Wales Audit Office
Final Audit Findings Report

Year ended 31 March 2014

Presented to those charged with Governance
by Baker Tilly UK Audit LLP
on 16 June 2014

Contents

This report has been prepared for the sole use of the Wales Audit Office and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.

1 Introduction and coverage

This report summarises our key findings in connection with the audit of the financial statements of the Wales Audit Office in respect of the year ended 31 March 2014.

The scope of our work has already been communicated to you via our Audit Plan document.

A summary of adjusted and unadjusted misstatements identified during the audits has been prepared and is included in Section 5.

We consider that the audit approach adopted will provide the audit committee with the required confidence that a thorough and robust audit has been carried out and can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report provided in the Audit Plan previously communicated to you.

No regularity issues were noted during the course of our work for the attention of the audit committee.

2 Qualitative aspects of earnings

The purpose of this section is to bring to the attention of those charged with governance not only those matters that properly fall to be treated as exceptional items, but also those matters of significance that are non-recurring in nature

The table below sets out the significant one-off items that have affected reported results for the year:

	£'000
Total comprehensive net expenditure	6,286
Adjustments:	
Redistribution of reserves	1,633
Underlying comprehensive net expenditure	4,653

Under the new Government of Wales Act the AGW is no longer able to retain reserves from local government work. All reserves must be repaid to the WCF. Therefore the retained earnings of £1,192 brought forward and the surplus retained in year of £441,000 either had to be refunded to the LG bodies or would be repayable next financial year to the WCF.

3 Audit and accounting issues identified at planning stage

Key area of audit focus	Our approach	Resolution
Budgeting and cost allocation Correct cost allocation between local authority activity and central government/NHS activity. The cost allocation is key to determining the budget and presenting the outturn position.	We will review that the basis of cost allocation used for the resource accounts is consistent with the method used for the estimate. As in prior years we will review the calculations to ensure that the underlying principals used remain reasonable and appropriate to the circumstances of the Office	In the first draft there were adjustments to the net cash requirement which had not been included in the original estimate. Management consider that the line for adjustments is just a reconciliation note and not a control total and therefore it is still appropriate to include these in the final out-turn in line with prior years. If these reconciliation adjustments were not included then the amount payable to the WCF would increase by £209k with a corresponding reduction in amounts payable to Local government bodies. In future years the Estimate will include estimated amounts in the reconciliation note to aid clarity. Other calculations are in line with the estimate basis and reasonable judgements have been applied.

Key area of audit focus	Our approach	Resolution
Income recognition and work in progress There are a number of contracts which span the year end. There is a risk that revenue and costs are not appropriately recognised on these contracts.	During the audit of the 2013-14 resource accounts, we will: • Review a sample of WIP and ensure correctly valued at the lower of costs and fee quotes. • Agree a sample of costs through to complete and accurate inclusion in the accounts. • Review a sample of income to evidence of performance of the work	No issues identified with the valuation of WIP for our sample. Sample of WIP agreed to timesheets and employment costs appropriately recognised. Sample agreed back to evidence of work performed and no issues identified.
Enhanced pension provision Calculation of the enhanced pension provision There is a risk that the enhanced pension provision may be misstated.	Review calculation of early retirement and severance provision. Consider the impact of any early retirements and severances arising during the period. Agree to confirmation from pension provider.	We have reviewed the calculation of the early retirement and severance provision and considered the impact of any early retirement and severances. No significant issues were identified.

Key area of audit focus	Our approach	Resolution
Refund of reserves to local government bodies Following the Public Audit (Wales) Act 2013 Act the Wales Audit Office will become a corporate body form 1 April 2014. The Auditor General for Wales is considering paying any surplus reserves back to local government bodies as a refund of fees historically charged. This will be reflected as a provision in the accounts	A provision can only be recognised if there is a legal or constructive obligation at the year end to make repayment. Review correspondence with the local government bodies and consider whether there is a legal or constructive obligation at the balance sheet date. Review disclosures in the accounts in respect of the provision to confirm in line with requirements of ISA'sand FReM.	During the year, both through the Estimate and through the Fee scale publication, the AGW made clear his intentions to return these funds to the LG bodies, thereby creating a valid expectation that the monies would be returned and a constructive obligation at the year end. This has been recognised as a creditor due within one year in the financial statements as it is expected to be paid out in July.
Provisions for displacements and red circled employees The WAO is undertaking restructuring during the year. At the year end there may be staff who are displaced under this process. Additionally other staff members will be re-graded or red circled. The pay policy will guarantee the salary of any person who has been red circled for a period of 4 years.	Consider whether a legal or constructive obligation exists in respect of these individuals at the year end. Based on a draft review of the organisational change policy we do not expect a provision to arise unless displaced employees have been notified of redundancy at the year end. No additional provision is expected in respect of red-circle employees as the salary is for future services and would not be payable if the staff member were to leave the office.	There are four employees who have taken voluntary exit within the year. We have reviewed correspondence with these individuals and confirmed that a constructive obligation exists at the year end.

