

ACCA reports on good corporate governance for SMEs

The Association of Chartered Certified Accountants (ACCA) has released 'Governance for All: The Implementation Challenge for SMEs'.

The report draws on ACCA's global forum for small and medium-sized entities. The association believes that corporate governance should not be just the domain of large companies.

Head of SME policy, Rosana Mirkovic, says that by 'setting the framework for monitoring the actions and performance of management, it protects both the future of the business and the interests of its owners and investors. However, when we talk of corporate governance, it is often assumed that we are talking about large, listed companies; the term itself suggests that unincorporated or family-owned businesses need not apply'.

SMEs can count on significant gains from good corporate governance. They are often seen as a part of the business community that is least rigorous in its governance implementation. The benefits, though, of stronger corporate governance are many, including:

- Less risk of conflict between family members or between owners who are active in the business and those who are not
- Improved access to credit because investors have more confidence in the business
- Faster business growth, and;
- Greater protection from fraud, theft, and financial mistakes because internal controls are stronger.

The report points out that it is inevitable that corporate-governance frameworks will vary from one company to the next, depending on their set-ups and needs. It proposes several essential elements of well-governed SMEs, including clear reporting lines and clarity about how decisions are made and risks controlled, appropriate internal controls related to key risks, and a framework that promotes understanding of roles and responsibilities and the limits of authority.

The report says that businesses are constantly evolving. By nature, SMEs are heterogeneous, so any corporate-governance framework for SMEs has to be adaptable and flexible in its application. The report makes a case for the importance of corporate governance for SMEs and is available from the ACCA website. ■

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Specialised assets of not-for-profit entities



The AASB has issued exposure draft 269 Recoverable Amount of Non-cash-generating Specialised Assets of Not-for-Profit Entities. It proposes to remove references to using depreciated replacement cost as a measure of value in use for not-for-profit entities from AASB 136 Impairment of Assets.

- The draft also proposes to clarify that:
- Many NFP assets that are not held primarily for their ability to generate net cash inflows are typically specialised assets held for their service capacity, and

Given that these assets are rarely sold, their cost of disposal is typically negligible and their recoverable amount is expected to be materially the same as fair value, determined under AASB 13 Fair Value Measurement.

The draft is open for comment until 16 November. [\[1\]](#)

AASB releases draft on NFPs' reporting of service performance

The Australian Accounting Standards Board (AASB) has released exposure draft 270 Reporting Service Performance Information.

It proposes mandatory reporting of service-performance information by not-for-profit (NFP) entities in both private and public sectors at least annually. The draft was written in response to a perception that financial-reporting requirements alone did not sufficiently address non-financial information that users required to understand how well their contribution was being used.

Service-performance information is defined as the delivery of goods and services intending to have a positive impact on society. The draft would require an entity to report on key information, including an entity's objectives, what it does to fulfil its purpose, key performance indicators that it uses to measure whether it reaches its performance objectives and the entity's efficiency and effectiveness in achieving its objectives. The draft is open for comment until 12 February 2016. [\[1\]](#)

ACNC round-up

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

- Announced that thousands of charities had made significant errors in their financial reporting and would be contacting them to have the errors rectified. Charities were being encouraged to read the ACNC's publication, 'A list of common reporting errors', before reporting to ensure that they got their reporting correct
- Asked for the community's help to contact over 300 charities that it had not been able to reach since as far back as December 2012. ACNC commissioner, Ms Susan Pascoe, said that if the commission was unable to contact them, it would move to revoke their charity status, and;
- Issued 4000 charities a 'red mark' on the register for failure to submit their 2014 annual information statement by 31 January. It would send a clear message to potential donors, volunteers and grant makers that the charities were not compliant with their ACNC obligations. [\[1\]](#)

Amendments to joint venture

The AASB has incorporated the requirements of international financial-reporting standard 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' (which was issued in September 2014 with an application date of 1 January 2016) within AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The board has released exposure draft 268 Effective Date of Amendments to AASB 10 and AASB 128, on the International Accounting Standards Board's (IASB's) proposal to defer indefinitely the effective date of amendments that affect the gain or loss an entity recognises when assets are sold or

contributed between it and an associate or joint venture in which it invests. The effective date has been deferred until such time as the IASB has finalised amendments, if any, that result from its research project on the equity method. However, earlier application would still be permitted.

