



FRA NEWS

No.8/2013

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:

- ACNC's AIS progress to date
- AASB September meeting highlights
- Religious institutions can opt in for charity registration
- Stapled securities ASIC Class Orders
- AASB and IASB sauce bottle standards
- Directors and financial reporting duties – ASIC's INFO183
- Director jailed
- Chief executive convicted
- Continuous disclosure breaches \$66,000 fine
- ASIC reports enforcement outcomes
- RDR amendments to impairment disclosures
- Auditing SMSF – revised guidance

Nice to know:

- Long-term suspended listed entities proposed changes
- Quality control proposed audit amendments
- APESB August meeting highlights
- Proposed leasing RDR disclosures

Liability limited by a scheme approved under Professional Standards Legislation

ACNC's AIS progress to date



In just over two months since the first letters went out in late July, 3,000 registered charities have submitted their 2013 Annual Information Statement (AIS) to the Australian Charities and Not-for-profits Commission (ACNC). The 2013 AIS marks the first time all 58,000 Australian registered charities have been required to report to a single national regulator. The AIS requires registered charities to answer 20 questions about what they did and who they helped in the community over the past 12 months.

The information charities provide is then uploaded on to the ACNC Register for the public to use.

Over 3000 charities that have submitted their AIS and analysis of these revealed:

- 74% stated that they were small charities (annual revenue of less than \$250 000), 15% were medium (\$250 000 – \$999 999) and 11% were large (annual revenue of \$1m and over);

- The top three beneficiaries listed were children and young people, the general community in Australia and elderly people;
- 16% of charities said they worked to help people internationally. Over 150 countries were listed, with New Zealand, the US, India, the Philippines and Papua New Guinea the most popular;
- 42% of charities reported that they solely relied on volunteers. At the end of their 2013 reporting period, these 3 000 charities reported a total of 225 000 volunteers, along with 13 000 full-time employees and 18 000 part-time employees;
- The majority of submissions so far have been from New South Wales, Victoria and Queensland; and
- 29% of charities that have submitted an AIS indicated how much time per annum they spent on reporting to

Commonwealth, or state and territory departments and agencies. Large charities indicated that paid staff spent an average of 288 hours and volunteers spent 20 hours reporting to government. For medium charities these figures were 135 hours by paid staff and 94 hours by volunteers. Small charities relied much more heavily on volunteers, with non-paid staff completing 70 hours of government reporting, compared to 16 hours by paid staff.

Those charities which operate on a 1 July to 30 June financial year need to complete an AIS by 31 December 2013. For charities that use a calendar year for reporting purposes, the due date is 30 June 2014.

The ACNC website has a range of guidance and information, including a new YouTube video which is a visual step-by-step guide to completing the AIS. [HLB](#)

AASB September meeting highlights



Highlights of the September meeting of the Australian Accounting Standards Board (AASB) included:

- **Not-for-Profit entities implementation guidance on consolidation:** Considered the submissions received on ED 238 "Consolidated Financial Statements – Australian Implementation Guidance for Not-for-Profit Entities". A pre-ballot draft of the revised authoritative implementation guidance will be prepared with any issues to be addressed at the October meeting. The aim is to finalise the guidance after the October meeting, for application to annual reporting periods beginning on or after 1 January 2014;
- **Consolidation and life insurance contracts:** Considered comment

letters received on AASB ED 241 "Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders" and decided to proceed with the proposals to delete paragraphs in AASB 1038 "Life Insurance Contracts" relating to determining the interests to be included in consolidation financial statements. AASB 10 "Consolidated Financial Statements" should be the sole standard dealing with consolidation. The amendments will apply to periods beginning on or after 1 January 2014;

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AASB September meeting highlights (continued)

- **AASB framework:** Considered how to incorporate the completed IASB Chapters (Chapter 1 “The objective of general purpose financial reporting” and Chapter 3 “Qualitative characteristics of useful financial information”) of the IASB “Conceptual Framework for Financial Reporting” (issued by the IASB in September 2010) into Australian requirements. Decided to supersede the corresponding paragraphs of the AASB “Framework for the Preparation and Presentation of Financial Statements” with the two Chapters – and thereby retain unamended the other parts of the AASB Framework. Also decided that the Chapters, adapted as appropriate to address not-for-profit specific issues, would apply to both for-profit and not-for-profit entities;
- **Recently approved documents:** Since July, the AASB has approved the following: AASB 2013-4 “Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting”; and AASB 2013-5 “Amendments to Australian Accounting Standards – Investment Entities”. The following consultation document was issued ITC 29 “A Review of the Conceptual Framework for Financial Reporting”; and
- **Next meeting 23-24 October:** It is expected that the agenda will deal with: emissions trading schemes; IASB conceptual framework; withdrawal of materiality; agriculture: bearer plants; insurance; and financial instruments.

