

# Internal Audit Standards Revisions Effective in 2013

The Institute of Internal Auditors (IIA) announced changes to the International Standards for the Professional Practice of Internal Auditing (Standards). The revised Standards, considered mandatory under The IIA's International Professional Practices Framework, come into effect 1 January. In total, 18 revisions were made, which are intended to improve the professional practice of internal auditing worldwide.

Key changes to the Standards include:

- Clarifying the responsibilities of internal auditors, the chief audit executive (CAE), and the internal audit activity for conforming with the Standards;
- Increasing focus on the Quality Assurance and Improvement Program requirements and

clarifying ways in which conformance may be achieved;

- Clarifying the CAE's role in communicating unacceptable risk;
- Explicitly requiring timely adjustments to the internal audit plan;
- Ensuring the audit plan covers risks to achieving strategic objectives;
- Adding more examples of what constitutes "functional reporting to the board", and
- Adding the definitions of "overall opinion" and "engagement opinion" to the Glossary, as well as changing the definition of "board."

## SMSF Auditor Draft Regulations

Federal Treasury has exposed for comment regulations proposed to apply in 2013 to the registration with ASIC and performance of approved SMSF auditors. The regulations will specify the qualifications, practical experience, continuing professional development, professional indemnity requirements and auditor independence requirements that must be satisfied by auditors of SMSFs.

ASIC will have some discretion in assessing the registration requirements for new applicants, which include 300 hours of supervised SMSF audit experience in the three years preceding the application and an educational qualification of a three year degree incorporating, or supplemented by, an audit course. A one-off competency exam will be necessary for new SMSF auditors before they are eligible to be an auditor of a SMSF from 1 July 2013. Auditors who have signed off less than 20 audits in the 12 months preceding their application must also pass the exam to be registered, but do not need to demonstrate the 300 hours of practical experience. Both experience and exam conditions do not apply to persons who are registered company auditors at 1 July 2013.

Fees, to be CPI indexed, are confirmed as \$100 for initial auditor registration, \$100 to undertake the competency exam, and \$50 for annual declarations. PD requirements are set at 120 hours over 3 years, including 30 hours of superannuation PD, which itself must include 8 hours of SMSF audit training. There are some amendments to the annual audit report deadline, including a new requirement that it be completed within 28 days of receipt from the trustees of the last document required to perform the audit.

All material contained in this newsletter is written by way of general comment. No material should be accepted as authoritative advice and any reader wishing to act upon the material should first contact our office for properly considered professional advice which will take into account your own specific conditions. No responsibility is accepted for any action taken without advice by readers of the material contained herein.

### Internet

Copies of 'FRA NEWS' are available on the internet at [www.tnr.com.au](http://www.tnr.com.au)

### Queries

For further information or assistance, please contact your TNR Audit & Assurance Partner or Manager.

The information provided in this publication was provided by Colin Parker FCA, former member of the AASB.

© GAAP.com.au Pty Ltd

Kindly reproduced with the permission of GAAP.com.au Pty Ltd



Thomas  
Noble &  
Russell

Accountants | Auditors | Business Advisers

[www.tnr.com.au](http://www.tnr.com.au)



# FRA NEWS

No.10/2012



Welcome to this issue of 'TNR FRA News'. Financial Reporting and Auditing (FRA) News ('FRA News') provides partners, staff and clients with a 'heads up' of contemporary financial reporting, auditing and corporate governance developments on a monthly basis. FRA News contains items requiring immediate consideration (**Need to Know**), whereas other items are for general information (**Nice to Know**).

FRA News is prepared by Colin Parker, Principal, GAAP Consulting, and former member of the Australian Accounting Standards Board (2006-2009) with the input of staff of GAAP.com.au Pty Ltd.