Key area of audit focus	Our approach	Resolution
Reputation Due to public interest in the financial statements there is a desire to maintain reputation and demonstrate exemplary financial management. Accounting judgements may be influenced by the desire to demonstrate good financial management and remain within the Estimate.	Review of judgemental aspects in year-end balances particularly focusing on any; - Round sum provisions - Estimates - Recoverability of debtors - Disclosure of remuneration	We have not identified any unusual accounting judgements or round sum provisions from our work performed.

4 Audit and accounting issues identified during the audit

Work in Progress

It was noted during the course of our audit work that the current method of accounting for work in progress where other firms undertake the work results in a net work in progress position being reflected rather than a gross position. When the entries to reflect the amount of work completed are processed each month, the correct entries are reflected in the SoCNE but the balance sheet entries are all offset to work in progress.

A disclosure journal to gross up the accrued income due from clients and the accrued costs due to firms has been processed. This has not impact on the SoCNE. The comparative position has not been calculated but has assumed to be a similar value to the current year and therefore comparatives have not been restated as the impact is not considered material to the financial statements.

We recommend that the process for posting these entries is reviewed to ensure that the balances are not offset.

AGW and Board Salaries

Under the Clear line of Sight project to improve government reporting it was recommended that non voted expenditure such as the Civil List, the salaries of certain judges, the salary of the Comptroller and Auditor General, and some benefits paid from the National Insurance Fund should be included in the Estimate. As in prior years the WAO have not included this in their Estimate for 2013-14 and therefore have not included the salary in their Out-turn against the Estimate.

As in previous years the AGW salary has been fully disclosed in the remuneration report and the disclosure is in line with the Estimate and therefore we are satisfied that the accounts show a true and fair view. We would recommend that the Office liaises with the Welsh Government to consider the application of the Alignment project in Wales and any impact it may have on the inclusion of non-voted expenditure in future Estimates and financial statements.

Corporation Tax

Based on advice from Grant Thornton the WAO is subject to corporation tax on its trading activities and on its investment income. Trading activities are taken to be commissioned work which has been competitively tendered.

The income is separately identified and the direct costs of delivering the income are offset. An overhead allocation is then made to estimate the actual gain or loss on delivery of this work. We noted that the basis for allocating the overhead differs to that used in the allocation of costs between LG and CG work for the purposes of the Estimate and the financial statements. If the same overhead allocation was used then the profit reported on trading income would be c. £35k higher.

This would not impact the corporation tax charge due to the level of brought forward losses however we recommend that the basis for calculating the corporation tax profits is reviewed and consideration given to aligning it with the basis of allocating costs and overheads used for the financial statements.

Consideration should also be given as to whether the change in the legislation preventing the Office from retaining income would take the Office out of the requirement to produce and submit corporation tax returns.

Time recording system

The Office has already undertaken a project during the year to improve the consistency and accuracy of time recording and to introduce real-time recording of work. The time recording system is fundamental in ensuring that costs are appropriately charged to clients and will become of increasing importance under the new legislation with the requirement for full cost recovery.

We recommend that the Office continue to focus on this area and consider additional controls and reporting around chargeable time statistics and analysis of non-chargeable time codes. Consideration should be given to chargeable time targets which are monitored and reviewed as part of the appraisal process.

It was noted that Internal Audit had recommended a move to milestone revenue recognition. The Office have considered this and concluded that this is not an appropriate approach. We would note that this is not common practice in the audit and accounting profession to use milestone recognition other than for contingent fee work and therefore we support this conclusion.

5 Unadjusted/adjusted misstatements

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement. We have not disclosed below those items that we consider to be "clearly trivial" in the context of our audit. For this purpose we consider "clearly trivial" to be any matter less than £5,000 individually and £10,000 in aggregate.

