



# FRA NEWS

No.5/2015

Welcome to this issue of 'HLB FRA News'.

Financial Reporting and Auditing News ('FRA News') provides you with our insight into current and emerging financial reporting, auditing and corporate governance matters 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 HLB Mann Judd.

In this FRA News, your attention is drawn to the following developments:

#### Need to know:

- CEO charged with fraud
- New standard on an auditor's responsibilities for other information is coming
- Repealing redundant ASIC class orders
- Revenue-standard's effective date might be deferred
- Discount rates under AASB 119 'Employee Benefits' to change
- Enhancements to auditor-reporting proposals
- Revenue corrected after ASIC inquiry
- Minemakers reclassifies expenses
- ATO to publish tax details of companies with turnovers of \$100m or more

#### Nice to know:

- Restoring integrity to the consolidation regime draft legislation
- Updating due-diligence committee requirements for accountants
- Further restrictions on provision of non-assurance services to clients
- Fair-value disclosures relief for NFP public-sector entities
- AASB April meeting highlights
- ACNC round-up

Liability limited by a scheme approved under Professional Standards Legislation

## CEO charged with fraud



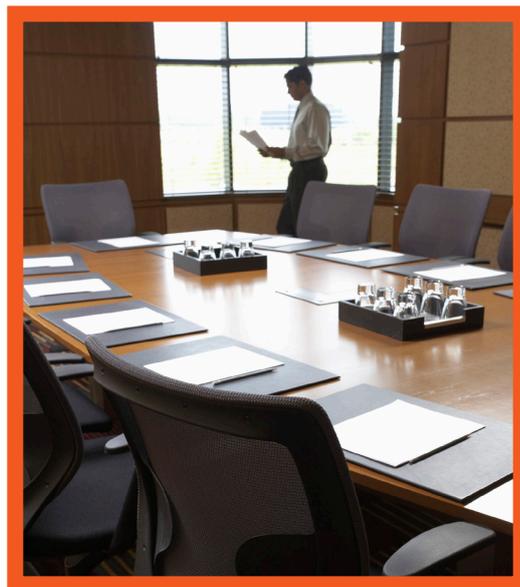
The former CEO of collapsed debenture issuer Wickham Securities Ltd has faced court charged with various offences, including fraud, following an ASIC investigation. Wickham Securities Ltd was placed in administration in December 2012 and liquidation in February 2013. It collapsed owing more than \$27 million to about 300 debenture holders.

Garth Peter Robertson appeared in the Brisbane Magistrates Court charged with 10 counts of fraudulently obtaining more than \$760,000 from Wickham Securities Ltd between December 2010 and November 2012. Mr Robertson was charged with a further count of fraudulently obtaining \$15,000 from Balmain NB Corporation Limited in November 2010.

He was charged with nine counts of giving or permitting the giving of false information about Wickham Securities Ltd to its trustee, Sandhurst Trustees Ltd, and one count of falsifying books relating to the affairs of Wickham Securities in 2012.

Mr Robertson was not required to enter a plea and was bailed. The matter will return to court in late May.

In June 2013, ASIC cancelled the registration of Wickham Securities's auditor after deciding that he had failed to carry out or perform adequately and properly his duties. Three months later, ASIC banned Bradley Sherwin, the chairman of Wickham Securities Ltd, from financial services for two years and seven months as a result of his bankruptcy. [link](#)



## New standard on an auditor's responsibilities for other information is coming

The IAASB has released a revised standard ISA 720 'The Auditor's Responsibilities Relating to Other Information'. The standard and its related conforming amendments to other ISAs aims to clarify and enhance an auditor's focus on 'other information' included in entities' annual reports to ensure that it is not materially inconsistent with audited financial statements. It also includes new requirements that complement recently announced changes to new and revised auditor-reporting standards.

The standard and its related conforming amendments will be adopted by the AUASB and modified only when there are compelling reasons, such as accommodating Australian legislative requirements.