In this FRA News, your attention is drawn to the following developments:

**Need to know:**

- ACNC Passes the Senate
- Investment Entities Exception Amendments
- Continuous Disclosure Proposed Guidance Note
- Reporting Misconduct Information ASIC's Guides
- Standard-setters Revised Work Program
- Incorporated Associations in Victoria New Rules

**Nice to know:**

- Annual Report Guide Released
- More on the AGM and Shareholder Engagement Discussion Paper
- Managing Complexity in Financial Reporting Findings
- Integrated Reporting Framework Draft Outline
- ACNC NFP Governance Standards Consultation Begins
- Charities to Benefit from Removal of ASIC Annual Fees

# ACNC Passes the Senate



## Nice to know (Continued):

- Grant Reporting Easier under ACNC Regime
- Valuation Services APESB Proposed Guidance
- Mining Resource Exploration, Inquiry into Non-financial Barriers
- Internal Audit Standards Revisions Effective in 2013
- SMSF Auditor Draft Regulations
- Trust Reform Options Paper

Legislation to establish the Australian Charities and Not-for-profits Commission (ACNC) has passed the Senate. Amendments moved in the Senate will now go back to the House of Representatives for a final vote.

At the Commonwealth level, the ACNC will administer a 'charity passport' and work to implement a 'report-once, use-often reporting framework'. The charity passport is a collection of data that charities will report once to the ACNC to meet the baseline corporate and financial reporting requirements of Australian Government agencies, and will be a vital component of how the ACNC will be able to deliver reductions in red tape.

The ACNC will also drive a national approach to NFP regulation, with South Australia already announcing it will make amendments to its incorporated associations and charitable collections legislation to harmonise reporting requirements. The start date for the ACNC will be announced in the coming weeks.

## Investment Entities Exception Amendments

The International Accounting Standards Board (IASB) issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). The amendments apply to a particular class of business that qualify as investment entities. The IASB uses the term 'investment entity' to refer to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity entity, venture capital entity, pension funds, sovereign wealth funds and other investment funds.

Under IFRS 10 'Consolidated Financial Statements' reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information. The Investment Entities amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

**The amendments define an 'investment entity' as an entity that:**

- **Obtains funds from one or more investor for the purpose of providing those investor(s) with investment management services;**
- **Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income,; and**

- **Measures and evaluates the performance of substantially all of its investments on a fair value basis.**

An entity is required to consider all facts and circumstances when assessing whether it is an investment entity, including its purpose and design. The amendments provide that an investment entity should have the following typical characteristics:

- **More than one investment;**
- **More than one investor;**
- **Investors that are not related to the entity or other members of the group containing the entity; and**
- **Ownership interests, typically in the form of equity or similar interests (e.g. partnership interests), to which proportionate shares of the net assets of the investment entity are attributed.**

If an entity does not meet one or more of these typical characteristics, it is required to justify and disclose how its activities continue to be consistent with that of an investment entity. Additional guidance is provided on detailed specifics in determining whether an entity is an investment entity, such as the impacts of being involved in the day-to-day management of an investee or providing investment-related services to third parties, the nature of the entity, and how the entity measures and manages its financial liabilities. The amendments are effective from 1 January 2014 with early adoption permitted. This is one year later than the 1 January 2013 effective date of IFRS 10, but the IASB has permitted early adoption in order to allow investment entities to apply the Investment Entities amendments at the same time they first apply the rest of IFRS 10. It is envisaged that the AASB will issue the revisions shortly.

# Continuous Disclosure Proposed Guidance Note



ASX is providing listed entities with clearer, more detailed information to help them understand and comply with their continuous disclosure obligations, releasing a revised draft of ASX Listing Rule Guidance Note 8 and related materials for public consultation. The draft revisions to Guidance Note 8 reflect industry feedback that aspects of the continuous disclosure rules would benefit from updated guidance. They also take into consideration recent legal and market developments. ASX has worked closely and cooperatively with ASIC to develop the revised guidance.

The draft revisions to Guidance Note 8 seek to provide more information on a number of areas, including:

- **The test for determining what constitutes material or 'market sensitive' information;**
- **Clarifying that 'immediately' does not mean 'instantaneously' but rather 'promptly and without delay';**
- **How to use trading halts to manage disclosure issues;**
- **Exceptions to the requirement to release information immediately;**
- **The meaning of 'false market';**
- **Managing 'earning surprises';**
- **Responding to market and media speculation and analyst commentary;**
- **How the continuous disclosure requirements apply to confidential offers to enter into control transactions; and**
- **ASX enforcement practices, including an explanation of the roles of 'price query' and 'aware' letters.**

The new guidance notice does not fundamentally change ASX's approach to disclosure issues, but seeks to provide more information and clarity to help listed entities to understand and comply with their disclosure obligations. To make the materials more accessible, ASX has also developed an abridged guide to continuous disclosure that provides a summary of the key issues and obligations for directors and other officers.

