



# FRA NEWS

No.3/2015

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:

- Approved audit report for APRA-regulated superannuation funds
- ASIC enquires into risk management by responsible entities
- Fined for failing to lodge financial reports
- Compilation of financial information standard revised
- Goodwill reduced by \$426.2m
- Recently approved AASB standards

#### Nice to know:

- Classification of liabilities proposals
- Managing director banned
- Enforceable undertaking guidance
- AASB February meeting highlights
- Tougher ethical standards for preparers of financial information
- Financial adviser jailed for \$5.9 million fraud
- Recognise and manage risk – practice guide for listed entities
- Australian Charities and Not-for-profits Commission round-up
- Survey on audit firms' quality controls

Liability limited by a scheme approved under Professional Standards Legislation

# Approved audit report for APRA-regulated superannuation funds



APRA has released a revised Approved Audit Report form for superannuation entities for reporting periods commencing on or after 1 July 2014.

The changes include:

- Minor wording changes to promote consistency
- Specific changes to part 3B (limited assurance on compliance) to align the content with ASAE 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', and
- Removal of some compliance provisions under Part 2B (reasonable assurance on compliance) in response to changes to the superannuation environment since the inception of the form. The new form focuses more on processes and frameworks developed since the introduction of the superannuation prudential standards, which APRA expects to be covered under part 3B.

Additional guidance on using the form can be found in APRA's Prudential Practice Guide SPG 310 'Audit and Related Matters'. [link](#)



## ASIC enquires into risk management by responsible entities

ASIC is investigating several responsible entities of registered managed-investment schemes regarding their risk-management practices. In particular, the commission is looking at fixed-income, exchange-traded and other funds that might experience liquidity issues when the market is volatile.

The enquiries are a pro-active response to increased global and domestic market volatility. They aim to examine the adequacy of risk-management and disclosure practices in these market conditions. ASIC wants to ensure that responsible entities are adequately positioned to manage these risks.

ASIC will remind responsible entities of their obligations and ask them to provide information about the adequacy of arrangements addressing risk.

Effective management of these issues leads to less risk being borne by investors. All responsible entities must have a sound and tested risk-management strategy in place. Failing to manage risks can have serious implications, including adverse effects on the liquidity of funds.

The enquiries remind financial-services licensees to have adequate risk-management systems. In 2013, ASIC published Consultation Paper 204 'Risk management systems of responsible entities', which proposed guidance based on responsible entities' current practices. ASIC's final policy position is under consideration. The commission has advised responsible entities that they should continue to ensure that adequate risk-management systems are in place to comply with their obligations. [link](#)

## Fined for failing to lodge financial reports



Australian unlisted public companies Johnson Matthey Holdings Limited and Johnson Matthey (Aust.) Limited have been fined a total of \$10,000 for failing to lodge their annual financial reports.

The companies pleaded guilty and were convicted in relation to six ASIC charges for failing to lodge financial reports for the years ended 31 March 2008, 31 March 2011, 31 March 2012 and 31 March 2013. Johnson Matthey Holdings Limited also pleaded guilty and was convicted of one ASIC charge for failing to comply with a court order to lodge its 31 March 2011 financial report.

As Australian unlisted public companies, they are required to lodge financial reports within four months of the end of financial years. Entities required to lodge annual reports with ASIC must ensure that they comply with their obligations. Annual reports help a range of consumers, including investors and creditors in making informed decisions. [link](#)

# Compilation of financial information standard revised

The Accounting Professional and Ethical Standards Board (APESB) has released a revised standard covering the compilation of financial information for professional accountants. It will be effective from 1 July 2015.

Revisions to APES 315 'Compilation of Financial Information' (previously issued in 2009) include additional requirements and guidance based on changes to the international equivalent (ISRS 4410

'Compilation Engagements') and enhancements developed locally by the board to meet the needs of Australian accountants.

APES 315 addresses historical and prospective financial information that accountants compile, maintaining a wider scope than its international equivalent, which is primarily focused on financial statements. [More](#)

## Goodwill reduced by \$426.2m

ASX-listed Primary Health Care Limited has reduced goodwill previously recorded for payments it makes to general practitioners when they join its network of medical clinics.

Following ASIC's inquiries, Primary has determined that, while a portion of payments will continue to be accounted for as goodwill, a significant majority of them will be treated as intangible assets and amortised over the life of the relevant contract, generally for five years.

