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Fraud and Organisational Culture



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Many businesses have been affected by fraud. If they haven't it is only a matter of time before it does happen. This poses the question; how does one protect themselves in today's society?

Considering my opening statement, it is fair to say that it is very difficult to immune ourselves from it, but we can minimise our exposure.

Setting the "tone at the top" is the most effective way of preparing an organisation for attacks on the internal control environment, whether they be from internal or external sources.

To steal a well-coined phrase from Lieutenant-General David Morrison (retired Australian Chief of Army): "The standard you walk past is the standard you accept". David didn't use this in the context of fraud, however it can be applied equally to almost any situation in the workplace.

In developing a culture of fraud awareness and zero tolerance, leaders of organisations need to develop adequate policies and procedures to address such instances. More importantly, the policies and procedures need to be communicated, monitored, tested for effectiveness and reviewed regularly to ensure that they are still relevant.

Organisations cannot afford to "set and forget" – we only need to reflect on how we operate in the workplace now compared to five years ago.

Threats from within the organisation are easier to control than those from outside. Each day we are inundated with bogus emails that appear to have been generated from legitimate sources, or receive phone calls from "reputable" organisations seeking information. It is not always easy to determine the legitimacy of such communications which are becoming increasingly sophisticated.

One basic control is to check the URL address on emails received, but this is not completely fool proof.

Recently, there was an instance where a client had received an email from what appeared to be one of their major

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suppliers advising of a change in a bank account for future payments.

Unbeknown to our client, the supplier's server had been hacked, so the email received (with invoice attached) appeared to be legitimate. The invoice was subsequently paid to the bogus bank account. The amount was significant. Fortunately, the bank detected that the account to which payment was to be made was related to other fraudulent activity and stopped payment.

The organisation affected by the fraud was not out of pocket in this instance, but has since revised their internal control procedures to mitigate the risk in future. For example, they no longer accept letters (on company letterhead), emails or incoming phone calls as a means to

make changes to the vendor master file. All requests are followed up with a phone call directly to the supplier's nominated contact to verify the details before any changes are made.

For internal threats, it is imperative that basic internal controls are in place that not only prevent a potential fraud but also can detect it if it occurs. As in all cases, prevention is the best cure.

Some examples of preventative controls include having delegations of authority for expenditure, and dual authorisation for bank transactions. Basic detection controls include independent review of bank reconciliations and regular review and monitoring of financial performance.

To further enhance the control environment, consideration should be

given to regular review of master files for key business cycles (expenses, payroll and revenue).

For some organisations it can be more effective to outsource the finance function (eg Virtual CFO) to strengthen the control environment and give those charged with governance additional assurance.

Organisations cannot afford to "set and forget" - we only need to reflect on how we operate in the workplace now compared to five years ago.

Uncertain tax positions have far-reaching implications

The AASB has issued interpretation 23 *Uncertainty over Income Tax Treatments*, which will be effective from 1 January 2019.

It might be unclear as to how tax law applies to a particular transaction or circumstance. The acceptability of a particular tax treatment under law might not be known until a taxation authority or a court makes a decision some time later.

A dispute or examination of a particular tax treatment by an authority may affect an entity's accounting for a current or deferred tax asset or liability. AASB interpretation 23 *Uncertainty over Income Tax Treatments* addresses these circumstances with far-reaching implications that will significantly affect

