



FRA NEWS

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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:

- Financial-reporting relief for 'troubled entities'
- Governance-related ASX listing rule amendments
- ASIC cancels AFS licence
- 30 June 2015 accounting-standards changes
- Income of NFP entities proposals
- Improved communication of financial information to ASIC
- More ASIC licence cancellations and enforcements
- Co-operatives National Law starts in SA
- Non-compliance with laws and regulations proposals
- Deferral of revenue standard proposed
- Mineral exploration company convicted and fined
- Revised ASX corporate-governance principles for 30 June

Nice to know:

- Dusting off the conceptual framework
- Company director pleads guilty to fraud
- AASB's proposals on service concession arrangements
- ASIC permanently bans convicted fraudster
- ACNC round-up
- AUASB bulletin on direct-assistance prohibition
- Guide for small-business directors

Liability limited by a scheme approved under Professional Standards Legislation

Financial-reporting relief for 'troubled entities'

Need to know

ASIC has released regulatory guide 174 'Relief for externally administered companies and registered schemes being wound up'. The guide describes when ASIC will give relief from the financial-reporting provisions of the Corporations Act 2001 to externally administered companies and to registered managed investment schemes being wound up. It also describes when ASIC will give relief to externally administered public companies from the requirement to hold an annual general meeting.

ASIC has issued a new legislative instrument 'ASIC Corporations (Externally-Administered Bodies) Instrument 2015/251', which provides companies with a liquidator appointed with an exemption from financial reporting and, if the company is also a public company, with AGM relief in certain circumstances. Companies in other forms of external administration with an uncertain future are permitted to delay preparing their financial reports under ASIC's relief. The instrument also provides exemption

relief from financial reporting to insolvent-registered managed-investment schemes.

To provide information to members of such schemes, the instrument requires those in charge of the winding up to report periodically to members and creditors by making certain information available. For externally administered companies, the law already requires that members and creditors have access to certain public information that is prepared periodically by the external administrator and lodged with ASIC. [\[1\]](#)

Governance-related ASX listing rule amendments

Under the modified listing rule 4.10.3, a listed entity will be able to include its corporate governance statement either in its annual report or on its website. If the entity discloses its statement on its website, its annual report will need to include the URL of the page where the statement may be found.

The amendments to rule 4.10.3 'If Not, Why Not Disclosures' make it clearer what an entity should disclose if it has not followed a recommendation of ASX's Corporate Governance Council for any part of the reporting period. The modified rule requires the entity to disclose the following information for each recommendation not followed:

- The recommendation that has not been followed
- The period during which the recommendation was not followed
- The reasons for not following the recommendation, and
- What (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under new listing rule 4.7.3, regardless of whether an entity chooses to include its corporate governance statement in its annual report or on its website, it must lodge with ASX a completed appendix 4G 'Key to Disclosures Corporate Governance Council Principles and Recommendations' at the same time as it lodges its annual report with the exchange. Each ASX-listed entity must provide the exchange (with its annual report) a completed Appendix 4G, which has a key to where the various disclosures suggested in the recommendations or required under listing rule 4.10.3 can be found.

Under new Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement under rule 4.10.3 on its website rather than in its annual report, it must lodge a copy of the statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current. [\[1\]](#)

ASIC cancels AFS licence

ASIC has cancelled the Australian financial services (AFS) licence of TCI Capital Advisers Pty Ltd (TCI) following concerns that it failed to comply with its obligations. Melbourne-based TCI provided investment advice, assistance and research to wholesale clients such as multinational corporations and institutional investment funds.

ASIC cancelled the licence after TCI management failed to ensure that the company had adequate financial resources to provide its services. TCI also failed to lodge audited financial accounts for financial years 2010-2014 within the required timeframe and failed to report the breach to ASIC. [\[1\]](#)

30 June 2015 accounting-standards changes

The 30 June reporting period will be relatively quieter for profit-seeking entities in contrast to 2014. Only a small number of amended standards and a new interpretation will be effective for the first time. But the story is slightly different for not-for-profit (NFP) private and public-sector entities that face the 'consolidation' challenge.

