FRA NEWS

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Welcome to this issue of 'TNR FRA News'.

Financial Reporting and Auditing News ('FRA News') provides you with our insight into current and emerging financial reporting, auditing and corporate governance matters 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:

- Six standards approved by the AASB
- Investment entity narrow-scope amendments
- Improving disclosure in financial reports
- Listed company's undertaking for governance breaches
- ASIC's financial-reporting surveillance results
- Deadline for 2014 Annual Information Statement extended
- Directors disqualified and fined
- More ASIC action on lodging financial reports
- APRA's risk-management prudential standard

Nice to know:

- Financial-system inquiry final report
- AASB December meeting highlights
- Audit focus areas for December 2014
- Crowd-sourced equity funding proposals
- Victorian regional auditor banned
- Cash-flow statement revisions proposed
- Registrations of 440 SMSF auditors cancelled
- Financial-reporting essentials for December 2014

Six standards approved by the AASB

Need to know

The AASB has approved new standards on revenue recognition and financial instruments as well as revisions to the accounting of bearer plants. The standards apply to the preparation of general-purpose financial statements by for-profit, not-for-profit and public-sector entities that are reporting entities.

The new standards and amending standards approved are:

- AASB 15 'Revenue from Contracts with Customers'
- AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'
- AASB 2014-6 'Amendments to Australian Accounting Standards – Agriculture: Bearer Plants'
- AASB 9 'Financial Instruments'
- AASB 2014-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)', and
- AASB 2014-8 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010).

AASB 15 'Revenue from Contracts with Customers' will apply to contracts of NFP entities that are exchange transactions. AASB 1004 'Contributions' will continue to apply to non-exchange transactions until the 'Income from Transactions of NFP Entities' project is completed. An exposure draft seeking comment is to be released in the first quarter of 2015.

AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. AASB 15 also includes a comprehensive set of disclosure requirements.

AASB 2014-5 incorporates the consequential amendments arising from issuing AASB 15.

AASB 15 and AASB 2014-5 apply to annual reporting periods beginning on or after 1 January 2017. Early application is permitted for annual reporting periods beginning on or after 1 January 2015 but before 1 January 2017.

AASB 9 'Financial Instruments' (December 2014) is a new principal standard. It supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010). The new version of AASB 9 includes requirements for impairment of financial assets, limited amendments to classification and measurement of financial assets, including introduction of a measurement category of 'fair value through other comprehensive income' for debt instruments.

AASB 2014-7 incorporates the consequential amendments arising from issuing AASB 9.

AASB 9 and AASB 2014-7 apply to annual reporting periods beginning on or after 1 January 2018. Early application is permitted as set out in the standards.

AASB 2014-8 limits the application of the existing versions of AASB 9 – AASB 9 (December 2009) and AASB 9 (December 2010) – from 1 February 2015.

AASB 2014-8 applies to annual reporting periods beginning on after 1 January 2015.

AASB 2014-6 'Amendments to Australian Accounting Standards – Agriculture: Bearer Plants' defines bearer plants and requires them to be accounted for as property, plant and equipment within the scope of AASB '116 Property, Plant and Equipment', instead of AASB 141 'Agriculture'.

AASB 2014-6 applies to annual-reporting periods beginning on or after 1 January 2016. Early application is permitted for annual-reporting periods beginning on or after 1 January 2015 but before 1 January 2016.

That these standards were approved before 31 December makes them important "issued but not operative" disclosures required by AASB 108 'Accounting Policies, Changes in Accounting Policies and Errors'.

Investment entity narrow-scope amendments

The IASB has issued 'Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)'. The narrow-scope amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards. The amendments can be applied immediately and become mandatory for annual periods beginning on or after 1 January 2016.

Improving disclosure in financial reports

The International Accounting Standards Board (IASB) issued amendments to IAS 1 'Presentation of Financial Statements' as part of its major initiative to improve presentation and disclosure in financial reports. Improving the effectiveness of disclosure is widely considered to be one of the most important and challenging tasks in financial reporting.

The standard 'Disclosure Initiative (Amendments to IAS 1)' includes the following:

- Amended guidance on materiality in IAS 1 to clarify that immaterial information can detract from useful information, materiality applies to the whole of the financial statements, and materiality applies to each disclosure requirement in an IFRS, and
- Amended guidance on the order of the notes, including accounting policies to remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements, clarifying that entities have flexibility about where they disclose accounting policies in financial statements, and using less prescriptive wording for disclosure requirements when developing new standards. This is ongoing.