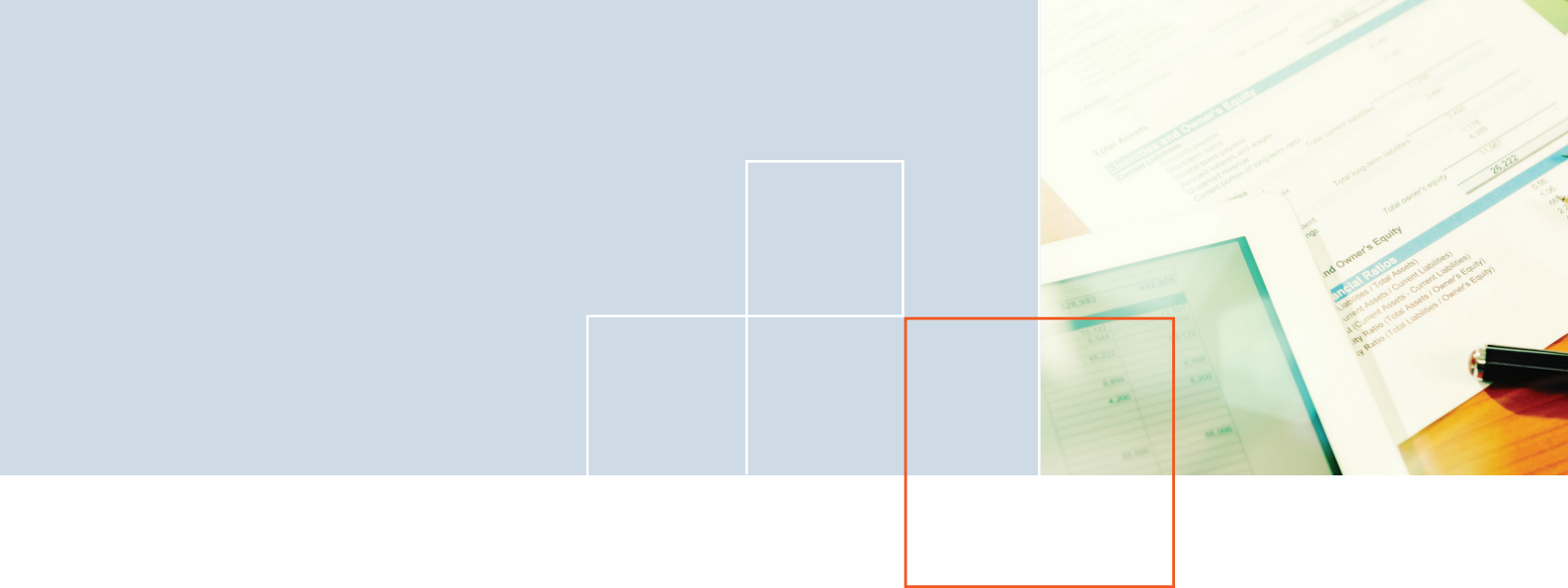
many entities.

The AASB's Interpretation 23 incorporates Interpretation 23 of the International IFRS Interpretations Committee.

Interpretation 23 clarifies how to apply the recognition and measurement requirements in AASB 112 *Incomes Taxes* when there is uncertainty over income-tax treatments. In such a circumstance, an entity must recognise and measure its current or deferred tax asset or liability, applying the requirements in AASB 112 based on taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates determined in applying Interpretation 23.



Need to know



An 'uncertain tax treatment' is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the treatment under law.

Interpretation 23 specifies that an entity must:

- Identify uncertain tax treatment(s)
- Determine whether treatments should be assessed separately or together based on an approach that better predicts the resolution of the uncertainty
- Assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations
- Conclude whether it is probable or not that the taxation authority will accept an uncertain tax treatment
- Where it is not probable that the taxation authority will accept an uncertain treatment, the effect of uncertainty must be reflected in determining the related taxable profit

(or loss), tax bases, unused tax losses, unused tax credits or tax rates by either the most likely amount or the expected value. The choice of method depends on which method the entity expects to better predict the resolution of the uncertainty

- Reassess a judgement or estimate if the facts and circumstances change or as a result of new information that affects the judgement or estimate, and
- Apply the interpretation's transitional provisions.