The key new and amended reporting requirements include:

- **Materiality guidance:** AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part B)' and AASB 2014-1 'Amendments to Australian Accounting Standards (Part C – Materiality)' make amendments to particular Australian accounting standards to delete references to AASB 1031 and remove quantitative guidance for materiality (so called 'bright lines' of 5 per cent and 10 per cent materiality considerations) as well as an NFP materiality guidance
- **Consolidation exemption for investment entities:** Amendments to AASB 10 'Consolidated Financial Statements' introduce an exemption from consolidation of subsidiaries for entities that meet the definition of an investment entity
- **Offsetting criteria for financial assets and financial liabilities:** Amendments to AASB 132 'Financial Instruments: Presentation' clarifies the requirements relating to the offset of financial assets and financial liabilities
- **Additional disclosures on recoverable amounts for non-financial assets:** Amendments to AASB 136 'Impairment of Assets' remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) under certain circumstances. There are some additional disclosure requirements applicable where the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal
- **Clarification on the continuation of hedge accounting for novation of derivatives:** Amendments to AASB 139 'Financial Instruments: Recognition and Measurement' provide relief for discontinuation of hedge accounting when a derivative is novated in certain circumstances, in addition to clarification on the treatment of changes in fair value for such instruments
- **Annual improvements 2010-2012 and 2011-2013 cycles:** AASB 2014-1 'Amendments to Australian Accounting Standards Part A

– Annual Improvements 2010-2012 and 2011-2013 Cycles' make various amendments to Australian standards, including AASB 8 'Operating Segments', AASB 119 'Employee Benefits', and AASB 124 'Related Party Disclosure'

- **Defined benefit plans employee contributions (amendment to AASB 119):** AASB 2014-1 'Amendments to Australian Accounting Standards Part B' clarifies accounting treatment in relation to contributions that are independent from years of service, and
- **Clarification of the recognition of a liability to pay a levy imposed by a government:** Interpretation 21 'Levies' discusses the definition of a levy and the recognition of a liability to pay a levy in reference to triggering events and circumstances.

All of the amending standards and the new interpretation generally require full retrospective application (that is, comparative amounts have to be restated), some amendments providing specific transitional provisions.

The following standards apply to NFP private and public-sector entities for the year ending 30 June:

- AASB10 'Consolidated Financial Statements'
- AASB11 'Joint Arrangements'
- AASB12 'Disclosure of Interests in Other Entities'
- ASB 127(revised) 'Separate Financial Statements'
- AASB 128(revised) 'Investments in Associates and Joint Ventures'
- AASB2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'
- AASB2012-10 'Amendments to Australian Accounting Standards- Transition Guidance and Other Amendments', and
- AASB2013-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not- for-Profit Entities- Control and Structured Entities (AASB10, AASB 12 & AASB 1049)'. [HLR](#)

Income of NFP entities proposals

The AASB invites comments on ED 260 'Income of Not-for-Profit Entities', which proposes guidance to help NFPs to apply the principles of AASB 15 'Revenue from Contracts with Customers'. It will replace standard AASB 1004 'Contributions', including income-recognition requirements for donations, grants, taxes and similar transactions. The AASB wants comments on ED 260 by 14 August. [HLR](#)

Improved communication of financial information to ASIC

ASIC has introduced an improved way of communicating financial information to investors and other users of financial reports. Companies can now prepare and lodge digital financial reports with ASIC using inline XBRL (iXBRL), removing the need for separate lodgement of a PDF-format or paper financial report.

Digital financial reports using iXBRL:

- Will be readable by most popular web browsers and will be similar to PDF and paper financial reports
- Allow the use of hyperlinks to structure the information better and allow users to navigate financial reports more easily, and

- Tag financial information with a common set of identifiers to facilitate analysis by computers and ready comparison across companies and over time.

Since July 2010, companies have been able to voluntarily lodge financial report information with ASIC using XBRL. Any company that opted to lodge information using XBRL was also required to lodge a report in PDF or on paper. This is because the XBRL information, while being consumable by computers for analysis, could not be viewed in readable form.