HLB

Religious institutions can opt in for charity registration

The ACNC is urging religious institutions that self-assessed as income tax exempt in the past to opt in for charity registration to ensure they maintain ongoing eligibility to receive their tax concessions. Most charities were automatically registered with the ACNC when it was established in December 2012. However, organisations that self-assessed as religious institutions with the Australian Taxation Office were not automatically registered because they had not been endorsed as charities.

It is estimated that up to 6000 not-for-profit religious institutions, including churches and other religious congregations, may be eligible to opt in for ACNC registration. [HLB](#)

Stapled securities ASIC Class Orders

ASIC issued Class Order CO 13/1050 “Financial reporting by stapled entities” which allows stapled entities which are disclosing entities to present combined financial statements or consolidated financial statements of the stapled group for the half-year ended 30 June 2013 on the same basis used to prepare those combined financial statements or consolidated financial statements for the year ended 31 December 2012.

The Class Order also allows the stapled entities in a stapled group to present their respective financial statements together in a single financial report, similar to the relief previously provided in CO 05/642. The Class Order is necessary as there are a number of reasons why one stapled entity may not be able to consolidate another stapled entity under AASB 10 “Consolidated Financial Statements” that applies to financial years commencing 1 January 2013. The Explanatory Statement provides more information.

ASIC intends to consult on the method of reporting for groups of stapled entities for reporting periods ending on or after 31 December 2013.

ASIC has also issued Class Order CO 13/1051 which allows entities using CO 13/1050 to continue to issue a disclosure document or PDS with specified limited content or to use transaction specific disclosures and rely on “cleansing notice” exemption. CO 13/1051 also updates CO 98/1418 to refer to AASB 10. [HLB](#)

AASB and IASB sauce bottle standards

The recent update and release of the “AASB Standard Setting Work Program” (25 September 2013) gives directors, CFOs and accountants an idea of the avalanche of new standards that are to be issued by the AASB and IASB in coming months. A majority of these are due to be released by Christmas, unless otherwise indicated.

AASB domestic projects

- **Standards:** Superannuation (based on ED 223); Related party disclosures in NFP public sector entities (based on ED 214); Control in the NFP public and private sectors (based on ED 238); and Withdrawal of AASB 1031 (based on ED 243); and
- **Exposure drafts:** Borrowing costs; Income from transactions of NFP entities (revised ED 2nd quarter 2014); and Service concessions arrangements: grantors (1st quarter 2014).

IASB imported projects

- **Standards:** Revenue from contracts with customers; Financial instruments – general hedge accounting; Acquisition of an interest in a joint operation (proposed amendments to IFRS 11); Annual improvements 2011-2013; Clarification of acceptable methods of depreciation and amortisation (proposed amendments to IAS 16 and IAS 38); Defined benefit plans: Employee contributions (proposed amendments to IAS 19); Equity method: share of other net asset changes (proposed amendments to IAS 28); Sale or contribution of assets between an investor and associate or joint venture (proposed amendments to IFRS 10 and IAS 28); Financial instruments – classification and measurement (limited improvements) (1st half of 2014); and Financial instruments – impairment (1st half of 2014);
- **Exposure drafts:** Annual improvements 2012-2014; Recognition of deferred tax assets for unrealised losses (proposed amendments to IAS 12); Separate financial statements (equity method) (proposed amendments to IAS 27); Disclosure Initiative: Amendments to IAS 1 (1st quarter of 2014); Disclosure Initiative: Disclosure requirements about assessment of going concern (proposed amendments to IAS 1) (1st quarter of 2014); Elimination of gains arising from downstream transactions (proposed amendments to IAS 28) (1st quarter of 2014); Fair value measurement: Unit of account (1st quarter of 2014); and Put options written on non-controlling interests (proposed amendments to IAS 32) (1st quarter of 2014); and
- **Discussion papers:** Financial instruments – macro hedge accounting; and rate regulated activities. [HLB](#)

Directors and financial reporting duties ASIC's INFO183

An Information Sheet 183 “Directors and financial reporting” (INFO183) was published by Australian Securities and Investments Commission (ASIC) that explains financial reporting responsibilities of directors. It covers: general duties; company's duty to keep proper books and records; you should consider when preparing a financial report; financial literacy obligations; relationship with the auditor.

