

AUGUST
2017

Financial Reporting & Governance News

August 2017

Impact of new revenue accounting standard



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The way in which revenue is accounted for will significantly change for many businesses next year, as a result of the introduction of new accounting standards known as AASB 15 Revenue from Contracts with Customers.

Most entities with revenue or grant income will be affected by these changes. It means that those who prepare the financial information will need to look closely at each revenue transaction.

Those with long-term contracts (greater than 12 months) might be the most affected, as will those with bundled-type products (e.g. a physical good provided with ongoing support or maintenance). Therefore those in the construction industry and service-providers will likely have the largest changes to make, however we consider that all revenue generating entities will have to reconsider

their revenue recognition policies.

The least impact will likely be felt by those with spot, 'cash-type' sales. In essence, this new Standard requires revenue to be allocated in accordance with the satisfaction of the performance obligations of a contract.

This has been split into five steps:

1. Identify the contract with the customer
2. Determine the performance obligations under the contract
3. Calculate the full transaction price
4. Allocate the transaction price to each of the performance obligations
5. Recognise revenue as each performance obligation is met.

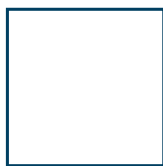
It is especially important to note that a contract under this Standard can be written, verbal or implied.

The most significant change is the requirement to record revenue upon the satisfaction to performance conditions.

This is intended to respond to concerns under the previous rules, that the method

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applied did not accurately match the level of effort required by an entity to generate revenue. The new Standard will require businesses to assess what their performance obligations under a specific contract are, determine what value to apply to each performance obligation and then record the revenue as each is met. The timeline for the Standard coming into effect is shown below.

Another impact of the new Standard is the requirement to break down contracts into their individual components, or un-bundling. An example is a mobile phone contract, where the sale of the handset and the provision of the service must now be analysed and recognised separately.

Un-bundling is paramount when entities sell the bundled products separately, as well as part of a discounted bundle.

For profit entities

Year End	30 June	31 December
Commencement date	1 July 2018	1 January 2018
First full year affected	30 June 2019	31 December 2018
Start of earliest comparative	1 July 2017	1 January 2017

Not for profits

The introduction of the Standard has been delayed by a year for NFP entities, which has allowed some reprieve.

Most entities with revenue or grant income will be affected by these changes.

ASIC's 30 June financial reporting focus

Need to know

ASIC's surveillance continues to focus on material disclosures of information useful to investors and other report users, such as assumptions supporting accounting estimates and significant accounting policy choices.

ASIC Commissioner John Price said, 'As with previous reporting periods, directors and auditors should focus on values of assets and accounting policy choices. ASIC continues to see companies use unrealistic assumptions in testing the value of assets or apply inappropriate approaches in areas such as revenue recognition.'

The ASIC focuses for 30 June 2017 financial reports include:

- Accounting estimates – impairment testing and asset values
- Accounting policy choices – revenue

recognition, expense deferral, off-balance sheet arrangements, and tax accounting, and

- Key disclosures – estimates and accounting policy judgements; and effect of new revenue, financial instrument, lease and insurance standards.

ASIC reminds directors that they are primarily responsible for the quality of financial reports. They must ensure that management produces quality financial information. Companies must have appropriate processes and records to support information in reports rather than simply relying on an independent auditor.

