



FRA NEWS

No.4/2015

Welcome to this issue of 'HLB 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 HLB Mann Judd.

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

Need to know:

- Resource company corrects errors in tax accounting
- Corporations Act reforms become law
- \$2.15m write-down of E&E assets
- Effects of bringing leases onto balance sheets
- Miner writes down by \$310m after ASIC enquiries
- Co-operatives National Law – South Australian start nears
- Auditors' using management's experts' work
- Related party disclosure amendments for NFP public-sector entities

Nice to know:

- Former CFO of ABC Learning pleads guilty to ASIC charge
- ASIC begins civil proceedings against former MFS Group officers
- Continuous auditing guide updated
- Permanent ban and \$20,000 fine for raiding trust account
- Auditor banned for life
- ACNC round-up
- ASIC bans finance broker and cancels licence
- Changes to continuous-disclosure guidance proposed
- AUASB February meeting highlights
- Fraud-control kit updated

Liability limited by a scheme approved under Professional Standards Legislation

Resource company corrects errors in tax accounting



ASX-listed Tribune Resources Limited restated comparative balances in its financial report for the half-year ended 31 December 2014 as a result of errors in its tax accounting to 30 June last year. ASIC reviewed Tribune's financial report for the year ended 30 June 2014 as part of its surveillance program and made enquiries about Tribune's calculations of income-tax expense and deferred-tax liabilities.

As a result of ASIC's enquiries, Tribune carried out an extensive review of its tax position and identified the following errors:

- Overstated deferred tax liability for an investment in a controlled entity of \$2.8 million that should have been eliminated on consolidation
- Understated deferred tax liability relating to mine development assets of \$2.4 million, and
- Overstated current income-tax provision from the year ended 30 June 2011 of \$3.9 million.

Tribune has disclosed these errors in notes to its half-year financial report.

Tax accounting remains a focus of ASIC surveillance. The commission reminds those involved in preparing and approving financial reports that tax accounting can be complex. A comprehensive understanding of both the tax and accounting treatments is needed to determine current and deferred-tax balances. Errors in balances have the potential to affect reported profits. [\[1\]](#)

Corporations Act reforms become law



Reforms to the Corporations Act 2001 affecting auditor appointments for companies limited by guarantee, remuneration reporting and member voting rights – among other changes – have been written into law as the Corporations Legislation Amendment (Deregulatory and other Measures) Act 2015. The bill received royal assent on 19 March, the date the reforms became operative.

Key changes are:

- Streamlining the disclosure of executive remuneration in the remuneration report, especially relating to lapsed options. The Act also relieves unlisted disclosing entities from the need to produce such reports
- Removing the obligation of companies limited by guarantee that are not required to undertake an audit of their need to appoint or retain an auditor
- Removing the obligation on company directors to hold a general meeting at the request of 100 members. General meetings will require a request by at least 5 per cent of members, and
- Clarifying the circumstances when a financial year can be less than 12 months. [\[1\]](#)

\$2.15m write-down of E&E assets

ASX-listed Greenerth Energy Limited has made a \$2.15 million impairment charge relating to its geothermal operations in its financial report for the half-year ended 31 December 2014. The charge represents the total carrying amount of Greenerth Energy's exploration and evaluation assets.

ASIC reviewed the company's financial report for the year ended 30 June 2014 as part of its ongoing financial-reporting surveillance

program, questioning the company on the carrying value of the exploration and evaluation assets of its geothermal operations. The operations had been affected by a Victorian government moratorium on hydraulic fracturing and well activity, the government's withdrawal of funding and an unsuccessful grant application to the Australian Renewable Energy Agency.

