Costs Expense	xx	xx
Other Expenses from Ordinary Activities	xx	xx
Total Expenses from Ordinary Activities	**xx**	**xx**
Share of Net Profits/(Losses) of Associates and joint ventures accounted for using the equity method	xx	xx
Profit/(loss) from Ordinary Activities before Income Tax Expense/(Income Tax Revenue)	**xx**	**xx**
Income Tax Revenue/(Income Tax Expense) relating to ordinary activities	xx	xx
Profit/(Loss) from Ordinary Activities after Income Tax Expense/(Income Tax Revenue)	**xx**	**xx**
Profit /(Loss) from Extraordinary Items after Income Tax Expense/(Income Tax Revenue)	xx	xx
Net Profit/(Loss)	**xx**	**xx**
Net Profit(Loss) attributable to outside Equity Interests	xx	xx
Net Profit/(loss) attributable to Members of the Parent Entity	**xx**	**xx**
Increase/(Decrease) in Asset Revaluation Reserve	xx	xx
Increase/(Decrease) in Retained Profits on adoption of new standard	xx	xx
Total Revenues, Expenses and Valuation Adjustments attributable to Members of the Parent Entity and recognised directly in equity	**xx**	**xx**
Total Changes in Equity other than those resulting from transactions with owners as owners	**xx**	**xx**

Note: The above format will need to be adapted for departments as per the Minimum Reporting Requirements and for statutory bodies as per the Financial Management Standard.

- Notes must be presented in a systematic manner and any item on the face of a financial statement must be cross-referenced to any directly related information in the notes.
- Comparatives must be provided for narrative notes.
- A note must be made of any additional information that is necessary to assess the financial position or performance.

Reference to the detailed disclosure requirements in AAS 1/AASB 1018 *Statement of Financial Performance*, AAS 36/AASB 1040 *Statement of Financial Position* and AAS 37/AASB 1034 *Financial Report Presentation and Disclosures* is strongly recommended.

Treasurer's Minimum Reporting Requirements for 2000-01

This year's edition of the Treasurer's Minimum Reporting Requirements (MRRs) has now been issued to Departments. Key points to note are —

- New accounting standards AAS 1, AAS 36, AAS 37 in relation to financial statement preparation became operative at 1 July 2000.
- A department need not prepare a Statement of Outputs/Major Activities - Administered Expenses and Revenues where its total administered revenues and expenses are *each* below a threshold of $10 million. In lieu, disclosure can be by way of note in aggregate form.
- A Statement of Outputs/Major Activities - Assets and Liabilities is no longer required for either controlled or administered items.
- With the release of AAS 10 *Recoverable Amount of Non-Current Assets* and AAS 38 *Revaluation of Non-Current Assets*, assets are required to be measured at cost or fair value. ***For the 2000-01 financial year only, departments may still value non-current assets at deprival value or may adopt fair value. For other public sector entities, the transitional provisions of AAS 38 will apply. From 1 July 2001, fair value must be used for Land, Buildings and Infrastructure Assets as per Treasury's Non-Current Asset Accounting Guidelines.***

The Sunshine Department Model Financial Statements have been revised to take into account changes in the accounting standards.

Both documents are available on Treasury's Website at **www.treasury.qld.gov.au** under Documents >> Alphabetical Listing.

WHOLE OF GOVERNMENT ISSUES

Superannuation Guarantee Rate Now 8%

The Australian Taxation Office issued a press release reminding employers that the compulsory superannuation rate rose from 7% to 8%, effective from 1 July 2000.

Employers are now required to contribute 8% of each eligible employee's earnings base to a complying superannuation fund or retirement savings account.

Persons requiring further information can contact the superannuation help line on 131020.

Treasury Financial Circulars

No 2000/15 December 2000

This Circular covered —

- review of asset management and accounting practices used by agencies;
- release of the Capital Investment Strategic Planning (CISP) Guidelines; and
- changes to interest rates on departmental controlled bank balances.

The Circular included a questionnaire on non-current asset accounting and management practices to provide information to Treasury concerning current practices in the Queensland public sector.

Following the release of AAS 38 *Revaluation of Non-Current Assets*, Treasury has issued Draft *Non-Current Asset Accounting Guidelines for the Queensland Public Sector*, which will require assets to be revalued to *fair value* rather than the existing deprival value methodology.

Treasury has also released the *Capital Investment Strategic Planning Guidelines,* which replace the *Physical Asset Strategic Planning Guidelines.* The Guidelines are effective from date of issue and can be located on the Queensland Treasury website at www.treasury.qld.gov.au/doc bd.htm under Fiscal Performance Division. The Guidelines provide advice to agencies on how to prepare an asset strategic plan.

Circular 2000/14

This Circular, which applied to all departments that pay an equity return, outlined the process to adjust the equity return fiscal limit arising from the flow-through of 1999-2000 audit closing balances. The circular also reminded agencies of the thresholds agreed by Cabinet Budget Review Committee for consideration of new policy proposals and other budget variations.

Circular 2000/13

This Circular, which applies to agencies that are members of the Long Service Leave Central Scheme, outlines changes to, and clarifies administrative arrangements for, the Scheme.

Specific issues addressed in the circular are —

- the inclusion of recreation leave in "gross salaries" when calculating the long service leave (LSL) levy;
- information regarding the Scheme's funding base;
- definitions of "eligible employees" and "ineligible employees";
- the process for seeking exemption from payment of the levy on "ineligible employees"; and
- an update on the accounting treatment for LSL.

Asset Accounting Guidance

The treatment of assets is a complex issue. The following advice should prove useful to all entities.

Assets and Depreciation — Relevant Standards

AAS 10 - Recoverable Amount of Non-Current Assets

AAS 10 applies to those assets measured on the cost basis, including assets that do not meet revaluation thresholds set by organisations ie normal plant and equipment.