Further guidance on digital financial reporting is available from the Standard Business Reporting website at www.sbr.gov.au/software-developers/developer-tools/asic/asic-finrpt. [\[1\]](#)

More ASIC licence cancellations and enforcements

ASIC has cancelled four AFS licences following failure to lodge audited annual statements. The cancellations follow ASIC's most recent proactive review of the conduct of 14 licensees in the financial-advice industry that had failed to lodge audited annual statements.

As well as the cancellations, ASIC has:

- Suspended an AFS licence for failing to lodge audited annual statements until the outstanding documents were lodged
- Achieved the voluntary compliance of seven AFS licensees that have lodged outstanding documents, and
- Prompted two entities to cancel voluntarily their AFS licences because they were no longer operating financial-services businesses.

The requirement to lodge annual audited accounts is an important one. Through it, the licensee can demonstrate that it has adequate financial resources to provide the services covered by its licence and to conduct its business in compliance with the Corporations Act.

Deputy Chairman Peter Kell said: "In our experience, a licensee's failure to comply with reporting obligations can indicate a poor compliance culture. After our last review, ASIC warned licensees that their failure to lodge audited annual statements may result in the cancellation or suspension of their AFS licences and we are disappointed that some licensees do not seem to be heeding this message. Be clear, ASIC will continue to contact AFS licensees who have not lodged audited financial statements and take action where they fail to lodge these statements." [\[1\]](#)

Co-operatives National Law starts in SA

The Co-operatives National Law (CNL) became law in South Australia on 22 May. New South Wales and Victoria were the first states to enact the CNL (in March 2014). The parliaments of the Northern Territory and Tasmania recently passed their respective enabling laws, which will apply the CNL in their jurisdictions once the laws take force.

The South Australian Co-operatives Act 1997 and its regulations have been repealed. Co-operatives registered under the Co-operatives Act are now taken to be registered under the CNL.

The new CNL legislation comprises:

- Co-operatives National Law (South Australia) Act 2013

- Co-operatives National Law (SA)
- Co-operatives National Regulations (SA), and
- Co-operatives (South Australia) Regulations 2015.

The Act applies the CNL in SA as set out in its schedule.

SA co-operatives will be able to continue to operate under their existing rules, however if there is any inconsistency between a provision of the old rules and the new legislation, the new legislation prevails. [\[1\]](#)

Non-Compliance with laws and regulations proposals



The International Ethics Standards Board for Accountants released for re-exposure an enhanced standard 'Responding to Non-Compliance with Laws and Regulations'. The proposed standard sets out a new framework to guide auditors, other professional accountants in public practice, and professional accountants in business in deciding how best to act in the public interest when they come across an act or suspected act of non-compliance with laws and regulations.

Among other matters, the proposed standard serves to equip auditors and other professional accountants to address such issues by providing a pathway to disclosure to an appropriate authority in appropriate circumstances without the duty of confidentiality under the 'Code of Ethics for Professional Accountants' acting as a barrier. It also places renewed emphasis on the importance of senior-level professional accountants' promoting a culture of compliance with laws and regulations within their organisations.

The APESB is seeking comment from its constituents through a series of roundtables. In due course, amendments are expected to be made to APES 110 'Code of Ethics for Professional Accountants'. [\[1\]](#)

Deferral of revenue standard proposed

The AASB has issued exposure draft ED 263 'Effective Date of AASB 15 Revenue from Contracts with Customers'. ED 263 incorporates IASB ED/2015/2 'Effective Date of IFRS 15'. The proposed amendments would defer the effective date of AASB 15 to periods beginning on or after 1 January 2018 instead of 1 January 2017, consistent with the amendment proposed by the IASB to IFRS 15 'Revenue from Contracts with Customers'.

