TNR® FRA NEWS

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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:

- Commonwealth grant guidelines – revised
- ACNC annual information statement
- Revenue recognition standard effective date
- Professional scepticism paramount for auditors

Nice to know:

- AASB February meeting highlights
- AUASB February meeting highlights
- IASB updated work program
- Debenture sector proposed reforms
- Tax paid, greater transparency
- Listed audits understanding – CPA guide
- Integrated corporate reporting framework

Liability limited by a scheme approved under Professional Standards Legislation

Commonwealth grant guidelines – revised

Need to know

Registered charities will save time reporting to multiple government agencies under new Commonwealth Grant Guidelines. Under the revised guidelines, Commonwealth agency staff should not seek information from grant applicants and grant recipients when that information is already collected elsewhere in Commonwealth government. In particular, agency staff must not request information provided to the ACNC by registered charities.

The changes to the Commonwealth Grant Guidelines support the 'report once, use often' concept underpinning the ACNC's Charity Passport. The Charity Passport is a key tool to reduce reporting duplication for registered charities. It is not a paper document, but a way of electronically sharing and using information the ACNC collects from registered charities.

The 'Commonwealth Grant Guidelines' (CGGs) establish the government's policy framework under which government agencies undertake their own grants administration activities. These guidelines articulate the government's expectations for both government and non-government stakeholders involved in grants administration.

The CGGs are issued by the Finance Minister under Section 64 of the 'Financial Management and Accountability Act 1997' (FMA Act) and Regulation 7A of the 'Financial Management and Accountability Regulations 1997' (FMA Regulations). They establish the overarching Commonwealth grants policy framework and describe the expectations for all agencies subject to the FMA Act.

The Finance Minister released the updated CGGs early to enable agency staff and non-government stakeholders to prepare for implementation. The updated CGGs will take effect from 1 June 2013. However, agency staff may adopt some or all of the requirements in the updated CGGs as soon as possible.

Another benefit for charities in the updated guidelines relates to determining whether acquittal or reporting requirements are required in relation to a grant. If an entity provides an annual audited financial statement, then a financial acquittal should not be required, unless the granting activity is higher risk.

Grant templates for low-risk grants have also been developed to ease administrative and legal costs for entities. The template aims to reduce the burden of reporting and acquittals for grants recipients by establishing thresholds for low-risk grants. The Department of Finance and Deregulation is currently working with selected Commonwealth agencies to pilot the template. It is expected that a final version of the template for broader use will be released later this year. The Guidelines also encourage the use of longer-term grant agreements. HLB

Professional scepticism paramount for auditors

The Institute of Chartered Accountants in Australia launched 'Preserving capital market confidence through audit quality', which summarises benchmark data from research into the audit practices of major accounting firms in Australia. Findings reveal that professional scepticism and effective communication skills are front of mind for auditors. The benchmark data has been distilled to highlight key messages resulting from the research: the sustainability of the profession; professional scepticism; communication; the audit committee; and influencing the profession.

Opportunities like mentoring and training, particularly for the younger staff in audit teams, should be encouraged to boost their capability and bring that desired level of scepticism to the judgement calls made as part of everyday audit work. Effective communication also stands out as being fundamental to a quality audit process and it supports behaviour related to exercising professional scepticism. HLB

Revenue recognition standard effective date

Entities will have a longer-than-usual transition period between the issuance and the effective date of a new, converged IFRS/FASB revenue recognition standard. It aims to create global comparability and eliminate some industry variability in how entities recognise revenue, particularly in the US. Entities will be required to apply the new standard for reporting periods beginning on or after 1 January 2017. The project that began in 2008 is in its closing stages; drafting of the final standard is underway. The Standard is scheduled to be released by the middle of the year. Early application of the standard is prohibited.

The extended period was considered necessary as feedback indicated that three years was the minimum amount of time necessary for entities to prepare their systems and processes to capture the information necessary for restatement for disclosures in the comparative period.