A non-current asset must be written down to its recoverable amount when its carrying amount is greater than its recoverable amount.

Where a group of assets working together supports the generation of net cash inflows relevant to the determination of recoverable amount, the net cash inflows must be estimated for the relevant group of assets and the recoverable amount test must be applied to the carrying amount of that group of assets.

In terms of community service obligations, where non-current assets are used to provide goods or services at no charge, or at less than full cost recovery, those assets must be included in the group of assets that is dependent on the provision of those goods or services to enable it to generate net cash inflows. The net cash inflows must be estimated for that group of assets and the recoverable amount test must be applied to the carrying amount of that group of assets.

Recoverable amount write-downs are recognised as an expense in the Statement of Financial Performance.

Where a write-down has occurred the following must be disclosed in relation to the asset —

- the carrying amount;
- recoverable amount write-down recognised;
- any assumptions made in respect of the write-down;
- whether the expected net cash flows included in determining the recoverable amounts of non-current assets have been discounted to their present value.

AAS 38 Revaluation of Non Current Assets

The accounting bodies are moving towards the implementation of asset management plans by introducing more commonly used concepts such as fair/ current value to the standards. By doing this, it is hoped that information provided in financial statements will be more useful for both internal and external decision makers in organisations such as local governments.

Valuations

Subsequent to the initial recognition, each class of assets must be valued at either —

Cost of Acquisition - meaning the purchase consideration plus any incidental costs directly attributable to the acquisition.

Fair Value – meaning the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. AAS 38 states —

5.1.7 If a quoted market price in an active and liquid market is available for an asset, that price represents the best evidence of the asset's fair value. When a quoted market price for the asset in an active and liquid market is not available, its fair value is estimated by reference to the best available market evidence of the price at which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. This evidence includes current market prices for assets that are similar in use, type and condition ("similar assets") and the price of the most recent transaction for the same or similar asset.

5.1.8 Where current market prices can be observed for the same or similar asset, the asset's market buying price and market selling price will be approximately equal. A similar example is where there is no market evidence of the asset's market selling price, because the asset is specialised. In these circumstances, subject to paragraph 5.1.9, the asset's fair value is measured at its market buying price, the best indicator of which is the replacement cost of the asset's remaining future economic benefits (which is not necessarily the cost of replicating the asset).

Where an entity changes from the cost basis to the fair value basis of measurement of a class of assets for which there was a recoverable amount write-down previously recognised, any increase in the valuation up to the value of the previous write-down must be treated as revenue in the Statement of Financial Performance. Any amount over the value of the write-down must be taken to an asset revaluation reserve.

Revaluation

Where the fair value basis of measurement is used, revaluations must be performed regularly enough to ensure that the carrying amount does not differ too greatly from the fair value at reporting date.

Where depreciable assets are revalued, any accumulated depreciation existing at the revaluation date must be offset against the asset before the revaluation increment/decrement is applied, subject to the following paragraph.

Where an entity revalues depreciable assets by referring to current prices for assets newer than those being revalued, and adjusts those amounts to reflect the present condition of the assets, it may restate separately the gross amounts and related accumulated depreciation of the assets comprising the class of revalued assets.

Use of the Asset Revaluation Reserve

Revaluation increments and decrements relating to the same class of assets may be offset.

A net revaluation increment (for a class of assets) must be taken to a revaluation reserve, except where it reverses a previous decrement, which was expensed in the Statement of Financial Performance, in which case the increment will be recognised as revenue.

A net revaluation decrement (for a class of assets) must be expensed in the Statement of Financial Performance, except where it reverses a previous increment, which was taken to a revaluation reserve, in which case the decrement will be taken to the revaluation reserve.

QAO Position

It has been noted that entities do not always have the resources or systems to maintain complete and accurate data concerning the revaluation of assets on an individual class basis.

The QAO position for revaluation increments is to reverse previous decrements taken to the operating statement, in so far as they can be reliably measured and identified from previous accounting records by bringing them to account as revenue. Where this is not possible, the increment should be taken to the asset revaluation reserve as per the normal treatment.

The above treatment is seen as purely an interim measure to compensate for the lack of data currently available in entities' financial systems. The medium-term objective is for entities to start keeping enough data to enable reversal of previous decrements to the operating statement by class of asset. This would meet the long-term objective, being complete compliance with the accounting standards for the revaluation of assets.

Where the fair value basis is applied for measuring a class of non-current assets, the financial report must disclose —

- the method used in determining fair values;
- whether the revalued carrying amount has been determined in accordance with an independent valuation.

Where the replacement cost of the asset's remaining future economic benefits calculated using an index has been used to determine the fair value of an asset within that class, the financial report must disclose the nature of the index used.

Disclosure

The balance of the Asset Revaluation Reserve is to be disclosed.

Where a local government or government department recognises a class of non-current assets that is measured on the fair value basis and includes assets that are not measured at fair value, the Standard requires that the financial report must disclose —

(a) the aggregate carrying amount of each of the following —

 (i) assets within that class, which are carried at fair value less, where applicable, any accumulated depreciation;

 (ii)assets within that class, which are not carried at their fair value less, where applicable, any accumulated depreciation;

(b) the basis or bases of valuation applied in respect of each amount disclosed in accordance with paragraphs (a) (i) and (ii).

The financial report must disclose, for each class of non-current assets, a reconciliation of the carrying amount at the beginning and end of the reporting period, showing —

(a) additions;

(b) disposals;

(c) acquisitions through acquisitions of entities or operations;

(d) the net amount of revaluation increments less revaluation decrements;

(e) recoverable amount write-downs recognised in accordance with Australian Accounting Standard AAS 10 *Recoverable Amount of Non-Current Assets*;

(f) reversals of recoverable amount write-downs;

(g) depreciation expense;

(h) the net foreign currency exchange differences arising on the translation of the financial statements of a self-sustaining foreign operation; and

(i) other movements.