The amendments to IAS 1 are designed to encourage companies to apply professional judgement in determining what information to disclose in their financial statements. They mark the completion of five, narrow-focus improvements to disclosure requirements that the IASB had identified following its 2013 discussion forum.

They may be applied immediately, and they become mandatory for annual periods beginning on or after 1 January 2016.

That the IASB issued the standard before 31 December makes it a consideration for "issued but not operative" disclosures required by AASB 108 'Accounting Policies, Changes in Accounting Policies and Errors'. The AASB is likely to approve the Australian equivalent revised standard at its February 2015 meeting.

Other 'Disclosure Initiatives' in progress are:

- Amendments to IAS 7 'Statements of Cash Flows'
- Development of either general-application guidance or educational material on materiality. The IASB plans to publish a draft practice statement on materiality in mid-2015. A discussion of the definition of materiality will be included in the 'Principles of Disclosure' discussion paper
- A fundamental review of IAS 1, IAS 7 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' is being undertaken with a view to replacing them. The review includes the release of a discussion paper 'Principles of Disclosure' in mid-2015, and
- A general review of disclosure requirements in existing standards.

Listed company's undertaking for governance breaches

Biotech company NuSep Holdings Limited has agreed to an ASIC-imposed enforceable undertaking (EU) following concerns over its corporate governance, including potential breaches of continuous-disclosure laws.

An ASIC investigation which looked at the group's conduct between 2009 and 2012, led to concerns about NuSep's releasing inaccurate information to the market and acquiring shares in itself by issuing and holding shares in a suspense account. ASIC also has concerns over NuSep's standards of record-keeping and the issuing of bonuses to former executives.

Nusep acknowledged ASIC's concerns and has been helping the commission in its investigation. The company has already adopted new corporate-governance practices.

Under the EU, NuSep must appoint an independent consultant to review its compliance with continuous-disclosure and corporate-governance procedures and develop a plan to rectify any deficiencies identified by the expert. The independent expert will report regularly to ASIC over the next two years on NuSep's implementation of the plan, and ASIC may publish the results of the reports.

NuSep must also adopt and publish an executive remuneration policy consistent with the Australian Stock Exchange's corporate-governance principles.

ASIC's investigation is continuing.

ASIC's financial-reporting surveillance results

The Australian Securities and Investments Commission (ASIC) has announced its areas of focus for 31 December 2014 financial reports by listed and other entities. Directors and auditors should focus on values of assets and accounting-policy choices, which are important when providing meaningful information for investors and others who use financial reports.

Board area	Specific focus
Accounting estimates	Impairment testing and asset values Amortisation of intangible assets
Accounting policy choices	Off-balance sheet arrangements and new standards Revenue recognition Expense deferral Tax accounting
Key disclosures	Estimates and accounting policy judgements Impact of new revenue standard

ASIC encourages preparers and auditors to consider carefully the need to impair goodwill and other assets. ASIC continues to find impairment calculations that use unrealistic cash flows and assumptions, as well as material mismatches between cash flows and assets being tested for impairment.

Fair values attributed to financial assets should also be based on appropriate models, assumptions and inputs. Assets of companies in extractive industries and mining-support services in particular should be the subject of impairment focus. Asset values that may be affected by the internet should be the subject of special impairment review.

Preparers and auditors should focus on the appropriateness of key accounting-policy choices that can significantly affect reported results. These include off-balance sheet arrangements, revenue recognition, expensing of costs that should not be included in asset values, and tax accounting.

ASIC's surveillance continues to focus on material disclosures of information useful to investors and others, such as assumptions supporting accounting estimates, significant accounting-policy choices, and the impact of new reporting requirements.

Even though directors do not need to be accounting experts, they should seek explanations and professional advice about the accounting treatments chosen. Where appropriate, they should challenge estimates and treatments. They should especially seek advice where a treatment does not reflect their understanding of the substance of an arrangement.

Further information on directors and financial reports can be found in ASIC Information Sheet 183 'Directors and financial reporting'. Directors should also read ASIC Information Sheet 196 'Audit quality: the role of directors and audit committees'.

Deadline for 2014 Annual Information Statement extended

The ACNC will for the first time make financial information from Australia's registered charities available to the public free of charge. An estimated 35,000 charities report on a standard financial year (1 July to 30 June) and are required to submit their 2014 annual information statements by 31 January 2015, an extension of deadline by a month.