In relation to financial reporting the Information Sheet states:

“Each director has a duty of skill, competence and diligence in the understanding of the financial report that is to be disclosed to the public.

You must read, understand and focus on the contents of the financial report. You must apply your own mind to, and carry out a careful review of, the financial report and directors' report, determine that the information they contain is consistent with your knowledge of the company's financial position and affairs,

and ensure that material matters known to you, or that should be known to you, are not omitted.

In reading the financial report, you should:

- Ensure, as far as possible and reasonable, that the information included is accurate;
- Question the accounting treatments applied; and
- Examine the adequacy of disclosures and whether any matters have not been disclosed that should be disclosed.

When reviewing the financial report, you should inquire further into the matters revealed by that financial report.” [HLB](#)

Director jailed

Mr Clestus Weerappah, a former director of Dollarforce Financial Services Pty Ltd (DFS) has been jailed for four years over his role in the collapse of the property development group. Dollarforce collapsed in 2009 with a deficiency of \$24 million with investors losing more than \$8 million.

Mr Weerappah pleaded guilty to the five charges below relating to the raising of more than \$4 million from investors. The charges included dishonestly using his position as a director and making false and misleading statements, in particular:

- Dishonest use of his position as a

director of three companies with the intention of gaining an advantage for himself, DFS or someone else by falsely representing that amounts totalling \$4.2m belonging to investors would be used for the purchase and development of properties on behalf of investors;

- Making a false or misleading statement or omission in a prospectus lodged with ASIC that made or authorised to his knowledge information that was false or misleading in that loans provided by related parties had been forgiven on or prior to 30 June 2006, and that the prospectus was misleading in a material

respect, in that an incentive payment agreement had been entered into and that related entity owed \$2,955,000 to investors; and

- Engaging in conduct that falsified the books and records relating to the affairs of a company in that he created a false deed of sale relating to the purchase of property for \$1,300,000.

Mr Weerappah was sentenced to four years jail with a non-parole period of two years and also ordered to repay \$3.7 million to a number of investors. [HLB](#)

Chief executive convicted



The former Chief Executive of West Australian hotel chain Compass Hotel Group Ltd (CHGL), Bryan Raymond Northcote, was convicted of breaching directors'

duties and submitting false and misleading documents to ASIC. Mr Northcote was the chief executive and executive director of CHGL which floated on the ASX on 3 January 2008 and operated a chain of 12 hotels and taverns in Western Australia. CHGL went into receivership in March 2011.

Between October 2007 and April 2008, Mr Northcote dishonestly withheld information from the CHGL board and used his position to gain a financial advantage. In December 2012, Mr Northcote pleaded guilty to one count of breaching his duty as a director.

Mr Northcote also pleaded guilty to two counts of submitting documents to ASIC which were false or misleading.

Mr Northcote was convicted on all three counts and sentenced to two years imprisonment on the charge of breaching directors duties by gaining an improper advantage, and one year imprisonment on each count of submitting documents to ASIC which were false or misleading, with the latter two counts to be served concurrently with the first count, resulting in a total effective sentence of two years imprisonment to be served by way of an Intensive Correction Order. [HLB](#)

Continuous disclosure breaches \$66,000 fine

ZYL Limited (ZYL) paid a total penalty of \$66,000 after ASIC served two infringement notices on the company for failing to comply with its continuous disclosure obligations. Infringement notice 1 related to a \$2 million bridging facility and Infringement notice 2 related to confirmation of change in reserves at mining ratification workshop.

The infringement notices were issued following an ASIC investigation into announcements made by ZYL on the ASX.

ASIC views issuing of infringement notices is a timely and efficient remedy for dealing with breaches of continuous disclosure laws and an effective way to maintain confidence in the integrity of the market. Compliance with continuous disclosure provisions goes to the heart of ASIC's priority of promoting fair and efficient markets, and we take a breach of these laws seriously. All listed companies should have procedures in place to ensure that they comply with their continuous disclosure requirements.' [HLB](#)

ASIC reports enforcement outcomes

ASIC released its six-monthly "Enforcement Outcomes Report" that outlines 371 enforcement outcomes for the period 1 January to 30 June 2013.