Impairment testing and asset values

remain a focus of ASIC's surveillance. The commission reminds companies and those involved in preparing and approving financial reports that exploration and evaluation assets should be assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. [\[1\]](#)

Effects of bringing leases onto balance sheets

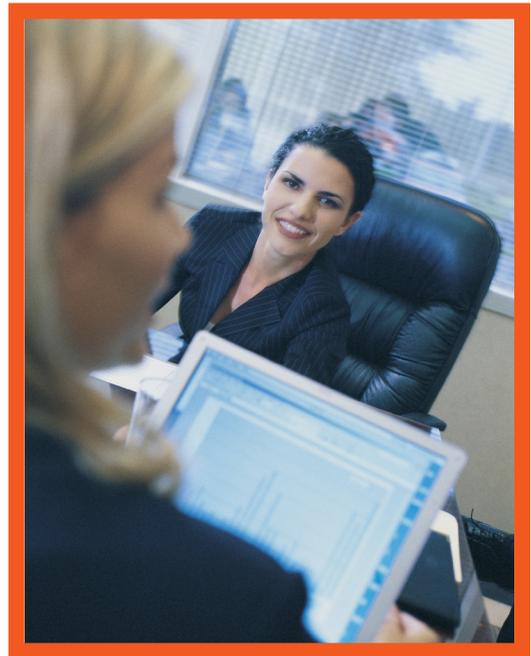
The International Accounting Standards Board (IASB) is finalising a new International Financial Reporting Standard (IFRS) that will require companies to bring leases onto balance sheets. The board has published a document outlining the likely practical effects of the new standard, as well as details on the similarities and differences between the IASB's requirements and those of the US Financial Accounting Standards Board.

The main change will involve an increase in balance-sheet assets and liabilities for companies that have many leases not already recorded on balance sheets. The move is expected to improve the transparency of a company's leverage and asset base.

As well as balance-sheet changes, the new standard is likely to result in important differences on stated incomes. Among them is the reporting of higher operating profits compared with the present requirements. There will be no changes to total cash flows but, in cash-flow statements, the amount of operating cash will increase while the amount of financing cash will decrease.

The document also looks at other potential implications of the 'leases' accounting model, such as the possible impact on the cost of borrowing. It asserts that the new standard will provide more transparent information about a company's financial commitments, but does not change them.

The IASB's deliberations on the new model appear to have ended, and the final standard is scheduled to be issued later this year. [BIB](#)



Co-operatives National Law – South Australia start nears

The Co-operatives (South Australia) Act 2013 was passed in May 2013. The Co-operatives National Regulations will apply automatically in SA. However, before commencing the Co-operatives National Law, local regulations are also needed.

The draft Co-operatives (South Australia) Regulations will do the following:

- Prescribe various local administrative matters covered by the National Law
- Provide further detail and exemptions for the use of the term 'co-operative' in the name of an entity
- Prescribe the Acts under which a co-operative may apply for transfer to become registered, incorporated or otherwise established as a corporation
- Prescribe the fees to be paid in connection with the administration of the SA Act, and
- Provide as a transitional arrangement, that a co-operative may continue to operate under the rules applicable to it that were in force immediately before commencement of the new Act, save that the new Act and regulations will prevail to the extent of any inconsistency with those rules.

After a brief period of consultation on draft local regulations, the Co-operatives National Law in South Australia is expected to operate from 22 May.

The CNL is already law in New South Wales and Victorian jurisdictions. Progress that will probably result in the introduction of the CNL or equivalent legislation in other states and territories. Differences between the jurisdictions, for example in election cycles, changes of governments and legislative priorities, will affect commencement dates. [BIB](#)

Miner writes down by \$310m after ASIC enquiries



Resolute Mining Limited impaired its Syama Mine by \$310 million in its financial report for the half-year ended 31 December 2014. ASIC had previously made enquiries regarding the value of the mine in Resolute's 30 June 2014 financial report as part of its financial-reporting surveillance program. The commission had raised several concerns with Resolute, including the need for valuation cross-checks and the use of announced ore reserves in impairment-testing models.

Resolute conducted its impairment testing to take into account events that had occurred in the six months ending 31 December 2014 and has made several adjustments to assumptions and a valuation technique that gave rise to an outcome consistent with other information based on its announced ore reserves.