Note: ED 101 *Revaluation of Non-Current Assets - Proposed Amendments to AASB 1041/AAS 38* has been issued with proposed application for 30 June 2001.

UIG Abstract 26 Accounting for Major Cyclical Maintenance

This Abstract provides guidance on a number of key aspects of asset valuation, including what is a complex asset and what is a component.

Capital vs Maintenance - Including Capitalisation of Major Cyclical Maintenance

There still exists much confusion about what expenditure is capital in nature and what is maintenance. UIG Abstract 26 *Accounting for Major Cyclical Maintenance* and AAS 4 *Depreciation* clearly state that expenditure that results in an increase in service potential must be capitalised and then depreciated.

Many entities still treat many capital expenditure items as maintenance.

The QAO position is that any expenditure which —

(a) is material in terms of the entity's threshold limit; and

(b) extends the service potential (useful life) of a non-complex asset by greater than 12 months; or

(c) extends the service potential (useful life) of a major component within a complex asset by greater than 12 months;

must be capitalised in accordance with UIG 26 and AAS4.

LOCAL GOVERNMENT

QAO Contract Auditor Workshops 2001

These Workshops are organised and presented by QAO's Local Government Audit Section and have been held throughout Queensland over the past two months. The final workshop will be held as follows —

Brisbane

Friday 4 May

Level 3

80 George Street

Brisbane

Topics to be covered during the day are —

Feedback from 2000 Audits

- Administration Matters
- Audit Issues

Summary of Peer Review Results

QAO Expectations

- Auditor-General's Expectations
- Adding Value
- Waste and Extravagance
- Audit Objectives
- Work papers
- Analytics
- Audit approach

High Risk Areas 2001

Assets and Depreciation – Audit Approach and Expectations

Miscellaneous

- Audit Fees and Tendering
- Opportunities for Efficiencies
- Audit Manual
- Corporate Governance

Open Forum on Local Government Accounting and Auditing

Based on the feedback and success of the 2000 series Open Forums, the 2001 series will be held at locations around the State, organised by the Department of Local Government.

The forum's topics include —

- Your Questions (in advance)
- Tropical Financial Statements
- Accounting Standards Update
- Asset Values and Depreciation
- KPIs and Benchmarking Progress
- QAO Audit Issues from 2000

Dates and venues from May onwards are —

Brisbane

Thursday 3 May

Acacia Room

The Bardon Centre

390 Simpsons Road

Bardon

Issues Arising from 1999-2000 Audits of Local Government Entities

The following is a list of the more significant and consistent issues resulting from the 1999-2000 audit of local government entities.

Qualifications were issued in the following cases —

- water and sewerage assets were valued using a model where costs were not directly related to the local government in question;
- inability to provide sufficient supporting documentation for the valuations of assets;
- a revaluation of assets not completed every 5 years in accordance with the Local Government Finance Standard;
- depreciation rates of all asset classes had not been reviewed at least annually and, where necessary, adjusted so that they would reflect the most recent assessments of the useful lives of those respective assets; and
- subsequent valuations of assets (after initial recognition) had been taken straight to the capital account rather than taking the adjustment through the operating statement.

CORPORATE UPDATE

Changes in Corporate Tax Rates

Given that the tax rate is 34% from 1 July 2000 and 30% from 1 July 2001, the deferred tax balances must be calculated at the rate expected to apply when the differences reverse. For 2000 year ends, timing differences such as prepayments expected to reverse before 30 June 2001 should be calculated at 34%. Long term differences such as non-current long service leave should be calculated at 30%.

(Source: Accounting and Auditing News Today Issue No 45, November 2000)

ASIC Surveillance of 30 June 2000 and 31 December 2000 Financial Statements

ASIC has indicated that it will be targeting sales and leaseback transactions, including those related to property assets in its review of 2000 financial statements and that in the worst cases, they will prosecute directors for suspect off balance sheet transactions. Companies cannot record a profit on a "sale" unless they have genuinely transferred the risks and benefits of ownership.

Other areas that ASIC has indicated will be subject to surveillance include —

- directors' and officers' emoluments;
- revenue recognition;
- amortisation of intangible assets;
- dot.coms and other companies involved in new-economy activities, with particular focus on revenue and asset recognition and lease accounting; and
- former government-owned enterprises that have recently been privatised.

Referral of Corporations Powers to Commonwealth

NSW has referred its corporations powers to the Commonwealth with the introduction of the Corporations (Commonwealth Powers) Bill 2000. The referral of power follows an in-principle agreement by all the States to refer their corporations powers to the Commonwealth in order to enable it to establish a comprehensive and effective Corporations regime which can withstand attacks on its constitutional foundation.

New South Wales was the first State to make the referral, but it is anticipated that the other States will follow and give a referral in similar terms. Once all States have passed their counterpart legislation, and the Commonwealth is satisfied with the terms of the referral, the Commonwealth Parliament will enact the Corporations Bill 2000 and the Australian Securities and Investments Commission Bill 2000 to enable the new scheme to commence as soon as possible.

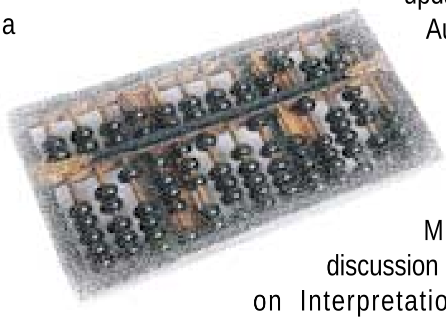
(Source: Australian Corporate News Issue 25, December 2000)

Disclosure of Directors' and Executives' Remuneration

Guidance on this topic is provided in INFORM Issue 5, which is available from QAO's website.

WHAT'S NEW IN ACCOUNTING?