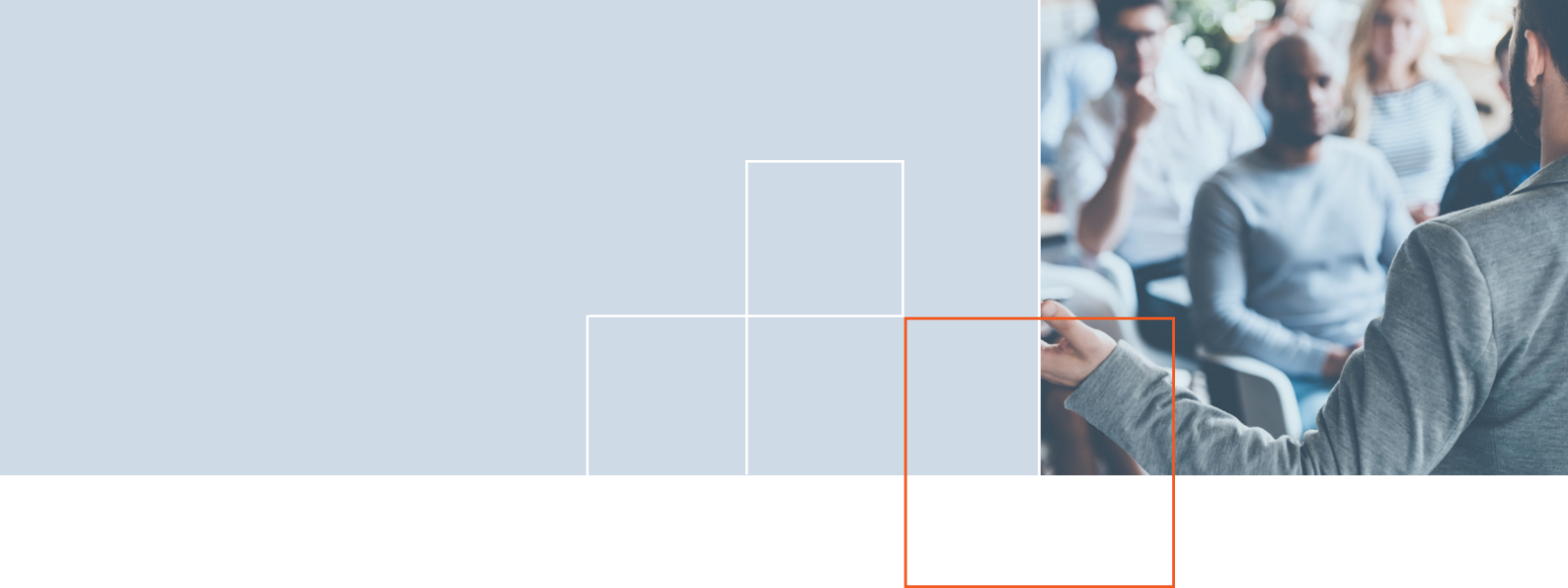
Companies should apply appropriate experience and expertise, particularly in more difficult and complex areas such as accounting estimates (including

impairment of non-financial assets), accounting policies (such as revenue recognition) and taxation.

While ASIC does not expect directors to be accounting experts, they should seek explanations and advice that support accounting treatments chosen and, where appropriate, challenge estimates and treatments applied in reports. Directors should particularly seek advice when a treatment does not reflect their understanding of the substance of an arrangement.

Information should be produced on a timely basis and be supported by appropriate analysis and documentation for the independent auditor. The aim is to enable auditors to focus on their role in providing independent assurance.

An important part of documenting Directors' considerations of impairment



is alternative methods and assumptions. Directors should consider whether other methods of estimating fair value, etc are also reasonable and why they have not been considered appropriate. The same applies to other assumptions – Directors should consider what other assumptions could reasonably have been made, and how this would impact their assessment. Documentation of these alternative approaches is important in supporting why directors have chosen the methods and assumptions they have used.

Further information can be found

in ASIC's information sheets 183 *Directors and financial reporting* and 203 *Impairment of non-financial assets: materials for directors*.

Australian financial services licensees should ensure that client monies are appropriately held in separate, designated trust bank accounts and that they are applied according to client instructions and the requirements of the Corporations Act.

Listed companies should continue to disclose information on matters that can have material effects on future financial

positions. ASIC says that this could include, for example, matters relating to climate change or cyber-security.

ASIC continues to review the financial reports of proprietary companies and unlisted public companies following complaints and other intelligence.

The Commission identifies and follows up where companies have not met their obligations to lodge reports. It is their responsibility to do so, and ASIC will take all necessary steps to see that they do.

New draft guidance promotes tax clarity

Australian stakeholders (and international investors) wanting to see clearer, more consistent and 'comparable' tax reporting this financial year will benefit from new guidance from the Australian Accounting Standards Board.

The AASB's draft appendix to the Board of Taxation's tax-transparency code promotes consistency and comparability of key information about entities' tax positions and, in particular, their effective tax rate ("ETR") relative to corporate tax rates.

Effective tax rates are the amount of tax incurred as a proportion of profit before tax. The guidance aims to help entities to communicate tax information in a way that is consistent with evolving international disclosure practices and the ASIC's requirements regarding non-GAAP information.

The taxation board's code aims to improve comparisons among companies on tax reports.

Its Chair Michael Andrew said: 'The aim of the code is to increase transparency around tax and to help educate the public about compliance with tax laws. But tax is a complex subject that can be difficult for companies to explain in a way that is accessible to the readers of their reports, and there is potential for inconsistency in some key areas.'