Submissions on the consultation materials are due by 30 November. The consultation package includes:

- **A consultation paper entitled Review of ASX Listing Rules Guidance Note 8 'Continuous Disclosure: Listing Rules 3.1' V 3.1B**
- **A proposed new version of Guidance Note 8: Continuous Disclosure: Listing Rules 3.1 - 3.1B**
- **A shorter guide entitled Continuous Disclosure: An Abridged Guide, and**
- **Proposed Listing Rule changes outlined in a document entitled Proposed Disclosure Related Amendments to the ASX Listing Rules.**

## Standard-setters Revised Work Program

The IASB released a revised work plan reflecting changes as a result of decisions made at its October meeting; these will influence the AASB's work program.

The project on IAS 8 'Operating Segments' effective dates and transition has been removed; and a new project on revenue-based methods of depreciation under IAS 16 and IAS 38 added (splitting it out from the annual improvements 2011-2013 cycle).

The following Standards and EDs are expected before the end of 2012:

### Finalised standards

- **Financial Instruments – General hedge accounting.**

### Exposure drafts

- **Financial Instruments – Limited Reconsideration of IFRS 9;**
- **Financial Instruments – Impairment;**
- **Annual Improvements – 2011-2013 Cycle (IAS 16/IAS 38 'Revenue-based Methods of Depreciation; IFRS 10/IAS 28 'Sales or Combination of Assets between an Investor and its Associate/Joint Venture'; IAS 28 'Reflecting other Net Asset Changes when applying the Equity Method of Accounting'; and**
- **IFRS 11 'Acquisition of an Interest in a Joint Operation'.**

# Reporting Misconduct Information ASIC's Guides

ASIC released information about its approach to handling tip-offs, complaints, information of concern and reports of misconduct, to assist the public.

Each year, ASIC receives over 20,000 reports of misconduct from liquidators, auditors, financial service providers and the general public which are all received, acknowledged, analysed, assessed and recorded by ASIC's national Misconduct and Breach Reporting Team.

ASIC weighs every report of misconduct against four key questions:

- **What is the extent of harm or loss?**
- **What are the benefits of pursuing the misconduct?**
- **How do other issues, like the type and seriousness of the misconduct and the evidence available, affect the matter?**

## ■ Is there an alternative course of action?

As part of the package ASIC released five information sheets covering:

- **'How ASIC deals with reports of misconduct' (Information Sheet 153);**
- **'Your Investments: Frozen funds and hardship payments' (Information Sheet 159);**
- **'Disputes about employee entitlements' (Information Sheet 160);**
- **'Disputes about goods and non-financial services' (Information Sheet 160); and**
- **'Disputes between officeholders and/or members of small proprietary companies' (Information Sheet 162).**

ASIC also published Information Sheet 153

'How ASIC deals with reports of misconduct' as a brochure to help people better understand the factors ASIC considers in its assessment of the misconduct report at the first point of contact. It outlines the timeframe in which ASIC will communicate its decision on whether ASIC will or will not consider a matter further.

To coincide with the release of these publications, ASIC redesigned its online material that deals with reporting misconduct. The web pages are designed to get people to the right information at the right time and ultimately to a resolution. The information sheets support this by giving appropriate options for a course of action in common dispute circumstances. The brochure, online material, information sheets and the recently updated online report form provide plainly stated information to guide people through the process of complaint resolution and, where indicated, reporting misconduct.

## Incorporated Associations in Victoria New Rules

Victorian incorporated associations stand to benefit from the Associations Incorporation Reform Act 2012 (the Act) and its associated regulations, which commence on 26 November 2012.