An entity can also elect an alternative transition method that would not require comparative years to be restated. This method would require an entity to recognise the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings in the year of initial application. Entities that elect the alternative transition method would provide additional disclosures in the year of initial application for the amount by which each financial statement line item is affected in the current year as a result of the entity's applying the new revenue standard. HLB

ACNC annual information statement

The ACNC will soon publish a sample 2013 Annual Information Statement (AIS) along with detailed guidance notes. The 2013 AIS will only require basic non-financial information. For most charities, the ACNC expects that it will take less than an hour to complete (some of the ACNC testers have stated it just took 15 minutes).

The AIS will not be due until the end of December 2013 and it will cover the 12-month reporting period ending 30 June 2013. These dates will be different for registered charities with non-standard financial years. They will have six months after the end of their financial year to file their 2013 AIS.

The ACNC will also release a consultation document to ask for the public's feedback on the information we propose to collect in the 2014 AIS. The consultation period will last for six weeks. This document will give all charities a good understanding of what they will need to collect for the 2013/14 reporting period. The contents of the 2014 AIS will be finalised as soon as possible after the end of the consultation period.

Financial data collected in the 2014 AIS will, wherever possible, align with National Standard Chart of Accounts (NSCOA). This will go a long way towards helping registered charities understand the financial descriptions and it will mean data on the ACNC register will be consistent and able to be used by other agencies. Aligning with NSCOA is a practical example of how the ACNC will help to cut red tape for registered charities. The NSCOA is used by all Australian governments (federal, state, territory and local) as a nationally consistent approach requesting financial information from not-for-profit entities. HLB

AASB February meeting highlights

Highlights of the February meeting of the AASB included:

- **Special Purpose Financial Reporting (SPFR):** Discussed the possible policy implications of the results emerging from the research into SPFR. The research questioned the application of the reporting entity concept by entities in determining whether they should prepare GPFSs; the extent to which different types of entities are lodging GPFSs compared with SPFSs, and the quality of those respective financial statements in relation to the recognition and measurement requirements of Australian Accounting Standards. Research findings cast doubt on how well the reporting entity concept is being applied. The findings support the proposals in ED 192 'Revised Differential Reporting Framework'. ED 192 focussed on the application of Australian Accounting Standards should change to GPFS and the meaning of GPFSs in the Australian context should be clarified. The AASB directed staff should liaise with other regulators to coordinate efforts in dealing with the issues emerging in the research report and potentially transitioning to a more coordinated reporting regime;
- **Superannuation entities:** Sweep issues to come to the April meeting for deliberation and, subject to the nature and significance of the issues raised at that meeting, to subsequently prepare a pre-ballot draft of a replacement standard for AAS 25 'Financial Reporting by Superannuation Plans';
- **Consolidation implementation guidance for NFP entities:** Considered sweep issues in respect of the draft ED of Australian implementation guidance for NFP entities in relation to AASB 10 'Consolidated Financial Statements'. The ED will be issued in March with a three-month comment period;
- **Budgetary reporting by NFP public sector entities:** Considered constituents comments received on the fatal flaw draft Standards AASB 105X 'Budgetary Reporting' and AASB 2012-XX 'Amendments to AASB 1049 'Relocation of Budgetary Reporting Requirements';
- **Recently approved standards:** Since the December Board meeting the following were approved: AASB 2012-8 'Amendments to AASB 1049 Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms'; AASB 2012-9 'Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039'; AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'; and AASB 2012-11 'Amendments to Australian Accounting Standards Reduced Disclosure Requirements and Other Amendments';
- **Recently issued exposure drafts:** Six exposure drafts were issued: ED 230 'Classification and Measurement: Limited Amendments to AASB 9', which incorporates IASB ED/2012/4; ED 231 'Clarification of Acceptable Methods of Depreciation and Amortisation', which incorporates IASB ED/2012/5; ED 232 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', which incorporates IASB ED/2012/6; ED 233 'Australian Additional Disclosures Investment Entities'; ED 234 'Acquisition of an Interest in a Joint Operation', which incorporates IASB ED/2012/7; and ED 235 'Recoverable Amount Disclosures for Non-Financial Assets', which incorporates IASB ED/2013/1; and
- **April meeting:** Anticipated agenda items: superannuation entities; financial instruments; IASB proposals relating to: acquisition of an interest in a joint operation that constitutes a business, sale or contribution of assets between an investor and associate or joint venture; IPSASB Conceptual Framework proposals relating to: elements and recognition; measurement of assets and liabilities. HLB

Listed audits understanding – CPA Guide

To help existing and prospective shareholders to understand the audits and half-yearly reviews of listed companies, CPA Australia developed 'A Guide to Understanding Auditing and Assurance: Listed Companies'. The key benefits for shareholders reading the guide are: an overview of what auditing and assurance mean; an understanding of the difference between an audit and a review; how to tell if an auditor's report is "clean" or contains a qualification; an explanation of an auditor's role in respect to fraud and going concern; an illustrative sample audit and review reports with plain language explanation; a simple glossary of terminology used in auditing and assurance.