Directors disqualified and fined

The Federal Court has delivered its judgment on five former directors of Australian Property Custodian Holdings Ltd (APCHL) who breached their duties by making an illegal related-party payment of more than $30 million.

The judgment follows an ASIC investigation into the directors' role in amending Prime Trust's constitution so that a $33 million fee could be paid to the trust's founder and one of its directors, Mr Bill Lewski. ASIC launched its civil-penalty proceedings in 2012 and the court found in December 2013 that the directors had breached their corporate duties by failing to act in their members' best interests.

The judgement delivered the following disqualifications and penalties:

- Mr William Lionel Lewski – disqualified for managing a company for 15 years and fined $230,000
- Mr Mark Frederick Butler – disqualified for managing a company for four years and fined $20,000
- Mr Kim Jaques – disqualified for managing a company for four years and fined $20,000
- Dr Michael Wooldridge – disqualified for managing a company for two years and three months and fined $20,000, and
- Mr Peter Clarke –fined $20,000.

The court also ordered that the defendants pay ASIC's costs.

In delivering his judgment, Justice Murphy said that Mr Lewski's conduct was 'central in Prime Trust's suffering a substantial loss' and that he had failed to demonstrate any real understanding of the seriousness of the breaches. He also found that there was a risk of Mr Lewski's re-offending and that 'the lengthy disqualification and significant pecuniary penalty attempt to put a price on his contraventions that will show him that the game is not worth the candle'.

Justice Murphy found that, 'rather than acting in the best interests of the members', Mr Wooldridge, Mr Butler and Mr Jaques had 'capitulated to the interests of Mr Lewski'. In relation to Mr Clarke, Justice Murphy said, 'he sat passively' and 'merely waved through a resolution which allowed a $33 million breach of trust'.

More ASIC action on lodging financial reports

Four Australian public companies have been convicted and fined for failing to lodge financial reports, taking ASIC's prosecutions to 10 since 1 July. The commission has prosecuted 10 companies for 60 offences since July 1. Fines totalled $122,000.

String City Systems Limited, String Port Systems Limited and String Transport Systems Limited were convicted and fined a total of $19,000 for failing to lodge annual financial reports for the 2012 and 2013 financial years.

Redhouse Media Group Holdings Limited was convicted and fined $13,500 after failing to lodge its annual report for six consecutive years (30 June 2008 – 30 June 2013).

Listed company Sino Strategic International Limited was convicted and fined $18,000 for failing to hold annual general meetings and lodge financial reports. Sino pleaded guilty to 14 charges for failing to:

- Lodge half-year reports with either ASIC or the Australian Stock Exchange (ASX) between 2010 and 2012
- Lodge annual reports with either ASIC or ASX between 2011 and 2013
- Report to members between 2010 and 2013, and
- Hold annual general meetings between 2010 and 2013.

APRA's risk-management prudential standard

The Australian Prudential Regulation Authority (APRA) released the final version of its new risk-management standard, and associated guidance. The package includes final versions of Prudential Standard CPS 220 'Risk Management' and Prudential Practice Guide CPG 220 'Risk Management'.

The new requirements are applicable to authorised deposit-taking institutions (ADIs), general insurers and life companies, and authorised non-operating holding companies (authorised NOHCs), and take effect from 1 January 2015.

The new standard harmonises risk-management requirements across the banking and insurance industries, a range of them becoming a single standard. The new standard, together with the new practice guide, reflect APRA's heightened expectations with regards to risk management, consistent with the increased emphasis that has been placed on sound governance and robust risk-management practices in response to the global financial crisis.

Financial-system inquiry final report

Nice to know

On 7 December, the Federal Government released the final report of the 'Financial System Inquiry'. The report makes 44 recommendations to serve as a blueprint for the financial system over the next decade. They focus on two general themes– funding Australia's economy and boosting competition. Five specific areas– resilience, superannuation and retirement incomes, innovation, consumer outcomes, and the regulatory system – got special attention.

The recommendations included:

- Mandate a majority of independent directors on the board of corporate trustees of public offer superannuation funds, including an independent chair; align the director penalty regime with managed investment schemes; and strengthen the conflict of interest requirements
- Remove the exception to the general prohibition on direct borrowing for limited-recourse borrowing arrangements by superannuation funds
- Provide all employees with the ability to choose the fund into which their Superannuation Guarantee contributions are paid, and
- Publish retirement income projections on member statements from defined-contribution superannuation schemes using ASIC regulatory guidance.

The federal government is consulting on the inquiry's recommendations before making any decisions and is calling for written submissions from stakeholders, including industry representatives and members of the public. The closing date for submissions is 31 March 2015.