The new Act will replace the Associations Incorporation Act 1981. The main changes to the law relate to: annual financial reporting; trading activities; statement of purpose; rules; defining an office holder; protection of office holders; minimum rights of members; meetings; secretary; record-keeping; disciplinary proceedings and grievance procedures; register of members and personal information; contracts and other documents.

A new three-tiered reporting framework will replace the current 'prescribed' and 'non-prescribed' reporting requirements. The tiers are based on an association's total revenue:

- **Tier one: \$0 – \$250,000;**
- **Tier two: \$250,000 – \$1,000,000;**
- **Tier three: more than \$1,000,000.**

Under the new reporting arrangements, only tier-three associations will be required to have their financial statements audited. Tier-two associations will be required to have their financial statements reviewed by an independent accountant – a process that typically costs about one third of a formal audit. Tier-one associations do not need to have their financial statements reviewed. However, a majority of members present at a general meeting may vote to do so. Each tier will be able to find all of its annual financial reporting obligations clearly set out in one part of the Act.

An incorporated association will be able to trade if such activities relate to its purposes (for example, community organisations delivering services that include a fee-for-service component, or running an op shop). However, an association will still not be able to distribute any surplus income or assets to its members.

An office holder must: act in the association's interests and in accordance with its purposes; act with due care and diligence; act in good faith and for a proper purpose; ensure the association does not trade while insolvent.

This means it must not incur debts it cannot repay. An office holder must not: improperly use their position or information obtained through their position; participate in voting on matters where they have an interest.

Under the new Act, an incorporated association must indemnify its office holders. This will protect these people from liability for activities they undertake in good faith on behalf of the association. The association must provide the indemnity from its assets – the government does not fund this indemnity. If an association does not have insurance cover, the indemnity is only available to the extent of its assets.

An association will be required to maintain a register of members, which must include: each member's name and address; the date they became a member; the member's class of membership (if applicable); and the date they stopped being a member (if applicable).

# Annual Report Guide Released



To assist existing and prospective shareholders better-understand the annual report of listed companies, CPA Australia has released '**A guide to understanding annual reports: Listed Companies**'. This Guide is an important financial literacy initiative as it provides shareholders who are not experts in accounting with some tools to unlock and harness that information, particularly during the Annual General Meeting season.

The key benefits for shareholders from reading the guide are:

- An overview of the annual report and its components, including the financial statements

- The provision of sample financial statements to illustrate the way in which many listed companies present yearly financial statements
- An introduction to easy-to-use analytical tools that cross-reference the sample financial statements, and
- A simple glossary of terminology used in the annual report.

## Valuation Services APESB Proposed Guidance

APESB released a proposed Guidance Note, APES GN 20 'Scope and Extent of Work for Valuation Services' which provides guidance on the application of APES 225 'Valuation Services' in determining the scope, extent of review and analysis, and extent of corroboration that is appropriate for the applicable valuation service. The Guidance Note also provides examples of different valuation contexts and the type of valuation service that will be appropriate to that context.

The proposed APES GN 20 identifies six key areas of work which professional accountants should address, including economic environment, industry context, company specific financial and non- financial information, valuation context and valuation assessments.

The guidance will be useful for valuation practitioners in determining the valuation service that is appropriate for the particular situation as well as the work that should be performed.

## Trust Reform Options Paper

The Federal Government released a policy options paper 'Taxing trust income – options for reform' that further progresses the Government's modernisation of the taxation of trust income. The Government received valuable feedback from stakeholders following the release of an initial consultation paper in November last year. The Government also released a discussion paper on options for a more workable approach for fixed trusts in July this year. The 52 Policy Paper includes:

- Comparison of current law and new models;
- Core features of a new model for taxing trust income;
- Economic benefits model (EBM);
- Proportionate assessment model (PAM); and
- 12 consultation questions.



# More on the AGM and Shareholder Engagement Discussion Paper

In response to a request from the Federal Government for advice on the role of the annual general meeting (AGM), CAMAC published a discussion paper 'The AGM and shareholder engagement'. CAMAC. Key questions raised include:

## Shareholder Engagement

- Should there be more formalised guidance on how the members of a company's board engage with shareholders?
- Should the equivalent of the UK Stewardship Code be introduced into Australia? This Code sets out principles and guidance on how various institutional shareholders should discharge their position as significant equity owners
- Does the manner in which institutional shareholders utilise the services of proxy advisers require enhanced guidance or regulation?
- Should the right of 100 members to call an extraordinary general meeting of shareholders be abolished?