The following section provides an update on UIG pronouncements and Australian Accounting Standards.



Urgent Issues Group

Lessor Accounting for Operating Lease Incentives

Members continued their discussion of a revised draft Abstract based on Interpretation SIC-15 *Operating Leases Incentives.* The draft Abstract proposed that all lease incentives should be accounted for as part of the net consideration agreed between lessor and lessee for the use of the leased asset.

The UIG failed to reach a Consensus on the Draft Abstract and will not discuss the issue further.

Recognition of Grants as Revenue

The UIG has commenced its discussion of this topic, concerning the circumstances in which grants received should be recognised as revenue or as liabilities. Members discussed the definition of non-reciprocal transfers, its application in both the public and private sectors, and whether there is an issue that the UIG could address. Members agreed that a further paper should be prepared for consideration at a future meeting that discussed different types of conditions that might be attached to grants, such as grants for particular time periods, grants with particular service objectives, and grants where the grantor required direct or indirect benefits in return.

Applicability of Standing Interpretations Committee (SIC) Interpretations

The UIG is responsible for reviewing Interpretations issued by the Standing Interpretations Committee (SIC) of the IASC, to determine their applicability to Australian reporting entities. The results of the review are published in a Status Report, which will be reissued shortly. The UIG reviewed the SIC Interpretations that it had not previously considered, based on Issues Paper UIG/SIC00-2 *Applicability of SIC Interpretations 19 to 25 to Australian Reporting Entities*.

UIG members discussed the consensus in Interpretation SIC-19 *Reporting Currency - Measurement and Presentation of Financial Statements under IAS 21 and IAS 29*, which addresses the selection of a measurement currency for an entity and the adoption of a different presentation currency, in relation to the requirements for foreign currency translation (IAS 21) and reporting in hyperinflationary currencies (IAS 29).

Members noted that the recently revised Accounting Standard AASB 1012 *Foreign Currency Translation* required a change in reporting currency to be recognised and disclosed as a change in an accounting policy. As the SIC has placed associated issues on its agenda for resolution, UIG members agreed that no action should be taken in respect of SIC-19 until the SIC had completed its consideration of those issues.

Members concluded that authoritative guidance already existed in Australia in Accounting Standards and UIG Abstracts in relation to the issues addressed in the following Interpretations —

- SIC-20 Equity Accounting Method — Recognition of Losses;
- SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets;
- SIC-22 Business Combinations — Subsequent Adjustment of Fair Values and Goodwill Initially Reported;
- SIC-23 Property, Plant and Equipment — Major Inspection or Overhaul Costs;
- SIC-24 Earnings Per Share — Financial Instruments and Other Contracts that May Be Settled in Shares; and
- SIC-25 Income Taxes — Changes in the Tax Status of an Enterprise or its Shareholders.

New / Amended UIG Abstracts

Consequential Amendments to Hedging Contracts

Prior to the issue of UIG Abstract 33 *Hedges of Anticipated Purchases and Sales* (May 2000), the UIG had issued a range of other Abstracts dealing with hedge accounting: Abstracts 15, 18, 25, 29 and 32. Abstract 33 allows the continued deferral of hedging gains and losses provided the hedged anticipated transactions are still expected to occur as designated. The earlier Abstracts did not include the "as designated" proviso in their requirements for the deferral of gains and losses.

The UIG amended Abstracts 15 *Early Termination of Foreign Currency Hedges* and 18 *Early Termination of Gold Hedges* so that early terminations occurring on or after 2 November 2000 are subject to Abstract 33. Early hedge terminations subject to Abstract 15 or 18 remain subject to the continuing requirements of those Abstracts for the deferral of hedging gains and losses.

Abstract 25 *Redesignation of Hedges* was revised so that its previous requirements continue to apply to redesignations that occur on or after 18 March 1999 and before 2 November 2000, with revised requirements for redesignations that occur on or after 2 November 2000. Abstracts 29 *Early Termination of Interest Rate Swaps* and 32 *Designation as Hedges — Roll-over Strategies*, as amended, apply to reporting periods ending on or after 2 November 2000.

The Chairman of the UIG observed —

> *The revised Abstracts achieve consistent current requirements for the continued deferral of hedging gains and losses, but the new operative date requirements of the Abstracts should be read carefully due to the varying styles previously adopted.*

UIG 15 Early Termination of Foreign Currency Hedges

The UIG amended this Abstract so that early terminations occurring on or after 2 November 2000 are subject to Abstract 33. Early hedge terminations subject to this Abstract remain subject to the continuing requirements of this Abstract for the deferral of hedging gains and losses.

UIG 18 Early Termination of Gold Hedges

The UIG amended this abstract so that early termination occurring on or after 2 November 2000 is subject to Abstract 33. Early hedge terminations subject to this Abstract remain subject to the continuing requirements of this Abstract for the deferral of hedging gains and losses.

UIG 23 Transaction Costs Arising on the Issue or Intended Issue of Equity Instruments

The UIG agreed upon a revision of Abstract 23. The revised Consensus retains the existing requirements, but also requires transaction costs in excess of the proceeds of the equity instruments issued, or where no proceeds are raised, to be recognised as an expense (rather than as a deduction from equity). Disclosure of the amounts of transaction costs recognised directly in equity and recognised as an expense is also required. This Consensus applies in respect of equity raisings from 11 May 2000.

UIG 25 Redesignation of Hedges

The UIG amended this Abstract so that its previous requirements continue to apply to redesignations that occur on or after 18 March 1999 and before 2 November 2000, with revised requirements for redesignations that occur on or after 2 November 2000.

UIG 29 Early Termination of Interest Rate Swaps

The UIG amended this Abstract so that early termination of interest rate swaps occurring on or after 2 November 2000 is consistent with Abstract 33.

