

# Outsourced Services Guidance Proposed by APESB

The market for outsourced services has significantly grown in recent times and this raises issues around quality control of the work performed by accountants and risk management issues. To address this contemporary issue, the Accounting Professional and Ethical Standards Board (APESB) released on an exposure draft of a proposed guidance note APES GN 30 'Outsourced Services' with comments requested 30 March. The proposed APES GN 30 provides guidance to accountants in public practice who provide or utilise outsourced services and also provides a useful reference point for members in business involved in outsourced services.

Professional accountants in public practice who provide or utilise an outsourced service should have an outsourcing agreement, which clearly specifies the

responsibilities and obligations of the parties to the outsourcing arrangement. Outsourced Services addressed by the proposed APES GN 30 focus on material business activities, which are defined as activities that have the potential if not delivered, to materially impact on the quality, timeliness or scale of service delivered by a professional accountant in public practice or a client.

Members in public practice who are involved in outsourcing will now have a point of reference to consider the key matters that should be included in outsourcing or service level agreements. The guidance note also includes useful guidance for members on quality control, and how to monitor and manage risks associated with outsourced services.

## Internet

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## Queries

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

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## Risk Appetite New COSO Thought Paper

A new thought paper aimed at helping entities better articulate, develop, and implement "risk appetite," was released by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) – an organisation providing thought leadership and guidance on enterprise risk management (ERM), internal controls and fraud deterrence. 'Enterprise Risk Management – Understanding and Communicating Risk Appetite' is the latest in a series of COSO papers providing ERM practitioners thought leadership on performing more effective risk management.

Risk appetite is the amount of risk organizations are willing to accept in pursuit of their objectives. The paper provides examples of statements of risk appetite and emphasises the notion that risk appetite should be communicated by management, embraced by the board, and integrated throughout the entity.

All material contained in this newsletter is written by way of general comment. No material should be accepted as authoritative advice and any reader wishing to act upon the material should first contact our office for properly considered professional advice which will take into account your own specific conditions. No responsibility is accepted for any action taken without advice by readers of the material contained herein.



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# FRA NEWS

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Welcome to this issue of 'HLB 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:**

- AASBs and Interpretation for 31 December Year Ends
- AASBs Issued but Not Yet Operative
- Infrastructure Entities ASIC's New Disclosure Rules
- Agribusiness Schemes ASIC's Investor Guide and Disclosure Guidance
- Clean Energy Accounting Considerations
- Personal Property Securities Register Commences

#### **Nice to know:**

- Financial Instruments More Changes in Store
- Directors' Liability Laws Reform
- Outsourced Services Guidance Proposed by APESB
- Risk Appetite New COSO Thought Paper

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# AASBs and Interpretation for 31 December Year Ends



In preparing general purpose financial statements for a financial year ending on 31 December 2011, these rules will apply for the first time. The impacts of rules with retrospective application must be presented as if applied in the opening balance sheet of the earliest comparative period shown. The changes are mainly improvements to existing standards.