Area	Adjusted misstatements		Unadjusted Misstatements Factual		Unadjusted Misstatements Judgemental	
	Profit & Loss effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Profit & Loss effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Profit & Loss effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s
Accrued income Accrued costs Being gross up of firms work in progress		251 (251)				
Other operating income Audit fee income Being reclassification of legal fee income	43 (43)					
Other operating income Audit fee income Being reclassification of T&S recharge	29 (29)					
Creditors < 1 year Provisions > 1 year Reclassification of pension creditor		78 (78)				
Totals	-	-				

Area	Adjusted misstatements		Unadjusted Misstatements Factual		Unadjusted Misstatements Judgemental	
	Profit & Loss effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Profit & Loss effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	Profit & Loss effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s
Tangible Fixed Assets				24		
Dilapidations provision				(15)		
Repairs and Maintenance			(15)			
Depreciation			6			
Being capitalisation of ventilation unit works on Swansea office and associated dilapidations provision						
Totals	0	0	(9)	9		

6 Control recommendations

We have set out below control recommendations which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all weaknesses that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Fact and potential consequence	Possible action	Management response	Timing of implementation
During the year the AGW requested a supplementary estimate from the National Assembly. This was due partly to concerns that the Office would over-achieve on its fee income budget and as a result the office requested an increase in increase in accruing resources of £820k to £8,164k and also an increase in the net resource requirement of £207k. Whilst the net resource requirement change was reflected by the National Assembly the original fee income estimate was not amended and remained at £7,994k which is the figure which has been disclosed in the financial statements. The actual out-turn was in fact still below the original estimate and therefore this has not resulted in an issue for the office. However had the fee income been exceeded as was initially expected could have resulted in an excess vote and regularity impact.	Whilst the WAO had followed the correct processes in making their supplementary estimate, the fact that the agreed amendment had not been processed correctly was not identified until after the year end when it was too late to take any action. We recommend that future supplementary estimates are checked immediately to ensure that all the agreed amendments have been fully approved and reflected by the National Assembly for Wales.	Accepted	Immediate

7 Significant accounting policies, disclosures and estimates

Accounting disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the FReM. The following disclosure matters were brought to your attention and subsequently reflected in the revised financial statements:

1. *The sustainability report did not include Scope disclosures for business travel*
2. *The FreM has been updated in the year to reflect the requirement in the Companies Act to produce a strategic report as well as a director's report. The Office had reviewed the requirements and considered that the annual report contained all the information required to be shown in a strategic report. However given the new guidance we noted that there was a lack of clarity as to where the information was included. In particular disclosure of performance against financial and non-financial KPI's and details of the principal risks and uncertainties facing the organisation were not clearly described in the initial draft.*
3. *The annual report needs to be signed by the AGW.*
4. *The non-recurring items within other expenditure should be shown on the face of the SoCNE due to their size and impact on the reported result.*
5. *The draft governance statement did not state compliance with or departures from the Code.*

8 Fees

We confirm that the fees charged during the year in respect of services performed for the Wales Audit Office are consistent with those contained within our Audit Plan submitted to you.

9 Independence

In accordance with International Standard on Auditing (UK and Ireland) 260 “Communication with those charged with governance”, there are no changes to the details of relationships between Baker Tilly UK Audit LLP and its related entities and the Wales Audit Office that may reasonably be thought to bear on Baker Tilly UK Audit LLP’s independence and the objectivity of the audit principal, Jennifer Hill, and the audit staff and the related safeguards from those disclosed in the Audit Plan.

Appendix A – Draft letter of representation

Draft letter of representation

Dear Sirs

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other senior executives of the Wales Audit Office, the following representations given to you in connection with your audit of the financial statements for the period ended 31 March 2014.

The following representations reflect circumstances up to the date of this letter, on which the financial statements were approved, and management's knowledge and intentions regarding the future of the Wales Audit Office.

Responsibility for financial statements

I acknowledge as Auditor General my responsibilities under the Government of Wales Act 2006 and Treasury Directions made in accordance with that Act for maintaining adequate accounting records and for preparing financial statements in accordance with the applicable accounting framework that give a true and fair view and for making accurate representations to you.

I confirm that I have taken all the steps I ought to have taken in order to make myself aware of any relevant audit information and to establish that it has been communicated to the auditors. I confirm that, as far as I am aware, there is no relevant audit information of which the auditors were unaware.

Availability of information

All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records. All other records and related information have been made available to you, including the minutes of all committee meetings, which are a complete and authentic record of the proceedings at those meetings. I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

Related party transactions

I have disclosed to you the identity of the related parties and all related party relationships and transactions of which I am aware. There were no transactions with the WCF and with the audited bodies other than those in the ordinary course of business (fees) requiring disclosure in the financial statements. There were no other transactions with related parties requiring disclosure during the year.