UIG 32 Designation as Hedges-Rollover Strategies

The UIG amended this Abstract so that Designation as Hedges-Rollover Strategies occurring on or after 2 November 2000 is consistent with Abstract 33.

UIG 34 Acquisition and Goodwill — First Time Application of Accounting Standards

- Issued in June 2000, this UIG clarifies the accounting treatment of acquisitions for particular types of entities applying AASB 1015/AAS 21 *Acquisition of Assets* and AASB 1013/AAS 18 *Accounting for Goodwill*;
- amount of goodwill must be measured in accordance with AASB 1015/AAS 21;
- Goodwill/Discount on Acquisition must be accounted for in accordance with AASB 1013/AAS 18; and
- any adjustments to discount on acquisition or goodwill since acquisition must be made against retained profits/accumulated losses at the beginning of the reporting period to which the standards are first applied.

UIG 35 Disclosure of Contingent Liabilities

The UIG agreed a Consensus that requires disclosure of the nature and the maximum amount that may become payable (and not recognised as a liability) of each individual and each category of contingent liability.

This UIG Abstract applies to all entities reporting under Chapter 2M of the Corporations Law for reporting periods ending on or after 3 August 2000.

UIG 36 Non-Monetary Contribution Establishing a Joint Venture Entity

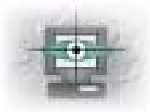
This Abstract addresses the recognition of a profit or loss on non-monetary assets contributed to establish a joint venture entity. The Abstract requires a venturer to eliminate, under the equity method of accounting, the profit or loss recognised to the extent of the venturer's ownership interest in the joint venture entity. Such unrealised profits and losses are recognised by the venturer as they are realised by the joint venture entity (as the contributed assets are consumed or sold) or, if not already realised, when the venturer disposes of its investment in the joint venture entity.

The Abstract applies to reporting periods ending on or after 2 November 2000. Transitional provisions require initial adjustments against retained profits where profits and losses have been accounted for on some other basis.

The UIG Chairman noted when the Consensus was issued —

> *The requirements in this Consensus are consistent with the approach to profits and losses on transactions with associates and joint ventures, already set out in Accounting Standards and UIG Abstract 20. The UIG could not support a different approach based on the contributions in question resulting in the establishment of the joint venture entity.*

UIG 37 Accounting for Web Site Costs



Requires costs incurred in developing web sites to be recognised as an asset when the asset definition and recognition criteria are satisfied. The Abstract addresses costs incurred in relation to the stages of web site development: planning, application and infrastructure development, graphics and content development, and operation stage. For example, operation stage costs are expensed unless they extend the originally assessed standard of performance of the web site. The Abstract applies to all reporting entities for reporting periods ending on or after 5 December 2000.

The UIG Chairman explained when the Consensus was issued —

> *The Consensus applies the general principles for the recognition of an asset to costs incurred in developing web sites, providing helpful specific guidance in relation to various types of costs that may be incurred. Transitional provisions require web site costs inappropriately recognised as assets to be expensed, ensuring a consistent approach between entities.*

UIG 38 Contributions by Owners Made to Public Sector Entities

The Abstract relates to classifying transfers within a government economic entity as a contribution by owners, requiring that as a general rule the classification of a transfer should depend on whether it meets the definition of contributions by owners. Additional guidance is given in relation to financial interests in the transferee's net assets that can be sold, transferred or redeemed. Members received legal advice that companies that had previously issued shares to identify contributions by owners did not have to issue new shares to identify further contributions by owners. The Abstract applies to transfers to wholly-owned public sector entities for transfers that occur on or after 5 December 2000.

Issue Proposals

Repurchase or Lease Renewal Options and Asset Derecognition

Members agreed to include the issues raised in Issue Proposal 00-15 on the UIG's work program. The issues concern when the existence of a repurchase option would preclude sale treatment for a non-financial asset and when the existence of a renewal option would cause a lease to be classified as a finance lease.

Membership of UIG

Dr Arthur McHugh, the Auditor-General of Tasmania, has been reappointed as a member of the UIG for a further two-year term from 1 January 2001, representing the Australasian Council of Auditors-General.

Accounting Standards

The following new or revised standards have been released —

AASB 1005 Segment Reporting

The above Standard —

- requires information to be reported for business segments and geographical segments. It is consistent with a presumption that an entity will look to its internal organisational structure and internal reporting system for the purpose of identifying segments. The superseded Standards required information to be reported for industry segments and geographical segments but provided less guidance for identifying segments;
- requires one basis of segmentation to be primary and the other to be secondary, with considerably less information required to be disclosed for secondary segments. The superseded Standards required the same information to be reported for both industry segments and geographical segments; and
- requires segment information to be prepared using the accounting policies adopted by the entity.

This Standard applies to annual reporting periods beginning on or after 1 July 2001.

Revised AASB 1012 Foreign Currency Translation

The AASB has released revised Accounting Standard AASB 1012 *Foreign Currency Translation*. The Standard replaces Australian Accounting Standard AAS 20 and Accounting Standard AASB 1012 *Foreign Currency Translation* which were issued in 1987.

The revised AASB 1012 becomes operative for annual reporting periods beginning on or after 1 January 2002. The Standard specifies methods of accounting for foreign currency transactions and methods of translating the financial reports of foreign operations. Similar to the existing AASB 1012/AAS 20, the scope of the revised AASB 1012 excludes foreign currency contracts that are not classified as hedges.

Key differences from the existing Standards include requirements relating to the translation of items of equity denominated in a foreign currency, requirements for the disclosure of a change in reporting currency by a foreign operation and requirements that the balance of the foreign currency translation reserve relating to a foreign operation being disposed of be transferred to retained profits (surplus) or accumulated losses (deficiency).

The AASB expects to review the requirements relating to hedging transactions when the project on the recognition and measurement of financial instruments is further advanced.