A number of the inquiry's recommendations are the responsibility of the financial regulators – APRA, ASIC and the RBA. While each regulator will consider the recommendations that relate to its legislative mandate the federal government welcomes submissions on the recommendations.

The inquiry has made several tax-issue observations. These will be considered under the tax white paper process and submissions on tax issues should be directed to it. Details are to be announced soon.

AASB December meeting highlights

Apart from the approval of six new or amending standards, the AASB December meeting made progress on three topics of particular interest to the not-for-profit (NFP) sector. They were service-performance reporting, fair-value disclosures for NFP public-sector entities, and service-concession arrangements.

Service-performance reporting (SPR): The board decided that the project should move directly to writing an exposure draft that might draw on the IPSASB project and NZ developments. The draft's scope should include public-sector and private-sector NFP entities. The board decided that the principles of SPR should be expressed in such a way that it resulted in an entity's providing appropriate information about the achievement of its stated objectives (outputs or outcomes). The board noted that for-profit entities considering integrated reporting might find the draft helpful. It is expected to be issued in June.

Fair-value disclosures for NFP public-sector entities: The board noted that certain disclosures specified by AASB 13 'Fair Value Measurement' may potentially be of less importance to users where the related assets are not held for the purposes of generating future cash inflows. Further research is to be conducted as to whether a case for modification under the 'Process for Modifying IFRSs for PBE/NFP' could be made for PPE held for its current service potential rather than to generate future cash inflows.

A cost-benefit analysis is to be conducted of the additional specified disclosures for such PPE classified as level 3 in the fair-value hierarchy, including exploring the benefits to users of pursuing a potential exemption from these disclosures.

Articles are also to be prepared addressing some of the transitional issues for NFP public-sector entities and highlighting the application of materiality in preparing fair-value disclosures.

Service-concession arrangements: The board discussed service-concession arrangements in which the grantor provides an operator a right to charge third parties and the operator constructs and operates a service-concession asset. It decided that service concession arrangements should be treated separately from licences granted by governments. It proposed that a grantor should initially recognise an obligation (instead of immediate revenue recognition) when the service concession asset is recognised, and subsequently recognise revenue over the life of a service-concession arrangement.

The board confirmed previous decisions that IPSAS 32 'Service Concession Arrangements: Grantor' is the foundation for the scope of the standard on grantor accounting in service concession arrangements. It also ratified the appropriateness of the control approach in IPSAS 32 and that additional guidance should clarify whether a grantor controls a service-concession asset where a third-party regulator is involved. Further research is to be conducted on measurement of the service-concession asset.

The board considered the relationship between service-concession arrangements and other licences granted by governments, and research is to be conducted on the nature and accounting for various licences. The research should indicate whether a separate project may be required to consider the accounting for these types of licences.

Audit focus areas for December 2014

Chartered Accountants Australia and New Zealand (CAANZ) issued its 'Audit Focus Areas December 2014' guide. The guide summarises the key audit-focus areas that members should consider in their 31 December audit engagements. The focus areas have been drawn from ASIC's latest communications and findings on audit quality as well as from common areas of non-compliance identified by CAANZ quality reviews.

The focus areas are: audit evidence; professional scepticism; reliance on other auditors and use of experts; financial reporting; fee reductions; audit efficiency measures; audit of internal controls; business models and risk assessments; supervision and review; auditor independence; and client relationship/ engagement documents.

The guide also highlights the resources CAANZ has available for each of the focus areas discussed, including relevant content and tools. It provides a reminder of the relevant ASA objectives for each area to enable members to plan their audits to address these areas appropriately.

Crowd-sourced equity funding proposals

The federal government has released its 'Industry Innovation and Competitiveness Agenda'. Among its proposals is consultation on a potential regulatory framework for crowd-sourced equity funding (CSEF) in Australia.

CSEF is an emerging form of funding that allows entrepreneurs to raise funds online from many small investors. Along with other innovative finance options, including peer-to-peer lending, 'angel' investing and venture capital, CSEF has the potential to increase access to funds by small businesses and start-ups.

Present regulatory requirements are a barrier to the widespread use of CSEF in Australia. A discussion paper 'Crowd-sourced Equity Funding' forms the basis of the government's consultation. The paper seeks stakeholder feedback on characteristics of potential CSEF models, including a model put forward by the Corporations and Markets Advisory Committee in a report released in June 2014 and a similar one recently implemented in New Zealand. The deadline for submissions is 6 February.