As outlined in ASIC's 'Focuses for 31 December 2014 financial reports', impairment testing and asset values remain a focus of financial-reporting surveillance. ASIC reminds companies and those involved in preparing and approving reports that assumptions and estimates used in estimating the fair value of assets should be realistic and supportable. [\[1\]](#)

Auditors' using management's experts' work

The AUASB has released an updated Guidance Statement GS 005 'Using the Work of a Management's Expert'. It has been developed to provide guidance to auditors when using the work of a management expert as audit evidence. GS 005 applies broadly to all types of management experts and fills the void between ASA 620 'Using the Work of an Auditor's Expert' and ASA 500 'Audit Evidence'.

GS 005 should assist auditors by providing guidance on:

- Identifying when management experts are used by management, including the circumstances under which they may be used and the nature of the work
- An auditor's considerations in determining the need to use the work of a management expert as audit evidence in carrying out his or her responsibilities with respect to an entity's financial report or other historical financial information, and
- An auditor's considerations in determining the information to be used as audit evidence.

As guidance, it has immediate effect. [\[1\]](#)

Related party disclosure amendments for NFP public-sector entities

The AASB has issued amendments to extend the scope of AASB 124 'Related Party Disclosures' to include not-for-profit (NFP) public-sector entities. The key impact of the amendments is to specify consistent related-party disclosure requirements for federal and state governments, local councils and other NFP public-sector entities.

The amendments, described in AASB 2015-6 'Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities', apply to annual reporting periods beginning on or after 1 July 2016. Comparative

disclosures are not required in the first year of application of the amendments.

Stakeholders recognise that information about related parties is a critical element of accountability in the public sector, especially when an entity has had a material transaction with a related party such as a relevant minister. The amendments to AASB 124 'Related Party Disclosures' will ensure that public-sector entities with related-party transactions are subject to the same disclosure requirements as the private sector. [\[1\]](#)

Former CFO of ABC Learning pleads guilty to ASIC charge



The former chief financial officer of ABC Learning Centres Limited, James Black, appeared in the Brisbane District Court and pleaded guilty to a charge of making available or authorising or permitting the making available of false or misleading information relating to the affairs of ABC that he knew to be false or misleading in material particulars.

The charges relate to information made available to a Pitcher Partners auditor who was conducting the half-year review of accounts for the period ending 31 December 2006.

ASIC alleges that Mr Black gave – or authorised the giving of – three engagement letters between three ABC-related companies and ABC Acquisitions Pty Ltd. The letters related to ABC's purchase of three overseas companies in December 2006. Specifically, each letter contained false or misleading information about the terms of commission payments that ABC Acquisitions was to receive.

The charge carries a maximum penalty of five years jail and/or a fine of \$22,000. Mr Black was sentenced to 18 months imprisonment, wholly suspended, to be released forthwith to enter into a good behaviour bond for two years with \$2000 recognisance. [\[1\]](#)

ASIC begins civil proceedings against former MFS Group

ASIC has begun civil proceedings against MFS Investment Management Ltd, a subsidiary company of the formerly listed MFS Ltd (now known as Octaviar Ltd – in Liquidation), and four former officers and one manager of MFSIM. The proceedings relate to the use of \$147.5 million of the Premium Income Fund (PIF), for which MFSIM was the responsible entity.

MFS Ltd was a publicly listed company with interests in financial services, travel and leisure, and child-care. MFSIM was an unlisted public company and wholly-owned subsidiary of MFS Ltd. MFSIM was the responsible entity for six unlisted managed-investment schemes, including PIF and the Maximum Yield Fund (MYF). MYF is also relevant to the current civil proceedings. PIF was an unlisted managed-investment scheme that pitched to retail and wholesale investors through a product-disclosure statement.

In taking this action, ASIC is addressing the core obligations of a responsible entity and its directors and officers to operate funds with care and diligence and in the best interests of members.