AASB Chair Kris Peach said: 'This guidance helps to establish some common approaches, makes it easier for preparers to pull reports together, and easier for readers to understand and compare information.'

Explaining tax and the financial statements, the code requires disclosures of effective tax rates based only on corporate tax to enable comparisons with company tax rates.

The guidance sets out the necessary disclosures to ensure that interested parties can better understand the differences, if any, between an ETR under the code and an ETR prepared according

to accounting standards. The guidance also sets out how companies can improve their disclosures by reconciling their profit-to-income tax expense and their income-tax expense to income-tax paid or payable, including any material temporary and non-temporary differences.

Ms Peach said: 'While there are good reasons the numbers in financial statements and tax transparency reports are not the same, this often causes confusion for the reader and can be a difficult area to explain. The AASB has set out some principles and examples to help companies better communicate their tax positions and practices to stakeholders.'

The guide has been published as a draft to allow companies to trial its advice in the upcoming reporting season and can be found on the Board of Taxation and AASB websites.



ASIC reminders on new Australian Accounting Standards

ASIC has thrice reminded preparers, boards and auditors of the importance of timely disclosures concerning new Standards AASB 15 Revenue from Customer Contracts, AASB 9 Financial Instruments and AASB 16 Leases.

ASIC Commissioner John Price said in December: 'We remind directors and management of the importance of planning for the new Standards and informing investors and other financial report users of the impact on reported results.'

In May 2017, ASIC stated that 'directors and auditors should ensure that notes to 30 June 2017 financial statements disclose the impact on future financial positions and results of new requirements for recognising revenue, for valuing financial instruments, and accounting for leases. New accounting standards in these areas will apply to future financial reports and may significantly affect how and when revenue can be recognised, the values of financial instruments (including loan provisioning and hedge accounting), and assets and liabilities relating to leases'.

In June 2017, ASIC stated that it is important that directors and management

plan for new accounting standards and inform investors and other report-users how they will affect results. This includes making required disclosures on the standards' effects in notes to the financial report.

It may well mean quantifying effects for the reporting date that coincides with the start of the first comparative period that will be affected in a future financial report, subject to transitional arrangements, ie 30 June 2017 for new Standards on revenue and financial-instruments (for "for profit" entities).

Lessons from ASIC's latest review

ASIC has queried 23 entities about 28 accounting treatments in its review of the 31 December 2016 financial reports of 90 listed and other public-interest entities.

The Commission continues to be concerned about assessments of the recoverability of the carrying values of assets, including goodwill, exploration and evaluation expenditure, and property, plant and equipment. Most of its recent enquiries relate to assets in the energy and extractive industries.

ASIC's risk-based surveillance of financial reports of public-interest entities for periods ended 30 June 2010 to 30 June 2015 has led to material changes to 4 per cent of reports reviewed. The main changes were about impairment of assets, revenue recognition and expense deferral.

The table below contains a breakdown of the enquiries.

Enquiries of individual entities will not necessarily lead to material

restatements. Matters involving seven of the entities have been concluded without any changes to their financial reporting.

ASIC Commissioner John Price said: 'The largest number of our findings continue to relate to impairment of non-financial assets and inappropriate accounting treatments. Directors and auditors should continue to focus on values of assets and accounting-policy choices in preparing their 30 June 2017 financial reports.'

Issue	Number of enquiries
Impairment and other asset values	10
Consolidation accounting	5
Amortisation of intangibles	3
Revenue recognition	2
Tax accounting	2
Business combinations	1
Other matters	5

The main changes were about impairment of assets, revenue recognition and expense deferral.



New ethics standard requires accountants to act on suspicions

The Australian Accounting Professional & Ethical Standards Board has issued a new Standard – Responding to Non-Compliance with Laws and Regulations, which will be incorporated into APESB Standard APES 110: Code of Ethics for Professional Accountants, and comes into force on 1 January 2018.

The new Standard, in relation to non-compliance-with-laws-and-regulations (“NOCLAR”), requires accountants to consider their obligations if they uncover or suspect illegal acts such as fraud, corruption, bribery or money-laundering.

The ground-breaking Australian Standard adopts an international approach and permits accountants to set aside the principle of confidentiality when illegal acts are suspected.

No longer can accountants ignore suspected non-compliance with laws and regulations.

NOCLAR applies to accountants in commerce and industry, public sector and not-for-profits, as well as accounting firms. Accountants must act in accordance with a heightened public interest in compliance.