The main reason for the proposed deferral of the effective

date is that the IASB is planning to issue an ED of targeted amendments to the standard that will include clarifying some of its requirements and adding illustrative examples to aid implementation. These targeted amendments arise from discussions of the joint Transition Resource Group, established in conjunction with the FASB to support the standard's implementation. The FASB is also consulting on a proposal to defer the effective date of its revenue standard by a year. [\[1\]](#)

Mineral exploration company convicted and fined

Global Metals Exploration NL, an ASX-listed mineral-exploration company, has been convicted and fined following an ASIC investigation. Global Metals pleaded guilty to 19 charges.

The investigation found that Global Metals failed to:

- Hold an annual general meeting within five months from the end of the 2013 financial year
- Keep a minute book and record within a month the proceedings and resolutions from the company's meetings of members and directors from 20 October 2011 to 18 September 2013
- Provide its financial report, directors' report and auditor's report to its members within four months of the end of the 2013 financial year
- Lodge annual reports with ASIC within three months of the end of its 2013 and 2014 financial years, and
- Lodge a half-yearly report within 75 days of the end of its 2013 half-year.

The company was convicted and fined a total of \$8400. ASIC acted last year against Global Metals in relation to its failure to meet disclosure obligations. [\[1\]](#)

Revised ASX corporate-governance principles for 30 June

The ASX Corporate Governance Council's revised 'Corporate Governance Principles and Recommendations' (third edition) operate for the 30 June reporting period.

There are nine new recommendations:

- **Prospective directors:** Appropriate checks should be undertaken before appointing a person or putting forward to security holders a candidate for election as a director. Security holders should have all relevant material information about decisions on whether or not to elect or re-elect a director (Recommendation 1.2)
- **Contracts with directors and senior executives:** There should be a written agreement with each director and senior executive setting out the terms of his or her appointment (Recommendation 1.3)
- **Company secretary:** The company secretary should be accountable direct to the board through the chair on all matters to do with the proper functioning of the board (Recommendation 1.4)
- **Training:** There should be a program for the induction of new directors and the provision of appropriate professional-development opportunities for directors to develop and maintain

their skills and the knowledge needed to perform their roles effectively (Recommendation 2.6)

- **Annual general meeting:** The external auditor should attend the AGM and be available to answer questions from security holders relevant to the audit (Recommendation 4.3)
- **Website:** Information about the entity and its governance should be available to investors via its website (Recommendation 6.1)
- **Electronic communication:** Security holders should be given the option to receive communications from, and send communications to, the entity and its security registry electronically (Recommendation 6.4)
- **Internal audit function:** Disclose if the entity has an internal audit function, how the function is structured and what role it performs. If the entity does not have an internal audit function, the processes used to evaluate and improve the effectiveness of its risk management and internal control processes should be disclosed (Recommendation 7.3), and
- **Material disclosures:** Disclose whether the entity has any material

exposure to economic, environmental and social sustainability risks and, if it does, explain how it manages those risks (Recommendation 7.4).

CEO/CFO certification of financial statements (Recommendation 7.3) in the second edition has been upgraded and moved to Recommendation 4.2 in the third edition. The revised recommendation states that the board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion:

- The financial records of the entity have been properly maintained and that the financial statements comply with appropriate accounting standards
- Give a true and fair view of the financial position and performance of the entity, and
- Their opinions have been formed on the basis of a sound system of risk management and internal control that is operating effectively.

Unlike recommendation 7.3, this will apply to financial statements for any reporting period and not just to year-end financial statements. 

Dusting off the conceptual framework



The International Accounting Standards Board (IASB) has published proposals to improve the 'Conceptual Framework for Financial Reporting'. An exposure draft proposes several enhancements, including:

- A new chapter on measurement that describes appropriate bases (historical cost and current value, including fair value) and factors to consider when selecting a measurement basis
- Confirming that the statement of profit or loss is the primary source of information about a company's performance and adding guidance on when income and expenses could be reported outside the profit or loss statement in 'Other Comprehensive Income', and

- Refining the definitions of the basic building blocks of financial statements – assets, liabilities, equity, income and expenses.

The board is also proposing to place more emphasis on the importance of providing information needed for investors to assess management's stewardship and to reintroduce an explicit reference to 'prudence', explaining clearly what it means.