Use of funds and regularity

- I acknowledge my responsibility, as specified by the Public Accounts Committee of the National Assembly under the Government of Wales Act 2006, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the National Assembly for Wales and that the financial transactions conform to the authorities which govern them.
- To the best of my knowledge and belief I confirm that, in all material respects, the expenditure disbursed and income received during the year ended 31 March 2014 have been applied to purposes intended by Parliament and the National Assembly for Wales and the financial transactions conform to the authorities which govern them.
- Neither myself nor my senior management team have knowingly authorised a course of action, the financial impact of which was that transactions infringe the requirements of regularity.
- All transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records.
- There were no events of which I am aware which involve suspected non-compliance with the framework of authorities which govern the running of the Office.
- Specifically I confirm that it is appropriate for the Office to take efficiency gains on fee paying work.

Assets

1. *General*

All assets included in the Statement of Financial Position belong to the Auditor General and except as disclosed in the accounts were free from any charge. All non-current assets belonging to the Auditor General are included.

2. *Impairment of non-current assets*

Each non-current asset is worth to the Auditor General at least the amount at which it is included in the Statement of Financial Position, either through continued use by the Wales Audit Office (in its current meaning: the Auditor General and his staff) or through the opportunity for sale on the open market.

Liabilities

1. General

All known liabilities of the Auditor General at 31 March 2014 have been included in the balance sheet. All secured liabilities are disclosed.

2. Contingent liabilities

There were no contingent liabilities at the balance sheet date. All guarantees or warranties or other financial commitments have been fully disclosed in the financial statements. There were no known actual or possible litigation and claims whose effect should be considered when preparing the financial statements.

I confirm I have disclosed to you all banking and financing arrangements including related contracts and hedging products. I confirm that no tax avoidance schemes were used by the Wales Audit Office.

Accounting estimates

I confirm that all significant assumptions used in making accounting estimates, including where applicable those measured at fair value, are reasonable in the circumstances, and appropriately reflect our intentions and our ability to carry out the specific courses of action necessary to justify the accounting estimates and disclosures. The disclosures in the financial statements relating to accounting estimates are complete and appropriate.

I have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Commitments

All commitments of the Auditor General of a material amount, whether of a capital or revenue nature, have either been provided for or noted in the financial statements as appropriate. An adequate provision has been made for any losses, which may be expected to result there from, or from events which had occurred before 31 March 2014.

Remuneration report

All amounts paid to members of the Wales Audit Office Executive committee have been appropriately included in the Remuneration Report.

All items of personal expenditure paid by the Wales Audit Office on the Executive committee's behalf have either been reimbursed by the individuals concerned or have been treated as benefits in kind.

The benefits in kind in respect of the PAYE settlement will be met by the Wales Audit Office. This has been fully disclosed in the remuneration report.

No member of the Executive committee or their connected persons had any indebtedness (or agreement concerning indebtedness) to the Wales Audit Office at 31 March 2014 or at any time during the year.

Governance Statement

I confirm the Governance Statement within the Annual Report fairly reflects the Wales Audit Office's current position in relation to our compliance with internal control requirements set out in HM Treasury's guidance.

Fraud and regulation

I acknowledge that the responsibility for the detection of fraud, error and non-compliance with laws and regulations rests with me. I confirm that I am not aware of any known or suspected frauds, error and non-compliance, involving management, employees or third parties which may have a material effect on the financial statements. I confirm that, insofar as I am able to determine, in my opinion the financial statements are not materially misstated as a result of fraud.

In particular I confirm that the Wales Audit Office has made full disclosure of actual or suspected fraud brought to our attention by employees, former employees and other external parties.

I confirm that there has been no possible or actual instance of non-compliance with those laws and regulations which are central to the Wales Audit Office's ability to conduct its business, except as explained to you and as disclosed in the financial statements.

Events subsequent to the date of the Statement on Financial Position

There were no events, transactions or discoveries since the Statement of Financial Position date which:

- would have a material effect on the financial statements, or
- are of such importance to users of the financial statements that they should be disclosed in the financial statements.

Going Concern

The financial statements have been prepared on a going concern basis as it is clear in the 2013 Act that the current financial operations of the Auditor General will be undertaken in full by the new Wales Audit Office with effect from 1 April 2014.