This is a simple, plain language guide for shareholders who are not experts in auditing and assurance to better-understand information they receive from auditors about their companies. The guide is an important financial literacy initiative, providing much-needed clarification around audits and half-yearly reviews as the half-year reporting season commences. HLB

AUASB February meeting highlights

Highlights of the February meeting of the AUASB included:

- **Review engagements:** Considered comments on exposure drafts of the ASRE 2400 'Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity' (ED 02/12) and ASRE 2415 'Review of a Financial Report – Company Limited by Guarantee' (ED/03/12). Agreed proposed amendments including revision of ASRE 2415 to incorporate reviews of entities reporting under the Australian Charities and Not-for-Profit Commission Act 2012 (commencing 1 July 2013). The revised standard is planned for a March release and is to be operative from 1 July 2013. The application guidance on the Australian Standards on Review Engagements, which previously was included in an appendix to ASRE 2400, is be further developed and separately released at a later date as a Guidance Statement;
- **Internal controls:** Received an update on the project to develop an assurance standard on Engagements to Report on Controls (revision of AUS 810) and a first draft of the exposure draft for proposed standard will be considered at the April AUASB meeting;
- **Composite audit and assurance reports:** Considered a project plan to develop a Guidance Statement designed to assist auditors to prepare appropriate reports when reporting under more than one AUASB reporting framework, with focus on: grant acquittals; and report formats prescribed by relevant authorities such as licencing ones;
- **Using the work of internal auditors (ASA 610):** The IAASB at its February 2013 meeting approved the release of the revised ISA 610 'Using the Work of Internal Auditors', which includes new provisions to allow for direct assistance by internal auditors on external audits. AUASB decided not to adopt the IAASB's direct assistance provisions, but to incorporate the other revisions in a revised ASA 610 to be released later this year following exposure; and
- **Prudential reporting by general insurers:** Received an update on the project to revise GS 004, and will consider a further draft at its next meeting on 29 April.

IASB updated work program

The IASB has updated its work plan with timing of number of project being clarified or extended. The changes are:

- **Financial instruments – general hedge accounting:** The target date for issue is the second quarter of 2013 (previously first quarter);
- **Leases:** The target date for the issue of a revised exposure draft is the second quarter of 2013 (previously first quarter);
- **Revenue:** Timing of a finalised IFRS clarified now the second quarter of 2013 (previously first half of 2013);
- **Post-implementation review of segment information:** A report arising from the review is expected to be published in the second quarter of 2013;
- **Employee contributions to defined benefit plans (IAS 19:** This is a new project added to the IASB's agenda with an exposure draft is expected in the first quarter of 2013;
- **Insurance contacts:** Target date for the publication of an exposure draft is clarified as the second quarter of 2013 (previously first half of 2013);
- **Rate regulated activities:** The expected timing of an exposure draft for an interim IFRS on rate-regulation clarified as the second quarter of 2013 (previously first half of 2013). The discussion paper arising from the comprehensive project is expected in the fourth quarter of 2013 (previously third or fourth quarter of 2013);
- **Annual improvements 2010-2012:** Finalised amendments arising from this cycle of annual improvements has been deferred to the third quarter (previously second quarter);
- **Bearer biological assets (IAS 41):** An exposure draft is now expected in the second or third quarter of 2013 (previously second quarter);
- **Equity method in separate financial statements (IAS 27):** The timing of the issue of an exposure draft is now the second or third quarter of 2013 (previously second quarter); and
- **Business combinations (IFRS 3):** The start of the post implementation review has been deferred and is scheduled to commence in the second or third quarter (previously first or second quarter).