The revised Standard —

- incorporates requirements for the translation of items of equity denominated in a foreign currency;
- requires that the tax effect of exchange differences relating to monetary items forming part of the net investment in a self-sustaining foreign operation, and hedges of those monetary items, be taken to the foreign currency translation reserve on incorporation into the entity's financial report;
- incorporates requirements for the disclosure by the entity of a change in reporting currency by a foreign operation; and
- requires that, on disposal or part disposal of a foreign operation, any balance in the foreign currency translation reserve relating to that operation be transferred to retained profits (surplus) or accumulated losses (deficiency) in the reporting period in which the disposal, or part disposal, is recognised; and
- incorporates the provisions of Urgent Issues Group Abstract 15, Early Termination of Foreign Currency Hedges.

Revised AASB 1027 Earnings Per Share

The revised AASB 1027 *Earnings per Share* becomes operative for annual reporting periods beginning on or after 1 July 2001. In common with the existing Standard, the revised AASB 1027 requires calculation and disclosure of basic earnings per share (EPS) and, where applicable, diluted EPS. Key changes from the existing Standard include the requirement in the revised AASB 1027 to present EPS on the face of the statement of financial performance and the requirement to use earnings inclusive of extraordinary items in the EPS calculation.

AASB 1042 Discontinuing Operations

This Standard —

- defines discontinuing operations;
- requires the assets, liabilities, revenues, expenses and cash-flows relating to a discontinuing operation to be recognised and measured in accordance with other Accounting Standards;
- requires revenues and expenses relating to discontinuing operations to be classified within ordinary activities, except in the rare event that revenues and expenses arising in relation to a discontinuing operation meet the definition of an extraordinary item; and
- requires disclosures to be made in respect of discontinuing operations in the financial year for the reporting period in which the initial disclosure event occurs, and in the financial report for each reporting period up to and including the reporting period in which the discontinuance is completed.

The Standard has also been restructured to —

- provide additional guidance on the identification of a discontinuing operation and an initial disclosure event and guidance specific to the public sector; and
- remove guidance relating to the application of other Australian accounting standards.

The standard does not apply to the restructuring of administrative arrangements between government departments or administered activities of a government department because the financial reporting requirements are contained in AAS 29.

This Standard applies to annual reporting periods beginning on or after 1 July 2001.

AASB 1029 Revised Standards on Interim Reporting

The principal differences between this Standard and the previous Accounting Standard AASB 1029 include —

- the Standard applies to all entities preparing general purpose interim financial reports of any length;
- the previous Standard required certain disclosures relating to the external auditor's audit or review report. The Standard does not require such information to be disclosed; and
- the Standard only requires the presentation of the statement of financial position as at the end of the previous annual reporting period.

The revised AASB 1029 becomes operative for interim reporting periods beginning on or after 1 July 2001 and will replace the existing AASB 1029 *Half-Year Accounts and Consolidated Accounts*.

AASB 1043 Changes to the Application of AASB and AAS Standards and Other Amendments

The Standard stipulates that, when preparing interim financial reports in accordance with either Accounting Standard AASB 1029 *Half-Year Accounts and Consolidated Accounts* as issued in December 1994 or Accounting Standard AASB 1029 *Interim Financial Reporting* as issued in October 2000, entities need not comply with the annual reporting presentation and disclosure requirements of certain Accounting Standards (AASB Standards) and Australian Accounting Standards (AAS Standards).

AASB 1043 becomes operative for interim reporting periods and annual reporting periods ending on or after 31 December 2000 and applies to all entities in the public and private sectors preparing general purpose interim financial reports.

Exposure Drafts

Australian Accounting Standards Board (AASB) Invites Comment on Proposals on the Measurement and Recognition of Financial Instruments

The AASB Chairman, announced the release in Australia of an Invitation to Comment on the Joint Working Group (JWG) Draft Standard *Accounting for Financial Instruments and Similar Items*. The JWG comprises representatives from accounting standard setters or professional organisations in Australia, Canada, France, Germany, Japan, New Zealand, five Nordic countries, the United Kingdom, the United States and the International Accounting Standards Committee (IASC). All members of the JWG have agreed to issue the JWG Draft Standard for comment.

The main proposals in the JWG Draft Standard are, broadly —

- financial instruments should be measured at fair value at each reporting date;
- changes in fair value should be recognised as revenues or expenses in the statement of financial performance in the period in which they arise;
- financial instruments used for hedging purposes should be treated in the same manner as other financial instruments; and
- interest should be measured on a fair value basis.

The JWG Draft Standard also addresses derecognition of financial assets and financial liabilities and disclosures relating to risk management activities. The AASB has requested that comments be forwarded by 30 June 2001.

WHAT'S NEW IN AUDITING?

Revised AUS 504: External Confirmations

The former AUS 504 was restricted to the confirmation of accounts receivable. The revised AUS 504 recognises that external confirmations, used to gather sufficient appropriate audit evidence, can be used to provide audit evidence of items relating to a financial report which are —

- terms and conditions of agreements/transactions;
- bank balances, letters of credit etc;
- accounts receivable balances;
- inventories held by third parties;
- loans from lenders;
- property title deeds held by third parties; and
- accounts payable balances.

Revised AUS 204: Terms of Audit Engagements

The principal change in the newly revised AUS 204 is that auditors must now record in writing, via engagement letter or in another written form, the terms of engagement as agreed by the client. A copy must be forwarded back to the client.

Note: While QAO sends an engagement letter to all clients, the terms of the engagement are primarily prescribed by legislation.

The change to AUS 204 was made in order to reduce the misunderstandings between the auditor and the client.

The revised AUS 204 is operative on or after 1 January 2001.

Audit Guidance Statement AGS 1050: Audit Issues Relating to the Electronic Presentation of Financial Reports

AGS 1050 was issued to provide authoritative guidance to auditors in relation to issues associated with the new public electronic reporting environment.