## Annual Reports

- Do annual reports contain unnecessary 'clutter'?
- Should annual reports more clearly distinguish between a high level strategic report (which identifies the strategy and future direction of the company as well as the challenges facing it) and other supporting information?

- What technological developments might be employed to assist shareholders to glean useful information from the annual report?

## Conducting the AGM

- Are there unnecessary timing or other barriers to shareholders placing matters on the AGM agenda or having supporting statements circulated?
- Should shareholders have greater scope for passing non-binding resolutions?
- Should a chair have the power to impose any time, or other, limits on individual shareholders speaking at the AGM?
- Should the circulation of pre-completed proxy forms be permitted?
- Should third parties be able to collect and send to the company completed proxy forms?
- Is there a problem with 'lost' or 'miscounted' votes?
- Should the renting of shares be regulated?
- Who should be entitled to information about proxy and direct voting trends before the AGM?
- Should there be legislative backing for online voting during the AGM?
- Should voting by show of hands be abolished in some or all instances?
- What procedure might best ensure the

independent verification of votes cast at an AGM?

- Are any steps necessary to promote greater consistency in the disclosure to the market of voting results?
- How often should directors be obliged to stand for re-election?
- Should there be further legislative controls over the voting procedure for electing directors?

## Future of the AGM

- Should the functions of the AGM be changed in some manner for some or all public companies?
- Should the obligation to hold an AGM be abolished?
- Should 'online-only' or 'virtual' AGMs be permitted?



## Charities to Benefit from Removal of ASIC Annual Fees

The establishment of the ACNC will see many Australian charities benefit from a removal of annual review fees currently charged by the ASIC.

The current annual fee for most charitable corporations that are registered with ASIC is \$43, but for some it can be up to

\$1,086. It is estimated that around 1,400 charities will benefit from the removal of ASIC annual fees.

On 1 July 2013, oversight of registered charities which are corporations will move from ASIC to the ACNC. These charities will no longer have to pay annual

ASIC fees, and the ACNC will not be charging annual fees. Many of Australia's prominent charities are companies limited by guarantee. Removing annual fees for charitable corporations is another benefit that comes from having a dedicated national regulator for Australian charities.

# Managing Complexity in Financial Reporting Findings

The Financial Reporting Council (FRC) released the findings drawn from the submissions received in response to its 'Managing Complexity in Financial Reporting' report. The FRC Task Force recommended that the FRC:

- Examine how the current financial reporting regime for the various types of reporting entities in Australia can be best explained and understood, and if needed, seek rationalisation of the regime (e.g., through further deregulation of who needs to report);
- Support the AASB's ongoing review and consideration of further enhancements to the RDR, including ongoing monitoring of developments in the IFRS for SMEs standard;
- Encourage a more coordinated approach between different agencies of government when considering accounting disclosure requirements;
- Encourage preparers to make better use of developments in information technology in the delivery of financial reports;
- Encourage the ASIC to emphasise that, under accounting standards, only material disclosures are required (especially in communications such as the regular commentary about their areas of focus when reviewing financial reports);
- Support the ASIC's proposal to foster more meaningful Operating and Financial Reviews in annual reports;
- Note those submissions which suggest the use of the business judgement rule, or a safe harbour for decisions made by directors, to address the issue of over-disclosure in financial reports;
- Support the Government's proposals to simplify the remuneration report;
- Reinforce the need for board education on financial reporting;
- Continue to monitor integrated reporting;
- Continue to influence the IASB to undertake reforms including rationalisation of disclosures; and
- Continue to monitor the work of other jurisdictions in addressing the issue of complexity in financial reporting.

## Integrated Reporting Framework Draft Outline



The International Integrated Reporting Council (IIRC) released the Draft Outline of the Integrated Reporting Framework. The

Outline establishes for the first time the basic structure of the Framework and is intended to keep stakeholders informed as the Framework is developed.