Implications include:

- Directors will have to assess continually the aggressiveness of tax positions taken
- The probability threshold for deferred tax liabilities will be applied at an earlier point and could result in more tax liabilities being recognised
- Entities will need to consider the tax office's public guidance as to what it is likely to dispute, and its success in disputed matters, in determining the likely resolution

- Listed companies will also need to ensure that they appropriately disclose uncertain and disputed tax positions under their continuous disclosure obligations, and
- Consideration of 'issued but not yet operative' accounting standards and interpretations as well as the disclosures of accounting estimates and judgements, and contingencies.

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AASB 17 Insurance Contracts issued

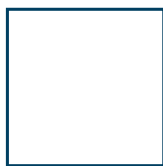
Insurance accounting in Australia is on the path to global harmonisation with the issue of AASB 17 Insurance Contracts, incorporating the recently published IFRS 17 Insurance Contracts.

AASB 17 is effective for annual reporting periods beginning on or after 1 January 2021 to align with IFRS 17. Earlier application is permitted.

The standard will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. While AASB 17 has similarities with the accounting approach adopted in Standards 1023 and 1038, there are differences needing careful consideration.

AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to

AASB 4, which accompanies AASB 17, clarifies the interaction between AASB 4, AASB 1023 and AASB 1038. It is operative for financial years beginning on or after 1 January 2018.



ASIC says prospectuses need to improve

While prospectuses are important for people considering investing in initial public offerings, ASIC reports that their practicality and credibility need to improve.

REP 540 *Investors in initial public offerings* contains ASIC's analysis of findings from interviews conducted with institutional investors, and qualitative research that it commissioned.

The report explains how ASIC will use the findings to enhance its regulation of IPOs. It also explains how companies, their advisers and other market participants can help investors.

In the 2016 calendar year:

- 133 companies were newly listed on the Australian Stock Exchange, raising a total of \$6 billion
- 115 companies listed on the HKEX, raising \$25 billion
- 66 companies listed on the London Stock Exchange, raising \$4 billion, and
- 37 companies listed on the New York Stock Exchange, raising \$13 billion.

Many retail investors said that prospectuses were hard to read and could not be relied on to tell the whole truth about an IPO.

ASIC aims to buttress confidence in Australian capital markets by regulating IPOs. ASIC Commissioner John Price said: 'The project's findings allow us to have an understanding of the [...] factors and types of information that investors rely on when investing in IPOs, and will allow us to enhance our regulation of [them].'

'We believe that ASIC's regulation of IPOs is sound. [The Commission] will continue to review a significant proportion of prospectuses, given their importance to investors and to maintaining the reputation of Australia's capital markets.'

'The qualitative research reinforces that prospectuses can be challenging documents for retail investors and particular areas of our guidance on prospectus disclosure should be carefully considered by issuers and their advisers to produce more effective [disclosures].'

In 2016, ASIC ordered corrective disclosures from issuers on 134 occasions, making 56 interim stop orders and 5 final stop orders. Most orders were against IPOs.

ASIC proposes to:

- Engage with stakeholders to encourage greater accessibility to

management for investors

- Increase its reviewing of online investor forums and social media
- Broaden its regular media monitoring to include investment magazines and online subscription services, and
- Provide retail investors with extra information about the IPO process.

The report complements others such as Sell-side research and corporate advisory, Confidential information and conflicts, Due diligence practices in initial public offering and Marketing practices in initial public offering.



Group of 100's June discount rate out

Updated discount rate yield-curve information for June 2017, supporting the use of corporate bond rates to discount long-term employee obligations under AASB 119 *Employee Benefits*, is available on the Group of 100 website.

The curves support the use of corporate bond rates to value post-employment benefits and other long-term employee liabilities (such as long-service leave) under AASB 119.

Public sector not-for-profit entities must continue to use government rates as required.



AASB 1059 Service Concession Arrangements: Grantors released

The costs, benefits and risks of infrastructure and other public-service projects will be more transparently and consistently reported under a new Australian accounting standard AASB 1059 Service Concession Arrangements: Grantors.