Primary has now reduced goodwill by \$426.2 million as a prior period adjustment in its results for the half-year ended 31 December 2014. The goodwill has been replaced by an identifiable intangible asset with an amortised amount of \$139.9 million. Retained profits have been reduced by \$290.4 million, representing past amortisation. [More](#)

## Recently approved AASB standards

Since 19 December 2014, the AASB has approved the following standards:

Standard	Explanation	Effective date
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'	The amendments complete the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015
AASB 2015-4 'Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent'	Aligns the relief available in AASB 10 'Consolidated Financial Statements' and AASB 128 'Investments in Associates and Joint Ventures' in respect of the financial reporting requirements for Australian groups with a foreign parent.	1 July 2015
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	Amends AASB 10 'Consolidated Financial Statements' and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	1 January 2016
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012 – 2014 Cycle'	The amendments relate to the following: changes in methods of disposal; servicing contracts; applicability of the amendments to AASB 7 'Financial Instruments: Disclosures' to condensed interim financial statements; discount rate: regional market issue; and disclosure of information 'elsewhere in the interim financial report'.	1 January 2016
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	Amends to AASB 101 'Presentation of Financial Statements' arising from the IASB's Disclosure Initiative project.	1 January 2016
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	Amendments to AASB 10, AASB 12 'Disclosure of Interests in Other Entities' and AASB 128 arising from the IASB's narrow scope amendments associated with Investment Entities.	1 January 2016

[More](#)

# Classification of liabilities proposals



The AASB has released ED 259 'Classification of Liabilities' (Proposed amendments to AASB 101), which incorporates IASB ED/2015/1 'Classification of Liabilities (Proposed amendments to IAS 1)'. ED 259 clarifies how entities classify debt, particularly when it is coming up for renewal.

The proposed amendments are designed to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current. The proposed amendments do this by:

- Clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the

reporting period, and

- Clarifying the link between the settlement of the liability and the outflow of resources from the entity.

The proposals clarify that an entity must have a right to refinance or rollover a loan, or other form of debt, for at least 12 months after the reporting date for it to be classified as non-current. If there is no arrangement in place at the reporting date to rollover the loan, it must be classified as current. [\[1\]](#)

## Managing director banned

ASIC has banned Michael O'Sullivan from managing corporations for five years and from providing financial services for seven years. The ban follows an ASIC investigation that found that Mr O'Sullivan had breached his duties as a director and failed to comply with financial-services laws.

Mr O'Sullivan was the managing director of Provident Capital Limited from 25 May 1998 to 28 January 2014.

Provident Capital issued debentures to retail investors through their fixed-term investment portfolio and advanced the debenture funds to third-party borrowers, including property developers, on a first-mortgage basis. Provident Capital also operated a mortgage fund under a wholesale facility with Bendigo and Adelaide Bank and two managed investment schemes.

Provident Capital went into receivership on 3 July 2012 and into liquidation on 24 October 2012. ASIC suspended Provident Capital's Australian financial-services licence on 15 October 2012.

When Provident Capital went into liquidation, more than 3000 debenture holders were owed about \$130 million. Provident's receivers estimated that the likely return to debenture holders would be in the range of 17-19 cents in the dollar.

ASIC's investigation found Mr O'Sullivan:

- Failed to exercise due care and diligence in the management and recording of the largest loan made by Provident Capital through its fixed-term investment portfolio
- Caused Provident Capital to make misleading statements to ASIC and

Australian Executor Trustees Limited

- Caused Provident Capital to issue a debenture prospectus in December 2010 to raise funds from the public that contained misleading statements, and
- Used his position improperly to gain financial advantages for himself and for a company of which he was formerly a director.

The commission's investigation is continuing.

ASIC reminded directors that they had a responsibility to ensure that statements made to investors were true and reliable. Failing to meet this obligation undermined confidence and trust in the corporate and financial-services communities. [\[1\]](#)

## Enforceable undertaking guidance

ASIC has updated its Regulatory Guide 100 'Enforceable undertakings' by including guidance about independent experts and publicity for enforceable undertakings. The updated guidance will apply to enforceable undertakings accepted by ASIC from 9 March this year.