The IIRC also announced that a prototype Framework will be released by the end of 2012, with the Draft Framework being produced for public consultation in early-mid 2013 and a "version 1.0" of the Framework in late 2013. The concept of 'integration', embedding value-relevant financial and non-financial information into strategic decision-making and a company's reporting cycle, is gaining momentum as a vital step in the evolution of corporate reporting globally.

The IIRC also launched the Integrated Reporting <IR> Emerging Practice Examples Database which contains

reporting examples from businesses around the world, is an online resource that captures innovation to help entities on their journey towards <IR>.

The database brings together extracts of reports which illustrate emerging practices in the <IR> Guiding Principles and Content Elements.

These examples have been chosen from publicly available reports, including those produced by the IIRC's Pilot Program entities. Each example is accompanied by a short description of relevant features aligned with the International <IR> Framework.

This is a work in progress and will continue to be developed as integrated reporting evolves.

# ACNC NFP Governance Standards Consultation Begins



The Federal Government started discussions on a new Code for consultation with the NFP sector.

Minister for Social Inclusion Mark Butler said the Consultation Code will be a practical guide to effective ongoing consultation between the Government and the NFP Sector and will sit under the 'National Compact: working together'.

The Government asked the Reform Council, headed by former Queensland Attorney-General Linda Lavarch, to lead workshops with the sector. This will build on recent work with the NFP sector, including the removal of gag-clauses from Commonwealth contracts, new low-risk grant agreement templates, a simplified contract for low value procurements and the adoption of a national Standard Charter of Accounts."

The approach in developing a set of principle-based minimum governance

standards will be to start by asking the sector what works. There are a number of governance codes already being used by the sector to run strong and effective organisations. The ACNC's role in supporting charities to understand the governance requirements will recognise existing good practice governance arrangements in the sector.

The Government will also bring together sector stakeholders and governance experts and examine similar sets of standards from other jurisdictions in developing the principle-based standards under the ACNC Act. These will come into force from July 2013. The Commonwealth will also continue its work with the States and Territories on governance standards through COAG's NFP Reform Working Group.

## Grant Reporting Easier under ACNC Regime

The new ACNC will see further red tape reductions for the NFP sector following changes to grant guidelines announced by the Federal Government. The Commonwealth Grant Guidelines will be amended to support the implementation of a 'report-once, use-often' reporting framework for the NFP sector. The implementation of a 'report-once, use-often reporting framework' by the ACNC will be supported by changes to Commonwealth Grant Guidelines. These guidelines establish the grants policy and reporting framework for

all Commonwealth departments and agencies subject to the 'Financial Management and Accountability Act 1997'. The changes will benefit the many entities that will be registered with the ACNC and are recipients of grants from Commonwealth agencies and departments.

These changes will state that agency staff should not seek information from grant applicants and grant recipients that is collected by other Commonwealth entities and is available to agency staff. In particular, they will provide that agency staff must not request

information already provided to the ACNC by an entity regulated by it. The changes will also state that when determining whether acquittal or reporting requirements are required for a grant, agency staff must have regard to information collected by regulators, such as the ACNC. In addition, the changes will state that if an entity provides an annual audited financial statement to the ACNC, then a grant acquittal should not be required, unless the nature of the activity for which the grant has been provided is regarded as high risk.

## Mining Resource Exploration, Inquiry into Non-financial Barriers

David Bradbury, Assistant Treasurer requested that the Productivity Commission undertake an inquiry into the 'Non-financial barriers to mineral and energy resource exploration'.

The review will examine exploration approvals systems and processes, within and across jurisdictions, to assess their effectiveness and efficiency. The Commission will also assess areas of duplication between State, Territory and Commonwealth regulation for potential streamlining and further review. The Commission will also assess costs associated with government

processes and broader economic costs such as that associated with regulatory duplication but not related to taxation, financial incentives, fees, charges and royalties. This inquiry will also consider the work the Exploration Investment and Geoscience working group is undertaking on resource reserve disclosure by non-Australian Stock Exchange (ASX) companies.

The Commission will report within 12 months and provide a draft and final report to the Australian Government.