ASIC alleges that:

- In November 2007, officers of MFSIM caused PIF to transfer \$130 million to MFS Administration Pty Ltd, from which MFS Administration Pty Ltd paid a debt of \$103 million owed by another MFS Ltd subsidiary to Fortress Credit Corporation (Australia) Pty Ltd

- In December 2007, officers of MFSIM caused PIF to transfer \$17.5 million to MFS Pacific Finance Ltd, a New Zealand registered company (now known as OPI Pacific Finance Ltd – Receivers and Managers Appointed) (Liquidator appointed)
- In about January 2008, officers and the fund manager of MFSIM created and used false documents relating to the use of the \$147.5 million, and
- The funds were used for a purpose that did not benefit PIF and that PIF suffered a loss as a consequence.

The defendants are: Michael King Quinn, former CEO and director of MFS Ltd; Craig White, former Deputy CEO (and for a short period, CEO) and director of MFS Ltd and MFSIM; Guy Hutchings, former CEO and director of MFSIM; David Anderson, Queensland, former CFO and company secretary of MFS Ltd; Marilyn Watts, NSW, former fund manager of MFSIM; and MFSIM.

ASIC is seeking orders for declarations of contraventions, pecuniary penalties, compensation and disqualifications from managing corporations.

The commission has settled with MFSIM, but a final determination on penalty will not be made until after judgements on other defendants have been made. The trial concluded on 12 September. [\[1\]](#)

Continuous auditing guide updated

The Institute of Internal Auditors has released an updated Global Technology Audit Guide GTAG 3 'Continuous Auditing: Coordinating Continuous Auditing and Monitoring to Provide Continuous Assurance', which provides guidance to chief audit executives about technologies available for continuous auditing and how continuous auditing relates to management's risk management, risk assessment, and monitoring. [\[1\]](#)

Permanent ban and \$20,000 fine for raiding trust account



A property manager working for a Shenton Park real-estate agency in Western Australia has been banned permanently from working in the industry and fined \$20,000 for making illegal withdrawals from the agency's trust account.

Jenelle Lee Maslin, a registered real-estate sales representative, made 14 unauthorised withdrawals from the agency's trust account amounting to almost \$30,000 between January 2012 and August 2013. The money, mostly bond and rent payments from tenants, was illegally withdrawn from the agency's account and then deposited into her personal bank account, in breach of the Real Estate and Business Agents Act.

The cash was listed in the agency's records as being lodged with the bond administrator or as unpaid rent. The missing money wasn't discovered until after Ms Maslin's employment with the agency had ceased and the licensee had to reimburse the trust account for the full amount Ms Maslin had taken.

The Perth Magistrates Court imposed a \$20,000 fine and ordered Ms Maslin to pay costs of \$902. A criminal conviction has been recorded against her. The State Administrative Tribunal issued an official reprimand, cancelled Ms Maslin's registration as a sales representative and placed a permanent ban on her obtaining a registration in the future. She was ordered to pay costs of \$390 in this additional matter. [\[1\]](#)

Auditor banned for life

ASIC has cancelled the registration of a Victorian auditor following one of its investigations. As part of an enforceable undertaking the commission accepted, the auditor has undertaken never to reapply for registration or perform any function as an auditor.

ASIC found the work he had performed in auditing two companies to be significantly deficient in at least 15 areas. The deficiencies related to the 2011 financial-year audit for Education Access (Australia) and the 2012 financial-year audit for Lotus Securities and Sovereign MF.

ASIC's investigation found that the audits were not conducted in accordance with Australian standards in relation to:

- Design and perform audit procedures for the purposes of obtaining sufficient appropriate audit evidence
- Display an appropriate level of professional scepticism, especially when assessing the risk of fraud, and
- Adequately document the results of audit procedures for several areas, including around revenue and the provision of employee entitlements.