The changes to RG 100 provide new guidance about:

- Public reporting by ASIC on compliance with enforceable undertakings, including public summaries of independent expert reports
- Criteria for use in assessing the independence of experts, including assessment of conflict-management processes, and
- The circumstances in which ASIC will generally seek to appoint an independent expert. [\[1\]](#)



## AASB February meeting highlights



Highlights of the AASB February meeting included:

- Related party disclosures for NFP public-sector entities: The board finalised proposals to require NFP public-sector entities to provide related party disclosures for annual reporting periods beginning on or after 1 July 2016. Comparative information would not be required in the first year of application. An amending standard removing the exemption from AASB 124 'Related Party Disclosures' is expected to be issued by the end of March
- Service concession arrangements – grantor accounting: Agreement on an exposure draft to be released by the end of March, and
- Income from transactions of NFP entities: Progressed a draft of an exposure draft that is expected to be issued in March. [link](#)

## Tougher ethical standards for preparers of financial information

The Accounting Professional and Ethical Standards Board (APESB) seeks comment on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft 'Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles'.

The ED proposes changes that are designed to help accountants deal with pressure and misleading information in the course of their duties. They respond to the need for more robust and practical guidance to help accountants deal more effectively with the challenges they can face in complying with fundamental ethical principles and

producing financial reports that are faithful representations of the economics of transactions.

Among the proposed changes are:

- Fuller and more explicit guidance regarding accountants' responsibilities when presenting information
- Strengthened guidance on how an accountant can disassociate himself or herself from misleading information
- An expanded description of pressure that might lead to a breach of the fundamental principles in APES 110 'Code of Ethics for Professional Accountants' together with practical examples to illustrate different kinds of situations in which such pressure may arise, and
- New guidance to assist accountants to identify and respond to pressure that could result in a breach of fundamental principles.
- The proposal also clarifies that, when preparing financial information, exercising discretion, for example, when selecting an accounting method, in a manner that is intended to mislead is not acceptable. [link](#)

## Financial adviser jailed for \$5.9 million fraud

A former financial adviser was jailed for six years and three months for defrauding more than 150 clients of more than \$5.9 million over 20 years. Ms Melinda Scott was convicted and will serve three years and ten months imprisonment before being eligible for parole. The non-parole period takes into account a discount for her pleading guilty to the offences.

In December 2013, Ms Scott pleaded guilty to three dishonest-conduct charges and four charges relating to the making and using of

false documents involving \$5.9 million of her clients' money.

In several cases, Ms Scott also made regular payments to clients who were expecting an allocated-pension payment but from whom she had fraudulently obtained money. Taking into account the regular payments, the net benefit derived by Ms Scott from her fraudulent conduct was about \$2.9 million. [link](#)

## Recognise and manage risk – practice guide for listed entities

The third edition of 'ASX Corporate Governance Council Principle 7: Recognise and Manage Risk' better-practice guide has been released by the Group of 100. The guide has been developed to provide general guidance on compliance with the principle. The revised Corporate Governance Principles and Recommendations take effect for a listed entity's first full financial year commencing on or after 1 July 2014. [link](#)

# Australian Charities and Not-for-profits Commission round-up

It has been another busy month at the ACNC. In summary, the commission:

- Revoked the charity status of DGR charity
- Issued its first enforceable undertaking to improve a charity's governance
- Reminded charities to complete their overdue reporting or face penalties, and
- Provided additional guidance for companies limited by guarantee and new information on merging or winding up a charity, or changing its legal structure.

In March, the ACNC will release a summary of its first two years of compliance activity, including several anonymous case studies and lessons for the sector.

Minister Scott Morrison has signalled that he will not make scrapping the ACNC a priority in his new Social Services portfolio.

The Department of Social Services has released a discussion paper 'Proposed changes to financial and prudential reporting requirements for residential and home care'. The discussion paper outlines the structure of the proposed Comprehensive Financial Report (CFR), which is proposed to consolidate and replace the current financial-reporting framework for residential and home-care providers. [link](#)

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## Survey on audit firms' quality controls

The International Auditing and Assurance Standards Board (IAASB) has issued a survey in connection with its new quality-control initiative as outlined in its strategy for 2015-2019 and work plan 2015-2016.

Its purpose is to reveal the scope of the proposed quality-control project, specifically with respect to issues encountered by small and medium-sized practices in complying with the requirements of International Standard on Quality Control (ISQC) 1 'Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements' and of International Standard on Auditing (ISA) 220 'Quality Control for an Audit of Financial Statements'. [link](#)

### 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.**

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