ISA 720 and related amendments will be used to create an Australian exposure draft, which the AUASB will consider at a special meeting on 19 May. The draft will be issued in late May, and will be exposed for 60 days.

Concurrent with the auditor reporting standards, ASA 720, once finalised, will be effective for financial-reporting periods ending on or after 15 December 2016.

The IAASB has changes in the pipeline related to the disclosures projects, and consequential auditor-reporting-related changes to the special-purpose reporting standards (ISA 800 and ISA 805 –on exposure until 22 April). The IAASB is expected to release progressively the changes during this year. [link](#)

## Revenue-standard's effective date might be deferred



The International Accounting Standards Board (IASB) voted to publish an exposure draft proposing a one-year deferral of the effective date of the revenue standard to 1 January 2018. It is expected that the Australian Accounting Standards Board will follow suit.

The new standard IFRS 15 'Revenue from Contracts with Customers' (AASB 15) was issued jointly by the IASB and the US Financial Accounting Standards Board (FASB) in May 2014 with an effective date of 1 January 2017. The IASB will consult on the date's proposed deferral before it is confirmed, as is required by its due process. The standard's early application would still be permitted.

The IASB is planning to issue an exposure draft with proposed clarifications to the standard that stem from the joint Transition Resource Group meetings. The international body also wanted to align its revised standard with the FASB's. The FASB voted earlier in the month to propose a one-year deferral of the standard's effective date. [More](#)

## Discount rates under AASB 119 'Employee Benefits' to change

There is evidence of a sufficiently observable, deep and liquid market in high-quality Australian corporate bonds that satisfies accounting requirements, according to 'Discount rates for employee benefit liability valuation', a research report by Milliman Australia. Australian entities must use corporate rather than government bond rates to discount post-employment benefits and other long-term employee liabilities (such as long-service leave) under AASB 119 'Employee Entitlements'.

The Group of 100 (in conjunction with the Actuaries Institute of Australia) commissioned Milliman to undertake research in relation to the Australian corporate bond market. It concluded that Australia had a deep enough corporate bond market for the purposes of AASB 119's measurement requirements. Up until now, entities have been using the government bond rate, which is the default measurement position under AASB 119.83 in the absence of a deep market. AASB 119.83 requires that corporate

rates be used by all entities (except public-sector not-for-profits) to discount these liabilities.

By using the new discount rates rather than the government rate, companies will be able to reduce their employee liabilities and, in most cases, their expense. This change will benefit businesses of all sizes but will have the biggest impact on companies with many employees and those with defined-benefit superannuation funds.

The first set of discount rates will be made available in June 2015 based on May 2015 data for use in the preparation of accounts for the year ended 30 June 2015. Rates will be announced quarterly, available on both the G100 website ([www.group100.com.au](http://www.group100.com.au)) and Milliman Australia's website (<http://au.milliman.com>).

Don't forget to change your accounting policies note! [More](#)

## Repealing redundant ASIC class orders

ASIC has released a consultation paper proposing to repeal 59 class orders that are due to expire between 2015 and 2022. Consultation paper 229 'Repealing redundant ASIC class orders' outlines the class orders to be repealed and the rationale for repealing them.

ASIC proposes to repeal the orders because it believes they no longer serve a regulatory purpose.

Submissions on CP 229 are due by 17 June. [More](#)

# Enhancements to auditor-reporting proposals

The Australian Auditing and Assurance Standards Board (AUASB) proposes to revise and amend five standards and issue a new one on 'Key Audit Matters' (KAMs). Eight other standards contain consequential amendments. Audit reporting will be never the same. You will be surprised at the implications.

The amendments will match recent changes by the International Auditing and Assurance Standards Board (IAASB) that are aimed at promoting enhanced auditor reporting throughout the world. The proposed new and revised standards lay the foundation for the future of global auditor reporting and improved auditor communications.

Consistent with counterpart international standards, the new and revised Australian standards will be effective for audits of financial statements for periods ending on or after 15 December 2016.