Public sector entities will soon be required to recognise assets and liabilities that relate to their public private partnerships ("PPPs").

Also known as 'service concession arrangements', PPPs are partnerships that public-sector entities enter into with the private sector to deliver public services. Typically, these partnerships involve the construction and management of assets that are part of infrastructure projects such as toll roads, hospitals and schools.

Infrastructure projects are a significant part of government budgets, worth about \$20 billion in 2016.

Australian Accounting Standards Board Chair Kris Peach said that governments tell the public about their obligations and rights on PPPs in several different ways.

'We have responded to requests for better transparency [...]', she says.

'More infrastructure projects will be recognised on balance sheets, with a consequential increase in both assets and liabilities. We know this practice encourages increased accountability and better management,' Ms Peach added.

Some PPPs involve the government paying the private sector directly, and some involve a private partner's collection directly from the public, for example road tolls. The new requirements mean that assets will be recognised consistently, regardless of how they are financed.

More disclosures will be made around the terms of PPP arrangements, giving taxpayers a greater understanding of the risks associated with the projects.

AASB 1059 will apply to reporting periods beginning on or after 1 January 2019.

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ACNC update

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

- Launched the 2017 annual information statement
- Released new guidance on board remuneration
- Released a new report Australia's non-profit organisation sector: money laundering and terrorism financing risk assessment with Australia's financial-

intelligence agency AUSTRAC

- Entered into a compliance agreement with the new board of RSL SA
- Noted that ASIC has advised the ACNC of new obligations for charitable-investment fundraisers
- Issued 190 registered charities ('double defaulters') with a notice of intention to revoke their charity status

- Sent notices to 1,500 charities about errors in their 2016 annual information statements
- Stripped four charities of their charity status
- Entered an enforceable undertaking with new Australian Foundation Investment Company Board, and
- Warned charities to watch out for scam intellectual-property letters.



Continuous-disclosure publication released

Nice to
know

The Governance Institute of Australia has released *Continuous Disclosure: listed and other disclosing entities, an invaluable guide to the essentials of continuous disclosure and particularly what it involves in practice*.

Listed entities have been obliged to disclose information to the market for many years. Continuous disclosure is a cornerstone of Australia's system of fair, open and efficient capital markets. It is essential to ensuring that markets are

fully and equally informed.

There are also obligations that apply to certain non-listed entities, and it's important to know how and when these apply.

The regime has been amended many times in recent years. Increasingly high standards of disclosure are demanded by the Corporations Act 2001, particularly according to interpretations in several court cases.

While the compliance requirements are by definition very serious, they need not hamstring an entity's operations. This publication is essential reading for companies' officers, directors, senior executives and auditors.

They are, after all, the people whose knowledge, actions and decisions are vitally important to ensuring compliance.

ASIC reports on corporate finance regulation and enforcement

ASIC has released its seventh report on the regulation of Australian corporate finance issues.

ASIC Report 539 *Regulation of corporate finance: January to June 2017* provides companies and their advisers and auditors with insights into the Commission's regulatory approach to corporate finance, and should help them with legal and compliance obligations.

The report provides statistical data, highlights focus areas, and includes guidance about ASIC's regulation of fundraising transactions, mergers and acquisitions, corporate governance issues, related-party transactions and financial reporting.

The report also details the Commission's approach, including the types of issues that have caused it to intervene and its response to novel transactions. The

report also provides an overview of ASIC's current policy initiatives.