Area	Details and title
Corporations Act	Operating and financial review must be provided by listed non-corporates (e.g. property trusts), as well as companies. <b>Source:</b> Corporations Amendment (Corporate Reporting Reform) Act 2010, No 66.
Related party disclosures	<ul style="list-style-type: none"> <li>■ Changes the definition of related parties for clarity and consistency, especially around identifying related parties through control and significant influence. A subsidiary and associate with the same investor are now related;</li> <li>■ Exempts government-related entities from some disclosures of transactions and balances with other government-related entities; and</li> <li>■ Explicitly requires disclosures of commitments involving related parties.</li> </ul> <b>Source:</b> AASB 124 'Related Party Disclosures' – retrospective application.
First-time adoption	Avoiding the need to apply hindsight for AASB 7 'Financial Instruments Disclosures' by exempting some comparative disclosures on first-time adoption. <b>Source:</b> AASB 2009-13 'Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]' – retrospective application.
Debt / equity classification	Rights issues of a fixed number of equity instruments for a fixed amount of any currency must now be classed as equity, provided that the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. <b>Source:</b> ASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues' – retrospective application.
Debt for equity swaps	Fair value to be used where debt extinguished by issue of equity instruments other than in common control transactions or extinguishment was part of original contract. <b>Source:</b> 'Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments' – retrospective application.
Contributors to Defined Benefit Pension Schemes	Early payment of minimum funding to a defined benefits pension scheme may be recognised as an asset. <b>Source:</b> 'Amendment to Interpretation 14 AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' – retrospective application.
Various under improvements to standards	Amendments arising from the annual improvements project, including: <ul style="list-style-type: none"> <li>■ Presentation of Other Comprehensive Income – clarification that the analysis of OCI items may be in statement of changes in equity or in the notes. Emphasis added that disclosures of significant events and transactions in interim financial reports should update related information in the previous annual report;</li> <li>■ Business Combinations – clarifies transition requirements, limits the choice on accounting for non-controlling interests to present interests, details in respect of unreplaced and voluntarily replaced share-based payment awards;</li> <li>■ Customer Loyalty Schemes – clarification that fair value should take into account discounts or incentives made available to non-loyalty scheme customers;</li> <li>■ Financial Instrument Disclosures – an amendment encourages qualitative disclosures in the context of the mandatory quantitative disclosures made; and</li> <li>■ Segment Reporting – requirement added to consider whether a government and entities it is known to control represent a single customer for segment reporting.</li> </ul> <b>Sources:</b> AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]'; AASB 2009-12 'Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]'; AASB 2010-4 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]'; AASB 2010-5 'Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]'; and Mix of prospective and retrospective application.

## AASBs Issued but Not Yet Operative

One of the disclosures required in financial statements is details of standards that have been made but are not yet mandatory and have not been early adopted. This requirement needs monitoring of the standards as it refers to those in existence at the date of issue of the financial report. It is intended to alert readers to how the statements they are reading may vary in future periods.

The disclosure is not required by entities that have early adopted the Reduced Disclosure Requirements.

As at 31 December 2011, the possible standards and interpretations for this note are:

Accounting Standards and Interpretations	Effective for annual reporting periods beginning on or after
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011
AASB 1054 'Australian Additional Disclosures'	1 July 2011
AASB 2011-1 'Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project'	
AASB 2011-5 'Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131]'	1 July 2011 [not-for-profit / public sector entities only]
AASB 2010-9 'Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters'	1 January 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012
AASB 2011-3 'Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]'	1 July 2012 [public sector entities only]
AASB 2011-13 'Amendments to Australian Accounting Standard – Improvements to AASB 1049'	1 July 2012 [public sector entities only]
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]'	1 July 2012
AASB 9 'Financial Instruments'	1 January 2013
AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	[proposed to be deferred to 1 January 2015]
AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9' (December 2010)	
AASB 2010-10 'Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters'	1 January 2013
AASB 10 'Consolidated Financial Statements'	1 January 2013
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17]'	
AASB 11 'Joint Arrangements'	1 January 2013
AASB 12 'Disclosure of Involvement with Other Entities'	1 January 2013
AASB 13 'Fair Value Measurement'	1 January 2013
AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]'	
AASB 127 'Separate Financial Statements' (2011)	1 January 2013
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013
AASB 119 'Employee Benefits'	1 January 2013
AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14]'	

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## AASBs Issued but Not Yet Operative (Continued)

Accounting Standards and Interpretations	Effective for annual reporting periods beginning on or after
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and 'Amendments to Australian Accounting Standards arising from Interpretation 20' [AASB 1]	1 January 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' [AASB 124]	1 July 2013
AASB 1053 'Application of Tiers of Australian Accounting Standards'	1 July 2013

While some of the more substantive standards have a formal operative date a couple of years hence, it well worth starting to understand the key elements of these standards now. There are implications in terms of the third balance sheet, information gathering, possibly debt covenants, systems issues and communication with stakeholders.