Potential Audit adjustments

The potential audit adjustments identified during the course of your audit work have been considered and are not material to the disclosed financial position either individually or in aggregate, and therefore the costs associated with adjusting the accounts outweighs any benefit to the users of the accounts. These journals are included in Appendix A.

Journal entries

I accept and have adjusted the journals noted in Appendix B

Yours faithfully,

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Auditor General for Wales

Appendix B - Updated financial reporting developments

Amendments to the 2014-15 Government Financial Reporting Manual (FReM)

HM Treasury has reviewed the form and content of the FReM and has proposed a new format for 2014-15. The aims of this different format are:

- To make it easier for preparers to identify all relevant adaptations and interpretations by referring to one chapter;
- To improve the internal consistency of the document by explaining each adaptation and interpretation only once;
- To make it clearer to preparers which standards have been adopted and should be applied; and
- To shorten the FReM by removing text which duplicates accounting standards

The areas of most significant presentational change are chapters 6 onwards. Chapter 6 provides a summary of each accounting standard and whether it has been adapted or interpreted. Additional, slimmed-down, guidance follows in chapters 7, 8 and 9. Chapter 10 provides guidance for the Whole of Government Accounts.

There are other changes to the document which do not relate solely to presentation. The key changes are noted below and the full list of changes is available from the following link :

*https://www.gov.uk/.../08._**2014-15_FReM**_amendment_record.pdf*

Paragraph	Reason for change
Paragraph 3.2.5 Requirement changed to provide explanation of significant variances on the face of the statement of Parliamentary supply to 'with it'	To allow flexibility in the location of reporting variances
Paragraph 3.2.13 More detailed disclosure requirements for special severance payments (ie non contractual severance payments) the detail to be disclosed should include the number of special severance payments made, the total amount paid out, and the maximum (highest), minimum (lowest) and median values of payments made. Where an entity's reporting of special severance payments does not include some or all of these details in circumstances in which doing so would conflict with a legal obligation arising as a result of the Data Protection Act 1998, or otherwise, this fact should also be disclosed	Requested by the Public Accounts Committee and will be consistent with the 2014-15 version of Managing Public Money

Amendments to IFRS applicable for EEA purposes to periods commencing on or after 1 January 2014

Note – only those amendments which may be relevant to the WAO have been noted below;

Amendments to IAS 32- Offsetting Financial Assets and Financial Liabilities (Endorsed for use in EU on 13 December 2012)

In December 2011 the IASB as part of its offsetting project amended the application guidance in IAS 32 to provide additional guidance in respect of offsetting financial instruments. The amendments address the inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation.

The amendments clarify the meaning of a current, legally enforceable right of set-off and establish situations where gross settlement systems may be considered equivalent to net settlement.

Consequential changes have also been made to IFRS 7 Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities.

Effective date: Periods commencing on or after 1 January 2014, and are required to be applied retrospectively. Early adoption is permitted as long as the fact is disclosed and the disclosures required by the amendment to IFRS 7 are also given.

IFRIC Interpretation 21"Levies" (Not yet endorsed by the EU)

In May 2013, the International Accounting Standards Board issued IFRIC Interpretation 21: "Levies" (IFRIC 21), an Interpretation on the accounting for levies imposed by governments.

IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

Periods commencing on or after 1 July 2014

Annual Improvements to IFRSs 2010/2012 Cycle (Not yet endorsed for use in EU)

In December 2013 the IASB published "Annual Improvements to IFRSs – 2010/2012 Cycle" as part of its annual improvements project. A summary of the amendments is set out below:

IFRS	*Amendment*
IFRS 2 Share-based Payment	Separate definitions of 'service condition' and 'performance condition' now included in IFRS 2, Appendix A and the definition of 'vesting condition' and 'market condition' amended. Applied prospectively for share-based transactions for which the grant date is on or after 1 July 2014