Three exposure drafts are expected to be issued by the end of the March 2013: Financial instruments – impairment; Employee contributions to defined benefit plans; and novation of derivatives. A discussion paper on 'Financial instruments – macro hedge accounting' is also expected.

Debenture sector proposed reforms

ASIC put forward a number of proposals to strengthen the regulation of the debenture sector, including introducing minimum capital and liquidity requirements (Consultation Paper 199 'Debentures: Reform to strengthen regulation). The key points are: the debenture sector in the spotlight following recent collapses e.g. Banksia; ASIC proposals seek to improve the financial strength of issuers; and better investor understanding about debenture investments is a priority.

The move follows a number of high-profile collapses in the sector, including Banksia Securities Ltd, the subsequent ASIC debenture taskforce and the Government's December 2012 announcement about law reform for the $4 billion sector. ASIC will consult on: mandatory minimum capital and liquidity requirements for debenture issuers; proposals to strengthen disclosure to investors about debenture issuers; clarifying the powers and duties of debenture trustees, and the role of auditors.

In summary the proposals are:

- Certain debenture issuers that accept retail investments and then on-lend should have a minimum capital ratio of 8% of their total risk-weighted assets. This ratio would be calculated as: Risk-based capital ratio = capital base / total risk-weighted asset;
- Debenture issuers should maintain a minimum holding of 9% of their liabilities in high-quality liquid assets. If issuers breached the capital or liquidity ratios, then they would be prevented from raising further funds;
- ASIC should have a discretionary power to raise or lower the 8% capital ratio on a case-by-case basis. This is because, unlike ADIs, debenture issuers will not be subject to close prudential supervision;
- A four year transition period for these requirements is proposed;
- Trustees will be required to regularly express a view in writing on the debenture issuer's financial position and on-going viability. This would apply to all types of debenture investments involving retail clients. Trustees will be given express powers to obtain information from an issuer on an 'as needed' basis;
- Debenture issuers will be required to engage their auditor to report directly to the trustee twice per year and answer any reasonable questions put to it by the trustee. This would apply to all types of debenture investments involving retail clients;
- The report provided would be the audited annual report and reviewed half yearly report, and the auditor would have to report directly to the trustee any matters that are likely to be prejudicial to debenture holders or relevant to the exercise of the trustee's powers; and
- That certain debenture issuers that accept retail investments and then on-lend be required to provide prospectus disclosure when existing retail investors make further debenture investments or 'roll over'.

APRA will separately consult on proposed reforms to more clearly differentiate debenture issuers from banks, building societies and credit unions that are prudentially regulated. This includes a proposal to prohibit debenture issuers from using terms like 'deposit' and a proposal to restrict 'at-call' accounts by imposing a minimum maturity period. Following consultation, the Government and regulators will make a final decision on the new framework, including transitional arrangements. HLB

IASB updated work program

The IASB and International Integrated Reporting Council announced an agreement that will see the two entities deepen their cooperation on the IIRC's work to develop an integrated corporate reporting framework.

The Memorandum of Understanding demonstrates the common interest of both organisations in improving the quality and consistency of global corporate reporting to deliver value to investors and the wider economy. The IIRC is a global coalition of market participants and other relevant stakeholders who are working towards the publication of the International Integrated Reporting Framework.

The Consultation Draft of the Framework will be released on 16 April. The Framework itself will be published in December 2013. HLB

Tax paid greater transparency

The Federal Government announced its intention to improve the transparency of Australia's business tax system. Improving the transparency of Australia's business tax system is intended to encourage entities to pay their fair share of tax and discourage aggressive tax minimisation practices.

The Government will also explore ways to improve the sharing of tax information between the Australian Taxation Office and other key corporate regulators including the Foreign Investment Review Board, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority. This work will enhance the administration and regulation of Australia's tax system and capital markets.

Treasury, in consultation with the Specialist Reference Group on 'Ways to Address Tax Minimisation of Multinational Enterprises' are to develop the details of how changes could be implemented, for example:

- How the policy could best be designed to cover large and multinational businesses, including whether a threshold test would be appropriate
- Which federal taxes should be disclosed, and
- How the tax information should be made publicly available.

Internet

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Queries

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

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