NOCLAR covers acts of omission or commission, intentional or unintentional, committed by a client or those charged with governance, by management or by other individuals working for or under the direction of a client.

Examples of NOCLAR are:

- Fraud, corruption, bribery

- Money-laundering, terrorist-financing, proceeds of crime
- Securities markets and trading
- Banking, financial products and services
- Data protection
- Tax and pension liabilities and payments
- Environmental protection, and
- Public health and safety.

There are many real life examples of breaches. You can read about them daily in the Press. So, it's time we asked ourselves what we would do if we suspect non-compliance.

The new ethical rules respond to the following key public-interest concerns:

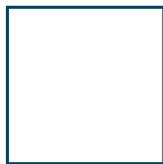
- The duty of confidentiality in the Code acting as a barrier to the disclosure by professional accountants of potential NOCLAR to public authorities
- Professional accountants and auditors simply resigning from employer/client relationships without NOCLAR issues being appropriately addressed, and
- A lack of guidance to help accountants in working out how best to respond to potential NOCLAR, a situation that may often be difficult and stressful.

The responsibilities under of APES 110 *Code of Professional Ethics for Professional Accountants* differ depending on whether an accountant is:

- An employee of an entity
- A senior professional (part of the management team or a member of governance)
- An auditor of an entity, and
- A member in public practice interacting with his or her client in a professional capacity.

The NOCLAR rules are incorporated in new sections 225 (Members in Public Practice) and 360 (Members in Business) of APES 110.





ASIC's advice on communicating audit findings to boards

ASIC has released regulatory guide 260 *Communicating findings from audit files to directors, audit committees or senior managers*.

The guide provides transparency on the Commission's criteria and processes for communicating financial reporting and audit findings to directors and audit committees.

Based on reviews of audit files, the guide may help directors in meeting financial-reporting obligations and supporting audit quality.

The guide covers:

- When the Commission will communicate reporting and audit-quality findings to directors, audit committees and senior managers

- The process it will follow before communicating findings, and
- When the Commission will inform directors of its routine audit-file reviews.

More companies should report on tax liabilities

More Australian companies could be recognising amounts in dispute with the Australian Tax Office, according to new guidance from the International Financial Reporting Standards Interpretations Committee.

The Committee's guidance will soon be issued by the AASB.

Directors are required to assess the aggressiveness of tax positions taken. They must assume that a tax authority has full knowledge of all relevant facts, regardless of whether their companies have had or are likely to have a tax audit or are likely to be issued with an amended assessment.

If it is probable that a tax authority will not accept a company's treatment, a tax liability for an expected settlement amount must be recognised in statements of financial position along with an associated tax expense. Even if it is probable that the tax authority will accept the treatment, directors will still need to assess whether disclosure of a contingent liability is necessary.

Important players in taxation have

commented on the new guidance.

Minister for Revenue and Financial Services Kelly O'Dwyer says: 'Tax is a key focus of the Australian government, so it is good to see an increased emphasis on encouraging clearer disclosures by corporates of areas of tax uncertainty....'

AASB Chair Kris Peach said: 'The probability threshold is now being applied at an earlier point and could result in more tax liabilities being recognised. Previously, a tax liability was only recognised if the directors assessed it was probable that the entity would be required to pay additional tax.'

ATO Deputy Commissioner Jeremy Hirschhorn said: 'In applying the new rules, companies should have regard to ATO public guidance as to what we are likely to dispute, as well as to the ATO's success in disputed matters in determining the likely resolution when we do dispute.'

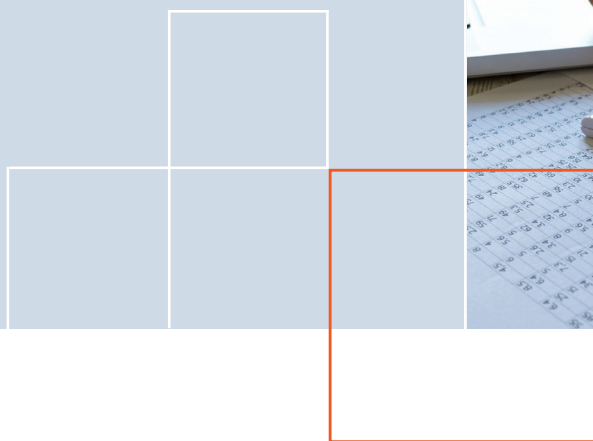
'Thanks to our improved management of disputes, the ATO has a success rate in matters that ultimately go to litigation of more than 75 per cent, and a recent track

record in settled matters of recovering about 75 per cent of the disputed tax on average. When companies are in doubt as to their tax positions, we strongly encourage them to engage with us to obtain certainty rather than be exposed to significant uncertain positions, which rarely improve with time.'