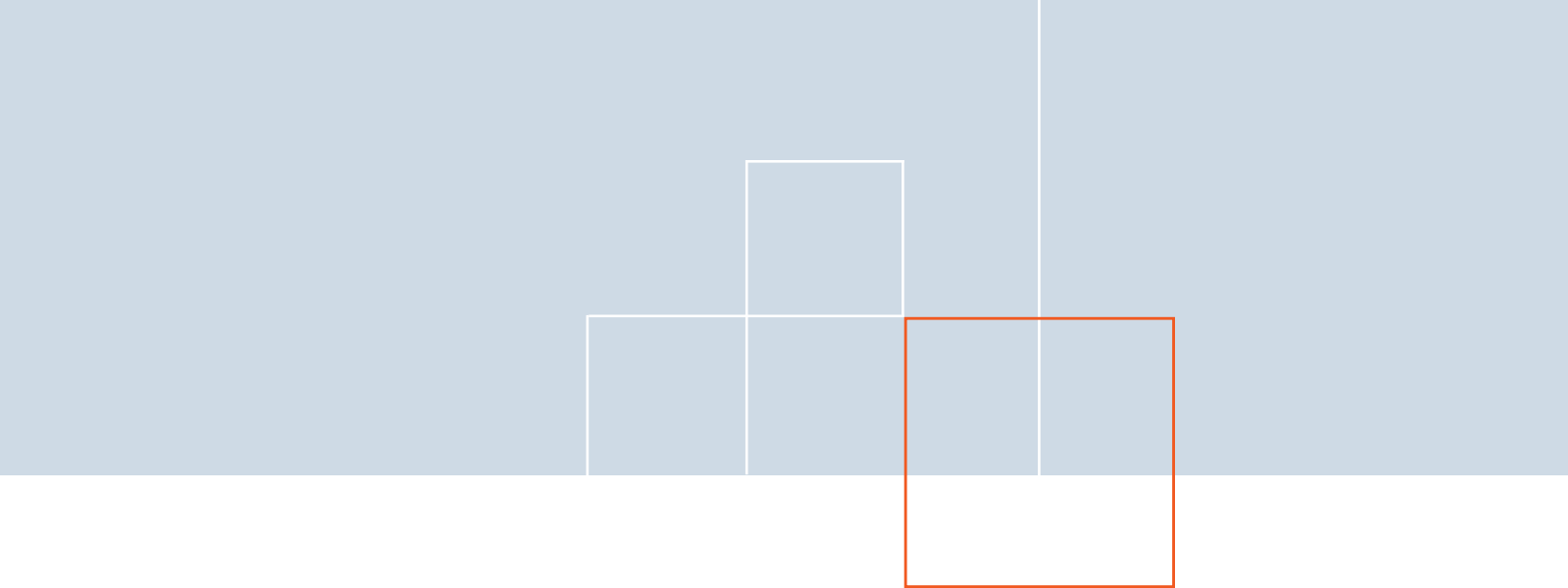
It sets out information on the imminent implementation of the industry funding model and a new regime for crowd-sourced funding by public companies. It highlights regulatory initiatives regarding emerging market issuers, initial public offerings and financial reporting for the year ended 30 June 2017.

APRA aims to lift 'operational governance'

The Australian Prudential Regulation Authority has outlined proposed changes to the superannuation prudential framework to lift 'operational governance' practices of APRA-regulated superannuation trustees (RSE licensees).

'Operational governance' refers to how an RSE licensee determines its strategic objectives, undertakes business planning and runs its business operations on a day-to-day basis. While many RSE licensees have sound practices, APRA has identified weaknesses in others.

APRA Deputy Chair, Mrs Helen Rowell, said that the authority had identified areas where the superannuation prudential framework could be enhanced to reflect better practice and public expectations for the prudent and efficient operation of funds.



‘RSE licensees are expected to operate in a manner that supports long-term sustainability of their business operations and delivery of quality, value for money outcomes to members.

‘The superannuation industry is going through a period of significant evolution, and it is incumbent on RSE licensees to be focused on meeting the best interests of members [...]

‘This extends to RSE licensees making decisions about the use of members’ money in a manner that provides appropriate transparency and accountability, and is demonstrably in [their] best interests [...]