Under the Corporations Act 2001, if an accounting standard does not include a mandatory effective date its requirements would become immediately mandatory for periods ending after its legal commencement. By deferring the effective date of the amendments to a specified mandatory effective date, the AASB can determine the mandatory date at a future AASB meeting. [\[1\]](#)

Sydney auditor suspended

ASIC has suspended for 12 months the registration of a Sydney auditor.

ASIC commissioner John Price said: 'ASIC will take action against auditors who fail to comply with conditions attached to their registration and whose conduct falls short of required professional standards.'

The Companies Auditors and Liquidators Disciplinary Board (CALDB) found the company auditor, a director of a Sydney-based firm:

- Was not a fit and proper person to remain registered as an auditor
- Failed to comply with conditions attached to his registration, and
- Failed to correctly fill out his annual statement on three occasions.

The CALDB also found that the company auditor had failed to exercise proper care in completing annual statements for three consecutive years. In each statement, the person falsely and misleadingly stated that his registration was not subject to conditions.

The suspension is a reminder that company auditors are responsible for complying with their professional obligations. [\[1\]](#)

Revised standard to provide more clarity on due diligence

The Accounting and Professional Standard Board (APESB) has released a revised APES 350 Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document.

The standard provides guidance for Australian accountants acting as members, observers and advisors to a due-diligence committee.

Existing template letters used in the due-diligence process have been revised. A new template letter to report on new circumstances for accountants acting as observers is included. Changes have also been made to key terms and definitions to ensure consistency with the international code. The new APES 350 is effective from 1 October. [\[1\]](#)



ASIC reports on its corporate-finance regulatory approach

The Australian Securities and Investments Commission (ASIC) has issued the third report on its approach to corporate-finance regulation, which covers January to June this year.

The report provides companies and professionals with insights into ASIC's regulatory approach in the corporate-finance sector and aims to help them with their associated legal and compliance obligations.

The report highlights and discusses key statistical information, ASIC's work in the regulation of fundraising, mergers and acquisitions, corporate governance, and other general corporate-finance areas. Key highlights include:

- The downturn in the resource sector has seen an increase in

the number of technology and service companies 'backdoor listing' through struggling resource companies

- Many prospectuses that ASIC reviewed contained very limited historical financial information, even though an underlying business might have traded for a reasonable period. Some prospectuses contained either partially audited or unaudited financial information, meaning that little independent verification of financial information had been conducted, and
- ASIC continued its focus on ensuring that companies and their directors understood their financial-reporting obligations. [\[1\]](#)

Former director of Kleenmaid pleads guilty



Former director of Kleenmaid, Gary Armstrong, has pleaded guilty to three charges arising out of the collapse of the national whitegoods distributor. Mr Armstrong pleaded guilty to:

- One count of dishonestly gaining loan facilities from Westpac Bank in November 2007 totalling \$13 million, and
- Two counts of insolvent trading arising from debts incurred with Westpac in July 2008 totalling \$3.5 million.

The trial of other former Kleenmaid directors, Andrew Young and Bradley Young, was set to start on 17 August. The focus of an ASIC investigation centred on the solvency of the Kleenmaid Group and a \$13 million fraud committed on Westpac Bank. ■

Facilitating dual listings by New Zealand companies

On 11 March, the Australian Securities Exchange (ASX) released a consultation paper seeking comments on a package of proposed amendments to its rules to facilitate dual listings by New Zealand companies.

In August, the ASX released its response to the paper. Several changes were made to the rule-amendment package as a result of the consultation process. The changes and the rule-amendment package have been submitted for final regulatory approval and are on the ASX website.

The objective of the amendments is to provide Australian investors with access to a wider range of well-regulated public companies by reducing the regulatory costs imposed under ASX's rules on dual-listing of NZX-listed companies. ASX believes that the NZX rules are materially equivalent to its own and set an appropriate standard for admission and ongoing regulation, including in relation to continuous disclosure. ■

AUASB seeks two new members

The Financial Reporting Council (FRC) is seeking auditing and assurance professionals to fill two vacancies on the Auditing and Assurance Standards Board (AUASB).

Expertise in IT auditing, use of data analytics, group auditing and audits of financial institutions would be invaluable.

The AUASB typically holds seven formal meetings a year and occasional meetings on a needs basis. Involvement in sub-committees and attendance at related meetings is also expected. The FRC makes appointments for a maximum of three years. They may be extended for a maximum of two further terms.