The government has made no decision on its preferred CSEF framework. Consultation is intended to ensure that it strikes the right balance between supporting investment, reducing compliance costs (including for small businesses) and maintaining an appropriate level of investor protection.

Victorian regional auditor banned

ASIC has cancelled the registration of the auditor of Gippsland Secured Investments (GSI) following a deficient audit of the debenture issuer, which has collapsed. Under an enforceable undertaking (EU) with the commission, a Gippsland auditor has agreed never to reapply for registration or perform the duties or functions of an auditor.

The auditor was in charge of audits of GSI for the 2011 and 2012 financial years. In September 2013, receivers were appointed.

GSI was an unlisted public company based in the Bairnsdale. It raised funds by issuing debentures and making loans primarily for property-investment purposes. The loans were secured by registered mortgages granted by the borrowers in favour of GSI.

In September 2013, receivers were appointed to GSI. The company's loan book consisted of 232 loans totalling about $117 million and issued notes/debentures of about $143 million to 3500 account holders.

An ASIC investigation found that the auditor did not conduct the audits in accordance with Australian auditing standards. The commission said that the auditor failed, among other things, to:

- Design and perform audit procedures in relation to loan receivables and obtain sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial reports to an acceptably low level
- Display an appropriate level of professional scepticism when auditing the provision for impairment of loans receivable, and when assessing related party transactions and GSI's ability to continue as a going concern, and
- Prepare audit documentation sufficiently to enable an experienced auditor to understand the audit procedures performed and evidence obtained.

ASIC has taken action against the auditors of several failed debenture issuers, including the lead auditors of Wickham Securities and Banksia Financial Group.

Cash-flow statement revisions proposed

As part of its 'Disclosure Initiative', the IASB published for public comment an exposure draft of proposed amendments to IAS 7 'Statement of Cash Flows'. The proposals respond to requests from investors for improved disclosures about an entity's financing activities and its cash and cash equivalents balances. Comments on the proposed amendments to IAS 7 should be sent to the IASB by 17 April 2015.

The objectives of the proposed amendments are to improve:

- Information provided to users of financial statements about an entity's financing activities, excluding equity items, and
- Disclosures that help users of financial statements to understand the liquidity of an entity.

The key requirements are:

- That an entity should disclose a reconciliation of the amounts in the opening and closing statements of financial position for each item for which cash flows have been, or would be, classified as financing activities in the statement of cash flows, excluding equity items, and
- To extend the disclosures required by IAS 7 about an entity's liquidity and proposes disclosures about the restrictions that affect the decisions of an entity to use cash and cash equivalent balances, including tax liabilities that would arise on the repatriation of foreign cash and cash equivalent balances.

The AASB has released ED 258 'Disclosure Initiative (Proposed amendments to AASB 107)', which incorporates IASB ED/2014/6 'Disclosure Initiative Proposed Amendments to IAS 7'. Comments on ED 258 are requested to the AASB by 20 March 2015 and to the IASB by 17 April 2015.

Registrations of 440 SMSF auditors cancelled

ASIC has cancelled the registration of 440 self-managed superannuation fund (SMSF) auditors who did not undertake or pass a competency exam necessary to retain their registration. The commission has also disqualified two SMSF auditors whose application for registration had overstated the number of SMSF audit reports issued by them in the preceding 12 months, thereby avoiding the requirement to sit the competency exam.

Of the 440 auditors whose registration was cancelled, 373 did not attempt the exam and 67 did not pass. Auditors were given up to two attempts to pass, and ASIC extended the period in which the test could be taken until 31 August 2014.

SMSF trustees and members can check whether their auditor is registered by searching ASIC's SMSF auditor register at connectonline.asic.gov.au. If a member or trustee is concerned that his or her SMSF auditor is not registered, he or she can report this to ASIC through its website at www.asic.gov.au.

Financial-reporting essentials for December 2014

Chartered Accountants Australia and New Zealand released its 'Australian Reporting Essentials for the 31 December 2014 reporting season'. It highlights regulatory considerations for preparers, directors and auditors of financial reports for the December financial period.

This edition emphasises key areas to consider for 31 December 2014 financial reports, including newly effective accounting standards, standards that have been issued but are not yet effective, disclosure overload, ASIC areas of focus, including asset values and accounting policy choices, directors' responsibilities for financial reports, and not-for-profit reporting and the ACNC.

Internet

Copies of 'FRA NEWS' are available on the internet at 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.