The IASB issued amendments to IFRS 9 'Financial Instruments' that defer the mandatory effective date from 1 January 2013 to 1 January 2015. The AASB is expected to similarly defer AASB 9. The deferral will make it possible for all phases of the financial instruments project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. Early application of IFRS 9/AASB 9 is still permitted.

The IASB and FASB issued common disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Companies and other entities are required to apply the amendments for annual reporting periods beginning on or after 1 January 2013, and interim periods within those annual periods.

IASB also clarified its requirements for offsetting financial instruments by issuing 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)'. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. The AASB is yet to issue these amendments in the Australian context.

Also the AASB has issued the following exposure drafts:

- ED 214 'Extending Related Party Disclosures to the Not-for-Profit Public Sector';
- ED 215 'Mandatory Effective Date of IFRS 9';
- ED 216 'AASB 12 Disclosure of Interests in Other Entities: Tier 2 Proposals';
- ED 217 'AASB 127 Separate Financial Statements: Tier 2 Proposals';
- ED 218 'Presentation of Items of Other Comprehensive Income: Tier 2 Proposals';
- ED 219 'AASB 13 Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13': Tier 2 Proposals';
- ED 220 'Investment Entities (incorporating IASB ED/2011/4);
- ED 221 'Government Loans (proposed amendments to AASB 1);

- ED 222 'Revenue from Contracts with Customers' and Tier 2 Supplement to ED 222 'Revenue from Contracts with Customers';
- ED 223 'Superannuation Entities'; and
- ED 224 'Transition Guidance (proposed amendments to AASB 10).

Within the next twelve months, we will also see a complete financial instruments standard, and the new revenue and leasing standards coming from the IASB. On the domestic front, we will see the Australian version of IASB 'Conceptual framework – Phase A: objective and qualitative characteristics', more on the reduced disclosure regime (including, application of the reporting entity) and further enhancements to not-for-profit reporting requirements. It is important the directors and management start to understand the key requirements of these standards and developments, and establish a project to plan for implementation now.



# Infrastructure Entities ASIC's New Disclosure Rules



ASIC released new disclosure benchmarks and principles for infrastructure entities to improve investor awareness of the risks associated with investing in these products. The risks of investing in infrastructure entities were highlighted during the global financial crisis.

The response of retail investors to loss of capital experienced during the

crisis indicated that existing disclosure did not effectively communicate an understanding of the characteristics and risks of infrastructure entities to investors. Regulatory Guide 231 'Infrastructure entities: Improving disclosure for retail investors' outlines nine benchmarks and eleven disclosure principles that apply to infrastructure entities, aimed at addressing the risks peculiar to infrastructure entities. Responsible entities of infrastructure entities must disclose the benchmark and disclosure principle information in any existing and new disclosure dated on or after 1 July 2012.

Infrastructure entities must disclose whether they meet the benchmarks and if not, why not. 'Why not' means explaining how a responsible entity deals with the business factor or the issue underlying the benchmark. The benchmarks relate to topics such as corporate structure and management, remuneration of management, classes of units and shares,

substantial related party transactions, cash flow forecast, base-case financial model, performance and forecast, distributions and updating the unit price.

Infrastructure entities are also required to disclose against 11 disclosure principles addressing key relationships, management and performance fees, related party transactions, financial ratios, capital expenditure and debt maturities, foreign exchange and interest rate hedging, base-case financial model, valuations, distribution policy, withdrawal policy, and portfolio diversification.

In addition to the benchmarks and disclosure principles, RG 231 also outlines the standards ASIC expects responsible entities to meet when advertising infrastructure entities to retail investors. These standards are consistent with draft guidelines for the advertising of financial products and financial advice, released in November 2011.