ASIC Commissioner John Price said, 'Auditors are important gatekeepers who play a crucial role in maintaining and promoting confidence and integrity in Australia's financial system. They must maintain high standards or they will be held to account.' [\[1\]](#)

ACNC round-up

During March, the Australian Charities and Not-for-profits Commission:

- Revoked the registration of the Young People For Tomorrow Ltd, The Trustee For First 24 Hrs Foundation and Mununjali Traditional Custodians Ltd following separate investigations that found that they were not operating in accordance with the ACNC Act and its regulations
- Started reviewing samples of 2014 annual information statements and financial reports (for medium and large charities) to identify material errors or anomalies
- Reminded charities of its transitional provisions to accept financial reports provided to states and territories for 2015 and that it is discussing with them the possibilities of broader, long-term inter-jurisdictional harmonisation and red-tape reduction, and
- Reminded charities that revocation of status looms for more than 1400 double-defaulters unless they had submitted their 2013 and 2014 statements by 31 March. [\[1\]](#)

ASIC bans finance broker and cancels licence

ASIC has banned Victorian finance broker Meenakshi Callychurn from engaging in credit activities for five years. The commission has cancelled the Australian credit licence of her company Unique Mortgage Services Pty Ltd. Ms Callychurn is the sole director of UMS and the only key and fit and proper person under UMS's credit licence. UMS was formerly owned and operated by Rudy Frugtniet, whom ASIC permanently banned in July from engaging in credit activities.

ASIC's decision to ban Ms Callychurn was based on concerns, including that Ms Callychurn:

- Submitted to ASIC two annual compliance certificates for UMS with false or misleading responses

- Allowed Mr Frugtniet to continue to exercise control over UMS
- Was not engaged in operating the business and attending to duties associated with the UMS credit licence
- Did not understand her responsibilities in relation to the UMS credit licence, and
- Showed a lack of preparedness to engage with ASIC.

ASIC found that Ms Callychurn failed to engage in the business's operations and failed to meet standards expected of a sole director and key and fit and proper person. She was unfit to engage in credit activities. As a result of ASIC's findings, the commission also cancelled UMS's credit licence. [HLB](#)

Changes to continuous-disclosure guidance proposed

The Australian Stock Exchange Ltd has published a consultation paper 'Changes to ASX Listing Rules Guidance Note 8' that seeks comments from listed entities and other stakeholders on proposed changes. The note concerns 'Continuous Disclosure: Listing Rules 3.1 -3.1B'. The changes expand guidance given in relation to analyst and investor briefings, analyst forecasts, consensus estimates and earnings surprises. Comments are due by 24 April. [HLB](#)

AUASB February meeting highlights

Highlights of the February meeting of the Auditing and Assurance Standard Board (AUASB) included:

- Auditor reporting: The board discussed the proposed planning documents outlining the methodology and timetable for revising AUASB's auditing standards as a consequence of IAASB's changes, other information and disclosure projects. The AUASB agreed to adopt the IAASB's effective date for all standards, financial reporting periods ending on or after 15 December 2016, with early adoption permitted. Exposure drafts of proposed changes will be issued in April.
- Grant acquittals and multi-scope engagements: Considered a draft of GS 022 'Grant Acquittals and Multi-Scope Engagements'; a final draft of the proposed guidance statement will be brought back for approval to the 20 April meeting.
- Approval of project plans: The board considered the project plan to issue a bulletin on ASA 600 'Special Considerations – Audits of a Group Financial Report (including the Work of Component Auditors)'. It also considered and approved the project plans to revise ASAE 3100 'Compliance Engagements' and ASAE 3500 'Performance Engagements'.
- Internal audit: The board considered the draft bulletin 'Internal Audit – Impact of Direct Assistance Prohibition on Group Audits', which will be reconsidered at the April meeting.
- Franchising Code: The board approved the need to revise GS 018 'Franchising Code of Conduct – Auditor's Report'. A project plan will be brought to the April meeting. [HLB](#)



Fraud-control kit updated

The Audit Office of New South Wales has issued an updated Fraud Control Improvement Kit. The kit provides practical guidance and resources to help organisations implement an effective framework to prevent, detect and appropriately respond to fraud. The kit is designed to help organisations create and/or improve a culture of honest and ethical behaviour. It incorporates issues identified by the Audit Office's 2012 fraud-control survey and responds to user feedback.

Remember that primary responsibility for preventing and detecting fraud lies with management and governance. [tlnr](#)

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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