The AGS states that management is responsible for the production of the financial reports, even if it is produced electronically and placed on the entity's web site.

Guidance/indicators provided to auditors as mentioned in AGS 1050 included —

- there is an increased risk that electronic reports carry unaudited information;
- in situations where the client issues an audit report on the web, the report may have additional words;
- example wording for an engagement letter where audited financial information is presented electronically;
- the need for the entity to distinguish between audited and unaudited information;
- examples of specific management representations the auditor may obtain; and
- example wording where the entity's web site contains extracts from the entity's audited financial report.

Audit Guidance Statement AGS 1052: Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes

This standard provides guidance concerning an audit of a registered managed investment scheme compliance plan.

Under Corporations law, a single entity must prepare a compliance plan in written form. This includes procedures to monitor and control compliance risks and compliance with Corporations law and the scheme's constitution.

Section 601HG of the Corporations Law requires an entity to appoint an auditor to audit their compliance plan.

Once the audit is completed, the audit opinion should state whether the entity has complied with its compliance plan during the financial year and the plan satisfies Part 5C.4 of the Corporations Law.

Auditing Guidance Statement AGS 1054: Auditing Revenue of Charitable Entities

The standard provides guidance to auditors who audit charitable entities.

The most significant issue addressed by the standard is the completeness of revenue from voluntary sources.

Some examples of voluntary sources are —

- cash donations;
- bequests and legacies;
- non-government grants or government grants; and
- donated goods and services.

To determine whether sufficient appropriate audit evidence can be gathered so as to form an opinion on the completeness of revenue the auditor should consider the following points —

- nature of related risks;
- materiality of revenue; and
- effectiveness of controls over revenue.

Addendum to Audit Guide No. 4 'The Audit of Superannuation Funds'

This Addendum has been issued to provide additional guidance to assist auditors in their audits of superannuation funds for reporting periods ending on or after 30 June 2000. The addendum incorporates changes to the *Superannuation Industry (Supervision) Act 1993* and Regulations in respect of self-managed funds, changes to capital gains tax and investments.

Auditing and Assurance Alert

Auditing and Assurance Alert 9 'Sophisticated Investor' — Reports under the Corporations Law

This Alert seeks to raise awareness of potential risks and other issues relevant to the provision of sophisticated investor reports.

TAX UPDATE

Goods and Services Tax – Recent Treasury Policies and Guidelines

APG 22

Issue No 5 of INFORM provided details of Queensland Treasury Financial Circular 99/7 regarding the accounting treatment of GST transactions, mirroring those provided in Urgent Issues Group Abstract 31.

This financial circular has now become Accounting Policy Guideline 22 available from the Treasury website **www.treasury.qld.gov.au** >> go to Documents >> Fiscal Performance and APGs.

Other Queensland Government GST policies and guidelines include —

- Queensland Government Supplier Strategy for GST Purposes;
- Guidelines for the use of Corporate Credit Cards in the GST Environment;
- Grants to Community Service Organisations; and
- Guidelines for the Display of the GST in Government Fees and Charges.

All the above polices and guidelines are available from Treasury's GST Implementation website at **http://apps.treasury.qld.gov.au./gst**

Topical Issues

GST & PAYG Implications Of Board Members' Sitting Fees

A number of government entities pay sitting fees to board members, who in turn are required to remit those fees to their employers as a reimbursement for time off to attend meetings. Entities making such payments to board members should be aware of two aspects of the income tax legislation relating to tax deductions —

- Income Tax Ruling IT 2014 *Fees Paid to Members of Governmental Commissions or Councils — Requirements on Member to Pay Fees to Employer (issued in 1983)* states that —

  Sitting fees paid to a member of a governmental committee or council form part of his or her assessable income. Where, however, a member is required to pay over all or part of the sitting fees to his or her principal employer for time off, the amount so paid is an allowable deduction to the member. Tax instalment deductions need not be made from sitting fees required to be paid over to the principal employer.

- To clarify the PAYG withholding obligations of the Board in these circumstances, the Commissioner of Taxation published a *Notice of Variation of Withholding* in the Commonwealth Gazette dated 28 December 2000, varying to *nil* the amount required to be withheld from withholding payments that are —

  …a payment to an individual (a partner in a partnership or a director or employee of another entity) appointed as a director, member of a committee of management of a company, or an office holder, who is required to remit those payments to another entity (the partnership or the other entity).

This variation is effective for payments made on or after 1 July 2000.

Last year, Queensland Treasury provided guidance in respect of the GST and PAYG implications of board members' sitting fees. Additional key issues contained in the Under Treasurer's guidance are as follows —

- Individuals receiving (and retaining) such fees must quote their Tax File Number or Australian Business Number, otherwise they will be subject to PAYG withholding. *(Paragraph 12-45(1)(b) of part 2-5 Schedule 1 of the Taxation Administration Act 1953.)*

- The rules applicable to quotation of a TFN continue to apply under the new tax system. An individual can only claim the tax-free threshold from one payer, therefore a TFN may be quoted, but if the tax-free threshold is already being claimed from another source of income, PAYG withholding will apply to the fees at the top marginal tax rate plus the Medicare levy.
- Where applicable, the individual must also provide a personal variation from the ATO to vary the amount of tax to be withheld.
- Where sitting fees or service payments are required to be paid directly to a partnership or company, no withholding will apply to the individual. However, the partnership or company to whom the fees are being paid, will be required to provide an ABN, in order to avoid a PAYG withholding situation.
- If an individual has an ABN and has entered into a Voluntary Agreement with the payer, then tax will need to be withheld at rates prescribed by the Commissioner of Taxation. *(Section 12-55 of Part 2-5 schedule 1 of the Taxation Administration Act 195.)*

The GST application to fees paid to board members are as follows —

- If the *office holder* is regarded as carrying on an enterprise as defined in the GST legislation, and is either registered or required to be registered for GST, then the supply will be subject to GST.
- In the case of sitting fees required to be paid directly to the board member's employer, the employer would have to charge GST on the services of their employee to the board (provided the employer is registered for GST), or provide an Australian Business Number to relieve the Board's obligation to withhold tax from the payment.