## Agribusiness Schemes ASIC's Investor Guide and Disclosure Guidance

ASIC released an investor guide and regulatory guidance with new disclosure benchmarks and principles for agribusiness managed investment schemes to improve investor awareness of the risks associated with these products. These risks have been highlighted since 2008 when several operators of agribusiness schemes failed, causing investors significant losses. The collapses highlighted features of agribusiness schemes and raised concerns about whether these features and associated risks were adequately disclosed to investors. Regulatory Guide 232 'Agribusiness managed investment schemes: Improving disclosure for retail investors' outlines five benchmarks and five disclosure principles that apply to all agribusiness schemes. Agribusiness schemes must disclose whether they meet the benchmarks and if not, why not. 'Why not' means explaining how they will deal with the business factor or the issue underlying the benchmark.

Agribusiness schemes pose particular risks because unlike many other types of managed investment schemes, they

don't generally use a traditional unit trust structure. For tax reasons, many agribusiness schemes are structured so that investors operate their agribusiness investment in their own right. Investors enter into contracts with the responsible entity or other parties to perform all the cultivation and management activities associated with the investor's agribusiness enterprise. Investors need to understand these complex arrangements as an investment in an agribusiness scheme is a long-term commitment and investors may have ongoing obligations in relation to the operation of their agribusiness enterprise.

RG 232 also outlined the standards ASIC expects responsible entities to meet when advertising agribusiness schemes to retail investors and guidance as to clear, concise and effective disclosure of the benchmark and disclosure principle information. Responsible entities of agribusiness schemes should disclose the benchmark and disclosure principle information in any product disclosure statement dated on or after 1 August 2012.

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# Agribusiness Schemes ASIC's Investor Guide and Disclosure Guidance (Continued)

ASIC's new disclosure benchmarks for agribusiness schemes are one component of a multi-faceted approach to holding the gatekeepers in this sector to account. ASIC initial focus was on surveillance of the sector when problems emerged and its investigations into the collapses of a number of agribusiness responsible entities are continuing. ASIC has introduced disclosure benchmarks to ensure people considering investing in agribusiness schemes are aware of the associated risks.

Responsible entities of agribusiness schemes must ensure people better understand what they are getting into before they invest. ASIC's priority is to ensure investors and financial consumers are confident and informed before investing in these schemes.

## Clean Energy Accounting Considerations

The Clean Energy legislative package was passed by Parliament in 2011.

The 19 Acts, which comprise the Clean Energy legislation and the Steel Transformation Plan Package, put a price on carbon pollution, promote investment in renewable and clean energy technologies and support action to reduce carbon pollution on the land. The start date is 1 July 2012.

The legislative package included:

- Requiring approximately 500 liable emitters to buy a fixed price carbon unit from the Federal Government for each tonne of CO<sub>2</sub> emissions from 1 July 2012 to 30 June 2015, before moving to market pricing;
- Providing free carbon units to some entities in energy intensive areas such as electricity generation. These may be used to offset the unit purchase liability or sold back to the government; and
- Providing some tax concessions and cash funding.

There are three broad categories of affected parties:

- "Major emitters"—approximately 500 entities who will have emission liabilities arising when the legislation commences;
- Entities receiving compensation for higher energy costs; and
- Entities that may have material flow-on

effects that should be disclosed in financial statements. Those effects may include higher energy costs, and higher input costs in a supply chain where there are carbon intensive goods or services.

Disclosures under various requirements of accounting standards and the Corporations Act are triggered by the passage of the legislation.

Governance and preparers should consider whether there are any significant impacts on the business model, and also whether there are significant uncertainties.

These might arise because, for example, it is not known what costs will be passed on by suppliers.

Consider the need for such matters:

- Impairment assessments where cash flows may reduce as increased costs cannot be recovered, for example, rate-regulated entities and not-for-profit entities that cannot price their outputs;
- Liability recognition as an entity is locked into a contract which becomes onerous (unavoidable future performance will now be at a loss);
- Assessments of any critical assumptions and forecasts that underpin existing financial statement disclosures; and
- Disclosures about the future, such as those in a directors' report and

management commentary.