ASIC Commissioner John Price says: 'Tax is a focus area for ASIC's review of financial reports as at 30 June. Directors should consider the appropriate treatment of uncertain and disputed tax positions, including whether there is a need to recognise a liability or disclose a contingent liability.'

'Listed companies will also need to ensure that they appropriately disclose uncertain and disputed tax positions under their continuous disclosure obligations.'

While the new guidance is not effective until 1 January 2019, companies should reassess whether to record a tax liability in their 2017 reporting.



Enhanced audit-reporting standards in force

A new suite of enhanced audit-reporting standards applies to periods ending 30 June 2017. The new and revised standards affect general-purpose and special-purpose financial statements.

As well as the significant changes to the format and content of auditors' reports (including key audit matters ("KAMs") for listed entities) there are significant changes to:

- An auditor's responsibility over other information

- Going concern basis, and
- Audits of accounting disclosure.

The new auditing standards are likely to drive the following changes:

- Better alignment of financial reporting disclosures with KAMs and 'other information' in annual reports
- Improved going concern disclosures, and

- General removal of immaterial disclosures.

ASIC notes that preparers and directors should be mindful that KAMs matters may relate to accounting estimates and significant accounting policy choices that also require specific disclosures, as well as matters relating to areas usually covered in operating and financial reviews.

ASIC endorses whistle-blower research

Nice to know

ASIC has strongly endorsed the announcement of the second stage of *Whistle While They Work* - research to build a major database on whistleblowing.

The Strength of Whistleblowing Processes report, undertaken by a multi-university team, lead by Griffith University's Professor A. J. Brown and funded by the Australian Research Council, follows ASIC's own *Whistle While They Work* report. It identifies the factors that influence good and bad responses to whistleblowing across a wide range of institutions.

The research compares levels, responses and outcomes of whistleblowing across public, private and not-for-profit sectors worldwide.

The project will provide a clearer basis for evaluation and improvement in organisational procedures, better public policy, and more informed approaches to the reform or introduction of whistle-

blower-protection laws.

ASIC Commissioner John Price said: 'The release of the ... results provides an important new picture of where the strengths and weaknesses lie in current whistleblowing processes.

'This demonstrates, first, the value of the project and of participating in it, but also why it's important that industry take a proactive approach to helping to identify and adopt best-practice, so that improvements in this area are well-informed and well-targeted on what's needed.'

The research should provide a strong impetus for industry and regulators to understand the importance of effective whistle-blower programs.

It should also improve understanding of how programs should be embedded in large organisations. The ability for staff to speak up to leaders and identify wrong-doing is a feature of a strong organisational culture.

ASIC encourages company officers and directors to support this ground-breaking research.





ASIC releases papers on crowd-sourced funding

ASIC has released two consultation papers on guidance for public companies and intermediaries (crowd-funding platform operators) in using a new crowd-sourced funding ("CSF") regime that begins on 29 September 2017.

Under the regime, eligible public companies will be able to make offers of ordinary shares to investors via the online platform of an Australian financial-services-licensed intermediary.

Consultation paper 288 Crowd-sourced funding: Guide for public companies aims to assist companies seeking to raise CSF to navigate the new regime and to understand and comply with its obligations. Many of them will not have had experience in making public share offers.

Paper 289 Crowd-sourced funding: Guide for intermediaries helps intermediaries seeking to provide a crowd-funding service, important because of unique gatekeeper obligations for those operating platforms for CSF offers.

ASIC Commissioner John Price said: 'CSF has the potential to be a new source of funding for small to medium-sized businesses, including start-up and early-stage companies. ASIC is keen to assist public companies and crowd-funding-platform operators to understand and comply with their obligations under the new regime, which can help sustain investor confidence and support for CSF.'

Under the regime, eligible public companies will be able to make offers of ordinary shares to investors via the online platform of an Australian financial-services-licensed intermediary.

Asset-holding report released by ASIC

ASIC has released *Review of compliance with asset holding requirements*, a report outlining the Commission's findings following an extensive review of compliance by custodians and responsible entities of managed investment schemes in which asset-holding requirements are imposed by the Commission's regulatory guide 133 *Managed investments and custodial or depository services: Holding assets*.