IFRS	*Amendment*
IFRS 3 Business Combinations	Paragraph 40 amended to clarify that contingent consideration that meets the definition of a financial instrument must be classified as equity or financial liability based on the requirements of IAS 32 only and the reference to 'or other applicable IFRSs' has been deleted References to 'IAS 37 or other IFRSs as appropriate' deleted in paragraph 58(b) for contingent consideration that is a non-financial asset or liability. This retains fair value, with changes through profit or loss, as the subsequent measurement basis for all non-equity contingent consideration to which IFRS 3 applies. Consequential amendments made to IAS 37 and IAS 39 (and IFRS 9) to clarify that contingent consideration in a business combination that is classified as an asset or a liability shall be subsequently measured at fair value with changes in fair value recognised in profit or loss. Applied prospectively to business combinations for which the acquisition date is on or after 1 July 2014.
IFRS 8 Operating Segments	A new paragraph 22(aa) added to require disclosure of the judgements made by management in applying the aggregation criteria in the standard. This includes a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. Paragraph 28(c) amended to require a reconciliation of the total of the reportable segments' assets to the entity's assets only if the amount is regularly provided to the chief operating decision maker, consistent with the requirement in paragraph 28(d) for an entity's liabilities.
IFRS 13 Fair Value Measurement	Amendment to the Basis for Conclusions to clarify that when certain paragraphs from IAS 39 and IFRS 9 were deleted because IFRS 13 contains guidance for using present value techniques, the intention was not to remove the ability of an entity to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial.

IFRS	***Amendment***
IAS 16 Property, Plant and Equipment	Paragraph 35 amended and new paragraphs added to clarify the treatment of accumulated depreciation when an item of property, plant and equipment is revalued, as the IFRS Interpretations Committee had reported to the IASB that practice differed. At the date of the revaluation, the asset must be treated in one of the following ways: • the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; • the accumulated depreciation is eliminated against the gross carrying amount of the asset. Applies to revaluations in the initial period of application (i.e. beginning on or after 1 July 2014) and the preceding period. Adjusted comparative information may be presented for earlier periods, but there is no requirement to do so.
IAS 24 Related Party Disclosures	Paragraph 9 amended and new paragraphs added to extend the definition of a related party as IAS 24 was not clear of the relationship when a management entity provides key management personnel services to an entity. The definition of a related party now includes an **entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity, or to the parent of the reporting entity**. Separate disclosure is required for the provisions of key management personnel services provided by a separate management entity. The key management personnel compensation that is provided by a management entity to its own employees is excluded from the disclosure requirements.
IAS 38 Intangible Assets	Paragraph 80 amended and new paragraphs added to align the accounting treatment of accumulated depreciation when an intangible asset is revalued with the amendments to IAS 16 when an item of property, plant and equipment is revalued (see above).

Effective date: Periods commencing on or after 1 July 2014 unless otherwise indicated.

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Periods commencing on or after 1 January 2015

IFRS 9 "Financial Instruments" (Not yet endorsed by the EU)

In November 2009, the IASB issued IFRS 9 "Financial Instruments" IFRS 9 will ultimately replace *IAS 39 "Financial Instruments: Recognition and Measurement"* in its entirety. However, the Board has divided its project to replace IAS 39 into 3 main phases. As the Board completes each phase, as well as its separate project on derecognition of financial instruments, it will delete the relevant portions of IAS 39 and create new chapters in IFRS 9.

Chapters 4 and 5 of IFRS 9 specify how an entity should classify and measure financial assets, including some hybrid contracts. The standard requires all financial assets to be:

Classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; and

Subsequently be measured at amortised cost or fair value

The aim of these requirements is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They aim to achieve a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method.

In October 2010 the IASB published the requirements on accounting for financial liabilities. These requirements have been added to *IFRS 9 "Financial Instrumen*ts" and complete the first phase 'classification and measurement' of the IASB's project to replace *IAS 39 "Financial Instruments: Recognition and Measurement"*. Entities that designate financial liabilities as at fair value through profit and loss will be required to present the portion of the change in fair value attributable to the entity's own credit risk in other comprehensive income rather than profit or loss. This is to address situations whereby financially distressed companies could book a large profit due its theoretical ability to buy back its own debt at a reduced cost. An illustrative example of how an entity can estimate the amount of change in the fair value of the bond that is not attributable to changes in market conditions that give rise to market risk is included.

In December 2011 the IASB published amendments and deferred the mandatory effective date by 2 years. The deferral will enable all phases of the financial instruments project to have the same mandatory effective date.

Prior to this amendment, the original version of IFRS 9 only provided relief from the requirement to restate comparative information for the effect of applying IFRS 9 to companies that chose to apply IFRS 9 prior to 2012. However this relief has now been extended to all companies but on the condition that additional disclosures are given so that investors can understand the effect that the initial application of IFRS 9 has had on the classification and measurement of financial instruments.

Effective date: Periods commencing on or after 1 January 2015. Early adoption is permitted as long as the fact is disclosed.

Periods commencing on or after 1 January 2016

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Not yet endorsed by the EU)

In May 2014, the IASB published amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

Effective date: Periods beginning on or after 1 January 2016. Early adoption is permitted as long as the fact is disclosed.