The accounting by emitters is not settled, as an Interpretation IFRIC 3 'Emission rights' was made in 2004 but withdrawn in 2005 amidst disagreement.

The AASB intends to publish a paper that draws out the relevant issues but does not intend at this stage to issue an interpretation.

*The 19 Acts, which comprise the Clean Energy legislation and the Steel Transformation Plan Package, put a price on carbon pollution, promote investment in renewable and clean energy technologies and support action to reduce carbon pollution on the land. The start date is 1 July 2012*

# Personal Property Securities Register Commences

The Personal Property Securities (PPS) Register commenced on Monday 30 January; ASIC's final day for accepting and processing charge documents was Friday 27 January. All current charges will be migrated to the new PPS Register. If your charge was registered provisionally with ASIC, it will be transferred to the PPS Register. However, after this transfer, the security interest (charge) will no longer have any legal effect and you will need to register your security interest on the PPS Register within 24 months to retain the original creation date. All historical charge information e.g. charges that have been satisfied prior to 30 January 2012, will remain on the ASIC register and will be available for searching for seven years.

Therefore, after the Australian Register of Company Charges has closed, customers may need to search both the PPS Register and the ASIC Register to get the full history of charges for a company.

## Financial Instruments More Changes in Store



The IASB and FASB agreed to work together to seek to reduce differences in their respective classification and measurement models for financial instruments. The discussions will form part of the FASB's ongoing redeliberation of a proposed Accounting Standards Update on financial instruments, which was originally issued in May 2010. The IASB will consider these discussions as part of its project to undertake limited-scope changes to IFRS 9 'Financial Instruments' (issued in November 2009 and amended in October 2010), resulting from its ongoing work to develop a new IFRS on insurance contracts and the feedback received on application of IFRS 9 to particular instruments.

The boards will work together with the objective of more closely aligning key aspects of their classification and measurement models.

The boards will explore these key aspects jointly, and then decide whether to issue proposed amendments to IFRS 9 and US GAAP.

When IFRS 9 was introduced in 2009, the IASB indicated that further amendments might be required once the direction of travel on insurance contracts became clear. The IASB is now at that point.

At the same time, the limited-scope review presents an opportunity to align IFRS and US GAAP more closely.

The boards intend to proceed with caution, recognising the investment that many jurisdictions have made in preparing for the introduction of IFRS 9 in 2015.

## Directors' Liability Laws Reform

Proposed amendments to directors' liability laws will form the first part of the Commonwealth's implementation of the Council of Australian Governments' (COAG) Directors' Liability reform project. The reform aims to harmonise the approach to imposing personal criminal liability for corporate fault (otherwise known as derivative liability) by requiring jurisdictions to audit their laws against COAG agreed principles and to amend legislative provisions to reflect a truly national approach to imposing personal criminal liability on corporate officers.

This reform aims to ensure that in areas where derivative liability is considered appropriate, it is imposed in accordance with principles of good corporate governance and criminal justice and in a manner that will promote responsible entrepreneurialism and economic growth. The Personal Liability for Corporate Fault Reform Bill 2012 closes for comment on 30 March.

Directors' Liability is one of the 27 regulatory reforms under COAG's National Partnership Agreement to Deliver a Seamless National Economy. In line with the COAG reform objectives, the Commonwealth has assessed its laws against the COAG principles and supplementary guidelines and the amendments proposed in this Bill reflect the proposed changes within Treasury portfolio legislation, excluding taxation legislation. This Bill proposes amendments to the Corporations Act 2001, Insurance Contracts Act 1984, Foreign Acquisitions and Takeovers Act 1975 and the Pooled Development Finds Act 1992. A further exposure draft bill covering the second tranche of proposed amendments relating to other Commonwealth legislation is expected to be released later in the first quarter of 2012 for public comment.