The IASB plans to issue a final conceptual framework next year.

It has also published for public comment a separate exposure draft 'Updating References to the Conceptual Framework', which proposes that references to the framework are updated in existing standards. 

Company director pleads guilty to fraud

Anthony Nicholls has pleaded guilty in the Victorian County Court to three charges of dishonestly using his position as a company director to misappropriate more than \$750,000. The charges related to Mr Nicholls's position as a director of Zantholls International Pty Ltd and Peton Properties Pty Ltd.

The companies raised \$2.68 million from around 20 investors to be used for property developments in Ballarat, Victoria. Between

October 2004 and August 2006, Mr Nicholls authorised the withdrawal of \$756,908.31 from the funds for his own benefit.

Each of the three charges carries a maximum penalty of five years' jail or a \$220,000 fine. Mr Nicholls was bailed to appear in late June for a plea hearing and sentencing. [MLA](#)

AASB's proposals on service concession arrangements

The AASB has issued exposure draft 261 'Service Concession Arrangements: Grantor', which addresses the gap in grantor accounting for service-concession arrangements. ED 261 proposes that a grantor in a service concession arrangement:

- Recognises an asset provided by an operator that is used in a service-concession arrangement
- Measures the service-concession asset provided by the operator initially at fair value in accordance with AASB 13 'Fair Value Measurement' and subsequently in accordance with AASB 116 'Property, Plant and Equipment' or AASB 138 'Intangible Assets', as appropriate, and
- Recognises a corresponding liability measured at fair value of the service-concession asset using either the financial-liability model or the grant of a right to the operator model. [MLA](#)

ASIC permanently bans convicted fraudster

ASIC has permanently banned James Appadoo from providing financial services following his recent conviction in the Victorian County Court of a charge of theft of \$1m. Mr Appadoo was sentenced to three years and six months imprisonment. He was ordered to serve a minimum of two years before release.

Mr Appadoo was a team leader in the settlements department at Linear Asset Management Limited, which is the responsible entity of the registered managed-investment scheme, Linear Managed Accounts (LMA). He used his position to steal \$1m from an LMA client's account by falsely signing withdrawal slips and crediting his own bank accounts.

Mr Appadoo admitted:

- That he owed about 25 people substantial amounts of money
- He had a debt of about \$700,000, which he had acquired from gambling and failed investments
- That he had stolen the investors' funds to repay the debt, and
- That he paid off the people he owed money to and gambled the remainder on Tattsлото. [MLA](#)

ACNC round-up

During May, the Australian Charities and Not-for-profits Commission (ACNC):

- Released a commissioner's interpretation statement on health-promotion charities
- Published guidance to help non-government schools report to the ACNC under the new reporting arrangements
- Reminded charities to submit their 2014 annual information statements, and
- Released 'Charity Compliance Report: December 2012 – December 2014 and Beyond'. [MLA](#)

Guide for small-business directors

ASIC has released a new online resource to help small-business owners understand their roles and responsibilities as company directors. 'ASIC's guide for small business directors' is particularly useful for small businesses looking to change from a sole trader to a company structure.

The guide provides an overview of directors' duties under the Corporations Act. It covers the following topics:

- What it means to be a company director
- How to become a company director
- Directors' key responsibilities
- Directors' liabilities when things go wrong, and
- How to resign as a director. [HLB](#)

AUASB bulletin on direct-assistance prohibition

The AUASB has released a bulletin 'Internal Audit – Impact of Direct Assistance Prohibition on Group Audits'. One of the areas of challenge affecting auditors since the revision of ASA 610 'Using the Work of Internal Auditors' concerns the issues that auditors need to consider when using the work of internal auditors in jurisdictions where there is no prohibition on the use of direct assistance.

The bulletin encourages auditors to use professional judgement on audit engagements when planning, obtaining and assessing the sufficiency and appropriateness of audit evidence that was compiled in a jurisdiction where there is no prohibition on using the direct assistance of internal auditors. [HLB](#)

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