APRA will consult over coming months on proposed changes to the prudential framework, including:

- Requiring RSE licensees to have an operational governance framework, which covers the policies and processes that support strategic and business planning, and ensures rigour in operational decisions, particularly those related to expenditure and reserving
- Expanding the existing business planning requirements to ensure that RSE licensees appropriately implement, monitor and review their business plans in the context of clear strategic objectives
- Requiring RSE licensees to meet minimum expectations when making decisions on fund expenditure, with a view to ensuring that there is adequate rigour in decision-making, monitoring and transparency of members’ money, and

- Requiring RSE licensees to undertake an outcomes assessment for [their] members. APRA expects to provide guidance to support this assessment, including with the proposed MySuper outcomes assessment.

APRA expects to release a detailed package of draft standards and prudential guidance for further consultation later this year.

While many RSE licensees have sound practices, APRA has identified weaknesses in others.

KAMS and the AQUA market

The AUASB website contains FAQs on the new enhanced audit-reporting regime. We would like to share this one you.

‘Question 12: ‘Does the auditor’s report for entities which have products quoted on the Australian Securities Exchange’s AQUA market have to include key audit matters?’

Answer: ‘Key audit matters (“KAMs”) are communicated in the auditor’s report for audits of general-purpose financial reports of listed entities.’

The definition of a listed entity (ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*) is an entity whose

shares, stock or debt are quoted or listed on a recognised stock exchange or are marketed under the regulation of a recognised stock exchange.

The AQUA market includes managed-fund and structured products as well as exchange-traded funds, and is governed by the ASX’s AQUA rules.

The products are quoted on and marketed by the ASX and meet the definition of listed entities for auditing standards. Reports on AQUA general-purpose financial reports must include the communication of KAMs.

As well, auditors of these entities must comply with listed-entities’ audit standards, such as quality-control review

procedures (ASA 220, paragraph 19).

*Refer to ASX Quoting Investment products on ASX and Schedule 10A Aqua Products and the Aqua Trading Market for details and rules.





ASIC releases consultation paper on client money rules

ASIC has released a consultation paper proposing to make new client-money reporting rules for AFS licensees that hold 'derivative retail client money', which is defined in the Corporations Act.

The new rules will impose new record-keeping, reconciliation and reporting requirements on AFS licensees that hold derivative retail client money. ASIC is proposing that the rules should apply to all derivative retail client money received by an AFS licensee, unless the money relates to a derivative that is traded on a fully-licensed domestic market, such as the ASX 24.

ASIC's Consultation Paper 291
Reporting rules: Derivative retail client

money seeks feedback.

The proposals follow the passage of Treasury Laws Amendment (2016 Measures No. 1) Bill 2016 and the Corporations Amendment (Client Money) Regulations 2017. The reforms will prevent AFS licensees from withdrawing client money provided by retail derivative clients, and using it for a wide range of purposes permitted under the Corporations Act, including as the licensee's own working capital.

The reforms also give ASIC the power to make new client money reporting rules to ensure greater transparency on the receipt and use of derivative retail client money.

'The client money rules will apply more formal and consistent standards across the derivatives sector and will ensure [that] any discrepancies in [a licensee's] client money account are notified to ASIC in a timely manner [...];' said ASIC Commissioner Armour.

The new rules are proposed to commence on 4 April 2018, which is when the other client money reforms will take effect.

Ms Armour said: 'We look forward to continued engagement with industry as licensees [...] work through the application and detail of the rules.'

Recently approved AASBs

The AASB has recently approved the following standards, exposure drafts and other documents:

Date approved	Standard	Effective date
14 July 2017	AASB 1059 Service Concession Arrangements: Grantors	1 January 2019
19 July 2017	AASB 17 Insurance Contracts	1 January 2021
19 July 2017	AASB 2017-3 Amendments to Australian Accounting Standards – Clarifications to AASB 4	1 January 2018
31 July 2017	AASB Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
31 July 2017	AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments	1 January 2019

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Queries

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