BAS Reporting

There are two options for completing the GST section of the Business Activity Statement —

GST Calculation Sheet Option

This is the "long-hand" method of completing the BAS. Every "box" on the BAS is required to be completed (where applicable), requiring the information to be reconciled exactly to the accounting records. Further, the GST collected and Input Tax credits claimed must be exactly 1/11th of the taxable supplies and creditable acquisitions.

GST Derived from Accounts Option

This is a simplified method which does not require working through the entire calculation sheet and the information required to be provided is less comprehensive.

The GST charged to customers and the input tax credits claimed are entered directly onto the BAS from the accounting records. The values of the taxable supplies and creditable acquisitions are also required to be provided and may be recorded either on a gross (GST inclusive) or net (excluding GST) basis and can be estimated on a reasonably accurate basis from the accounts.

The choice of options is available to any entity registered for GST.

Of interest is a statement made recently by the ATO in a media release —

> *… both options are equally acceptable under the law, and taxpayers using the Accounts Method can be assured they are no more likely to fail an audit than if they choose to use the alternative method.*

Changes to Queensland Treasury's GST Implementation Unit (GIU)

The GST Implementation Unit has advised their amalgamation with members of Treasury's Tax Policy team to form a *Commonwealth Taxes Unit* (CTU). This Unit apart from providing advice on all Commonwealth taxes affecting the public sector will also continue the role of the GIU, including that of a central contact point with the ATO.

Machinery of Government Changes

Treasury's Commonwealth Taxes Unit have advised that before making any changes to their existing grouping arrangements or before becoming part of a new GST group, agencies should assess the implications of those changes using the criteria utilised during the GST implementation phase.

The CTU will remain as the central contact point with the Australian Taxation Office to effect changes to grouping, new registrations, deregistrations and other administrative changes.

Stamp Duties

The Queensland Treasurer has released a draft *Duties Bill 2000* for public consultation. When enacted the Bill will replace the *Stamp Act 1894,* with effect from 1 July 2001.

Consistent with other jurisdictions, the draft Bill only contains those administrative provisions that are specific to the imposition of duties. The other generic administrative provisions, such as those dealing with objection and appeals, interest and penalties are to be included in a separate tax administration Bill.

AASB 1020 Accounting for Income Tax

The new standard on accounting for income tax is due to take effect for half-years ending on or after 31 December 2002 and financial years ending on or after 30 June 2003.

Some features of the Standard are —

- It is based on the general principle that the current and future tax consequences of all transactions and other events recognised in an entity's statement of financial position give rise to current and deferred tax liabilities and assets.
- The standard adopts the notions of "tax base" and "temporary difference" using the formula —

  Carrying amounts of assets or liabilities – Tax Bases of Assets or Liabilities = Assessable or deductible temporary differences

  Assessable or deductive temporary differences X Tax Rates = Deferred tax liabilities or assets

- The standard provides guidance on the calculation of tax base.
- Tax base is generally the amount that would be shown as an asset or a liability in a balance sheet derived for tax purposes (if such a balance sheet were prepared).
- An assessable temporary difference gives rise to a deferred tax liability.
- A deductible temporary difference gives rise to a deferred tax asset.

More detailed guidance on the contents and application of the Standard will be included in a later edition of INFORM.

Client Information Session

QAO is proposing a Client Information Session to be held 31 May 2001. The proposed topics are —

- Whole of Government Reporting
- New Statement of Financial Performance and Statement of Financial Position
- Tricks and Traps
- New Accounting Standards and Pronouncements
- Asset Valuations
- Financial Products
- Executive Remuneration Disclosures
- New Legislation

If you have any other topics which you would like covered, please contact Audit Policy and Reporting Section at **apr@qao.qld.gov.au** by 4 May 2001.

REMINDER . . . Don't forget that you can access INFORM on our website at **www.qao.qld.gov.au**

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QAO PUBLICATIONS

- INFORM Issue 5 (May 2000)
- INFORM Issue 4 (Nov 1999)
- INFORM Issue 3 (June 1999)
- INFORM Issue 2 (Feb 1999)
- INFORM Issue 1 (Sept 1998)
- Our Audit Process (Feb 2001)
- Best Practice Guidelines – Information Systems (Revised) (Feb 2000)
- Consideration for Better Management of General Procurement Practices (Jan 1999)
- Best Practice Guidelines for the Sale of Material Public Sector Assets (Jan 1999)
- Guidelines – AAS 34 /AASB1036: Borrowing Costs (Dec 1998)
- Guidelines – AAS33/ AASB 1033: Presentation and Disclosure of Financial Instruments (Jul 1998)
- Guidelines for the Implementation of New Generation QGFMS (SAP R/3) (Jun 1998)
- Guidelines on AAS29 – Financial Reporting by Government Departments (Nov 1996)
- QAO Auditing Standards (Jul 1996)
- Guidelines for the Conduct of Audits of Performance Management Systems (Mar 1995)

These publications are available free of charge and may be obtained by contacting QAO on (07) 3405 1100 or by accessing our website.

QAO in-charge auditors are usually the first point of contact for technical matters. QAO Audit Policy and Reporting Unit provides technical and policy advice to QAO in-charge auditors and staff.

Queensland Audit Office
Level 11, Central Plaza One
345 Queen Street
GPO Box 1139
Brisbane Qld 4001

Phone (07) 3405 1100
Fax (07) 3405 1111
Email qao@qao.qld.gov.au
Homepage http://www.qao.qld.gov.au