Seventy-eight outcomes were in the 'market integrity', 'corporate governance' and 'financial services' areas and 293 were in the 'small business compliance and deterrence' area.

ASIC regulates 'gatekeepers' of the Australian financial system including auditors and company directors. Gatekeeper failures giving rise to ASIC enforcement actions include:

- A former CFO falsified the accounts of the company, lied to the company's auditor and ASIC (Example 20);
- A director of a company was convicted of managing a corporation while bankrupt. The same director had previously come to ASIC's attention in 2005 for falsifying information to disguise fraud (Example 21); and
- A former bookkeeper was convicted of making false entries in the books of his employer (Example 34). [HLB](#)

RDR amendments to impairment disclosures

The AASB approved AASB 2013-6 "Amendments to AASB 136 arising from the Reduced Disclosure Requirements". AASB 2013-6 applies to annual reporting periods beginning on or after 1 January 2014.

Early application is permitted for annual reporting periods beginning on or after 1 July 2009 but before 1 January 2014, provided that AASB 1053 "Application of Tiers of Australian Accounting Standards" and AASB 2013-3 "Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets" are also adopted for the same period. [HLB](#)

Auditing SMSF – revised guidance

The Australian Auditing and Assurance Standards Board (AUASB) released an updated Guidance Statement GS 009 "Auditing Self-Managed Superannuation Funds". The revised Guidance Statement identifies, clarifies and summarises the existing responsibilities which approved self-managed superannuation fund (SMSF) auditors have with respect to conducting SMSF audit engagements, and provides guidance to the auditor on matters which

the auditor considers when planning, conducting and reporting on the financial and compliance engagement of a SMSF audit.

GS 009 should assist the auditor, by clarifying the requirements under the Superannuation Industry (Supervision) Act 1993 (SISA) and Superannuation Industry (Supervision) Regulations 1994 (SISR), as well as identifying the applicable ASIC Regulatory Guides, ATO Rulings,

Interpretive Decision and Guides.

The appendices to GS 009 include an example engagement and representation letter, illustrative trust deed checklists and financial audit procedures, and illustrative examples of threats to the auditor's independence. [HLB](#)

Long-term suspended listed entities proposed changes



The ASX issued a consultation paper "Proposed policy changes: Long term suspended entities (Guidance Note 33)" seeking comments on a proposal to automatically de-list long-term suspended entities if their securities have been suspended from trading for a continuous period of three years.

The consultation paper focuses on a proposed new Guidance Note 33 "Removal of entities from the official list", which deals with when and how ASX may de-list an entity, either at its request or at the instigation of ASX. [HLB](#)

Quality control proposed audit amendments

The AUASB issued an exposure draft ED 04/13 "Amendments to Auditing Standard ASQC 1 'Quality Control for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements'". The exposure draft details amendments necessary to ASQC 1 to include within its existing application and scope related services engagements performed in accordance with Australian Standards on Related Services. The amendments will be combined with existing conforming amendments proposed to ASQC 1 in exposure draft, ED 03/13 "ASA 2013-2 Amendments to Australian Auditing Standards" (related to proposed revisions to ASA 610 (Revised) "Using the Work of Internal Auditors" – issued 2 August 2013). Once both proposed Standards (ED 03/13 and ED 04/13) have been approved, a single compiled standard incorporating all amendments will be prepared and issued. [HLB](#)

Internet

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Queries

For further information or assistance, please contact your TNR Audit & Assurance Partner or Manager.

APESB August meeting highlights

The highlights of 27 August meeting of the Accounting Professional & Ethical Standards Board (APESB) included:

- **Forensic accounting services:** Approved the revised APES 215 "Forensic Accounting Services";
- **Dealing with client monies:** Approved project proposal for the revised APES 310 "Dealing with Client Monies";
- **Compilation of financial information:** Discussed the proposed Exposure Draft to revise APES 315 "Compilation of Financial Information." A revised draft

of APES 315 will be discussed at the November meeting;

- **Quality control for firms:** Discussed the revised scope of APES 320 "Quality Control for Firms"; and
- **Members in business in senior finance roles:** Discussed the revised scope of APES GN 41 "Members in Business in Senior Finance Roles." [HLB](#)

Proposed leasing RDR disclosures

The AASB issued Tier 2 Supplement to ED 242 "Leases" which sets out the disclosures proposed in AASB ED 242 from which it is proposed entities applying Tier 2 reporting requirements should be exempt. [HLB](#)

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

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