Applicants must address the selection criteria. Further information about the positions, the framework for appointment to the AUASB, remuneration and allowances is available from the AUASB website. It is expected that successful applicants will be appointed from 1 January. ■

Director banned from providing financial services

ASIC has banned Mr Trevor John Seymour, a former director of Provident Capital Limited (Provident Capital), from managing corporations and providing financial services for three years. Mr Seymour breached his duties as a director of Provident Capital and failed to comply with financial-services laws.

Mr Seymour, of Campbelltown, New South Wales, was a director of Provident Capital from 25 May 1998 to 17 December 2013. Provident Capital went into receivership on 3 July 2012 and into liquidation on 24 October 2012.

ASIC's investigation found that Mr Seymour had breached his obligations as a director and engaged in conduct that was misleading or deceptive by approving several documents issued by Provident Capital, namely:

- Fifteen quarterly and seven benchmark reports issued to ASIC and Australian Executor Trustees Limited that contained misleading statements and were misleading or deceptive, and
- A debenture prospectus in December 2010 – issued to raise funds from the public – that contained misleading statements that were misleading or deceptive, and
- Information booklets in 2012 that were deficient.

Mr Seymour was allowed to continue to act as a director of the trading company of his accountancy practice – Bretnalls NSW Pty Ltd – as long as he was not the sole director and that he continued to be involved in its day-to-day business. ■

Conceptual-framework webinars

The International Accounting Standards Board (IASB) has released a webcast series to help better understand the proposed changes to its Conceptual Framework. The series provides insight into the IASB's thinking and the rationale behind its proposals. The Conceptual Framework's objective is to provide a clear and complete set of concepts to enhance financial reporting.

- Enhancements to the existing Conceptual Framework include:
- Refining the definitions of the basic building blocks of financial statements – assets, liabilities, equity, income and expenses
- A new chapter on measurement that describes appropriate measurement bases (historical cost and current value, including fair value), and the factors to consider when selecting a measurement basis, and
- Confirmation 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 can be reported outside the statement of profit or loss in 'Other Comprehensive Income (OCI)'.

The webcast series is available on demand from the IASB website. The board seeks comments on the exposure draft ED/2015/3 Conceptual Framework for Financial Reporting by 26 October. ■

Proposals on audit reporting on summary financial statements

The International Auditing and Assurance Standards Board (IAASB) has released an exposure draft proposing changes to international standard on auditing (ISA) 810 'Engagements to Report on Summary Financial Statements'. ISA 810 deals with an auditor's responsibilities relating to reporting on summary financial statements derived from financial statements he or she has audited in accordance with ISAs.

The proposed amendments to ISA 810 are intended to explain how new and revised auditor-reporting standards apply to engagements to report on summary financial statements.

The proposed amendments to ISA 810 include:

- Addressing the information gap between a material

uncertainty related to a going concern and a material misstatement of other information, and

- Reference to the communication of key audit matters in audited financial statements.

The IAASB has issued its proposals with a 90-day comment period to finalise them on a timely basis. The board wishes to align the effective date of a revised ISA 810 with the effective date of new and revised auditor reporting standards (that is, for audits of financial statements for periods ending on or after December 15, 2016).

Comments on the draft are requested by 2 November. ■

Removing restrictions on small companies' capital-raising

In the 2015-16 budget, the federal government announced a Growing Jobs and Small Business package to help reduce regulatory impediments to small businesses' growth. As part of the package, the government has confirmed its commitment to introducing a legislative framework to facilitate crowd-sourced equity funding (CSEF).

A consultation paper 'Facilitating crowd sourced equity funding and reducing compliance costs for small businesses' outlines key elements of the government's CSEF framework for public companies and seeks feedback on whether it should be extended to proprietary companies.

The paper considers transparency and governance obligations for proprietary

companies that might be required to protect CSEF investors who do not have other connections to the company or its management. The paper also considers areas of the Corporations Act 2001 that might be unnecessarily restricting the ability of small proprietary companies to raise capital. In particular, it discusses the shareholder limit for proprietary companies, and the 'small-scale offerings' exception to disclosure requirements.

As announced as part of the Growing Jobs and Small Business package, the paper also examines the regulatory requirements the Corporations Act imposes on small proprietary companies. It seeks to identify ways to reduce compliance costs to enable small companies to direct more of their

time and resources into operating and growing their businesses. The following specific areas of the Corporations Act are canvassed:

- The requirement to make an annual solvency resolution
- The requirement to maintain a share register
- Ways to facilitate the execution of documents, and
- Completing and lodging forms with the regulator.

The paper seeks views on these and other ways to reduce the regulatory burden on small proprietary companies. Closing date for submissions was 31 August. ■