ASIC revised the guide four years ago, setting out its policy on asset-holding and two related class orders that set out the legal requirements for asset holding, order 13/1409 Holding assets: Standards

for responsible entities and order 13/1410 Holding assets: Standards for providers of custodial and depository services.

Late last year and early this year, ASIC reviewed compliance by the industry with RG 133 and the class orders, identifying 21 entities for the review – both responsible entities and custodians.

In some areas compliance with RG 133 fell short of expectations; the level of understanding of relevant requirements was generally poor. Several entities did not appear to have revised their custody agreements to comply with new RG 133 requirements.

More fundamentally, some entities with

a dual responsible-entity and custodial function were unable to demonstrate adequate functional separation. Some were inadequately resourced to comply; some failed to give an appropriate level of commitment and priority to the selection and monitoring of custodians.

Because of the review, ASIC has required several entities to undertake corrective action to address these concerns. Furthermore, several of those reviewed will be subject to separate surveillance.

ASIC intends that compliance with RG 133 and the class orders by the financial-services industry will remain a priority.



ASIC reports on managed-funds' conduct

ASIC has reported on the findings of its surveillance of the compliance with legal obligations of entities that manage funds on behalf of retail investors.

Report 528 *Responsible entities' compliance with obligations: Findings from 2016 proactive surveillance program* covers 12 key areas.

The Commission reviewed 28 responsible entities managing more than \$49 billion in property through 336 schemes using a risk-based profiling methodology. The surveillance analysed responses on governance, risk and compliance with the Corporations Act and licence conditions, disclosures, cyber-resilience and use of assets.

ASIC sought to identify any specific breaches and systematic issues in the industry. It also identified responsible entities that require further, more targeted surveillance work.

ASIC Commissioner John Price said: 'While responsible entities demonstrated a broad commitment to complying with their obligations under the law, there

were a number of areas where they fell short, including managing conflicts of interest, breach reporting, custody, risk management systems, rewards and incentives, and whistleblowing.

'As the gatekeeper of significant investor funds, responsible entities are expected to act lawfully and in the interests of the investors they represent.

'As a minimum, responsible entities must ensure [that] a managed-investment scheme is operated in accordance with the Corporations Act and that they comply with their obligations as a responsible entity, as well as the conditions of their Australian financial services licence. However, to meet higher standards more aligned with growing consumer expectations, our surveillance showed there is still some work to be done.'

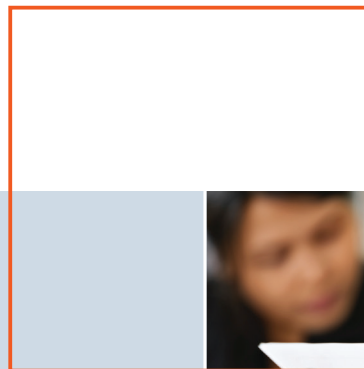
ASIC has made recommendations to improve compliance, including:

- Ensuring professional indemnity coverage is adequate for the nature, size and complexity of the responsible entity's business

- Reviewing and, where necessary, strengthening their conflicts-management measures
- Reviewing custody measures to ensure they meet the requirements
- Accountability from top management about disputes
- Reviewing and strengthening existing cyber-resilience measures, focusing on the board's role in influencing the culture of an organisation
- Alignment of remuneration, rewards and incentives with the values of the responsible entity
- Having in place appropriate whistleblowing measures, and
- Measures that reflect a consumer-focused culture.

Three responsible entities remain under surveillance. ASIC has required the remaining responsible entities to address specific concerns that were identified in its report, asking them to rectify concerns and provide details of actions taken.





TNR FRG News

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ACNC Update

The Australian Charities and Not-for-profits Commission ("ACNC") has:

- Announced that more than 600 registered charities will no longer be required to report to the ACT government as well
- Revoked 109 double-defaulter charities
- Revoked the charity status of three Queensland organisations
- Warned tens of thousands of Australian charities that they have less than a week to submit their 2016 Annual Information Statements., and
- Warned charities to watch out for scam emails.

The Victorian parliament has passed The Consumer Acts Amendment Bill 2016 that will lead to significant red-tape reduction for thousands of Victoria's registered charities.

The federal government has released a discussion paper on potential changes to the deductible-gift-recipient ("DGR") status system. The proposed changes aim to strengthen governance arrangements, reduce complexity and ensure that eligibility is kept up to date.



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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