They represent significant changes of practice. Collaboration by all participants in the financial-reporting supply chain will be needed to ensure that the objectives of enhanced auditor reporting are realised.

The proposed revised standards are:

- ASA 700 'Forming an Opinion and Reporting on a Report'
- ASA 705 'Modifications to the Opinion in the Independent Auditor's Report'
- ASA 706 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report'
- ASA 570 'Going Concern', and
- ASA 260 'Communicating with Those Charged with Governance'.

The proposed new standard is ASA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'.

The proposed conforming amendments to standards resulting from the changes affect the following standards: ASAs 210, 220, 230, 510, 540, 580, 600 and 710.

The most notable enhancement is the new requirement for auditors of listed entities to communicate Key Audit Matters, that is, matters that the auditor views as most significant, with an explanation of how they are addressed in the audit.

The introduction of KAMs is a significant enhancement that will change not only the auditor's report but more broadly the quality of financial reporting, and, therefore, the informative value to investors and other key stakeholders such as analysts.

The AUASB has also taken steps to increase auditors' focus on going-concern matters, including disclosures and transparency about an auditor's work.

Other key enhancements include:

- The Opinion section is required to be presented first, followed by the Basis for Opinion section, unless law or regulations prescribe otherwise, and
- Voluntary communication of KAMs on audits of unlisted entities.

Enhanced auditor reporting on going concern including:

- Description of the respective responsibilities of management and the auditor for going concern
- A separate section when a material uncertainty exists, and is adequately disclosed, under the heading 'Material Uncertainty Related to Going Concern' (previously included in an Emphasis of Matter paragraph), and
- New requirement to challenge the adequacy of financial-report disclosures for so-called 'close calls' in view of the applicable financial-reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern.

Other proposed changes include:

- Affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities and the identification of relevant Australian ethical requirements, and
- Enhanced description of the auditor's responsibilities and key features of an audit. Certain components of this description may be presented in an appendix.

Changes in the pipeline are the revision of ISA/ASA 720 (an auditor's responsibilities for other information), the disclosures project, and consequential changes to special-purpose reporting standards (ISA/ASA 800 series). Further tranches of AUASB exposure drafts are expected to be issued in May and July, the ISA/ASA 800 series due in early 2016. [IIB](#)



## Revenue corrected after ASIC inquiry

Balanced Securities Limited, a secured note issuer and mortgage lender, re-lodged its 30 June 2014 financial report, which corrected an overstatement of revenue reported for the year ended 30 June 2013. The company has also issued a supplementary prospectus referring to the correction.

ASIC reviewed Balanced Securities Limited's financial report for the year ended 30 June 2014 and identified that \$5.8 million of revenue had been

recognised in the incorrect period.

Interest income, which should have been accrued in the 30 June 2012 financial year, was instead attributed to the 30 June 2013 financial year. This resulted in a material overstatement of the reported profit for the year ended 30 June 2013.

ASIC's 'Focuses for 31 December 2014 financial reports' identified that revenue recognition remained a focus of its financial-reporting surveillances.

The commission reminded companies and those involved in preparing and approving financial reports that revenue should be recognised in accordance with the substance of the underlying transactions and in the period in which it is accrued.

This is the 10th corporate restatement since July 2014, when ASIC began to name entities that had restated reported results after its enquiries. [HLR](#)

## Minemakers reclassifies expenses



ASX-listed Minemakers Limited reclassified expenses of \$2.1 million in its financial report for the half-year ended 31 December 2014. The company reclassified prior-year impairment losses on an unlisted investment from a reserve to accumulated losses.

ASIC inquired of Minemakers Limited whether there was objective evidence of a significant decline in the fair value of the unlisted investment, classified as available-for-sale, below its cost that would have required cumulative losses on the investment to be charged to profit in the years ended 30 June 2011 and 30 June 2014 rather than as reductions in a reserve.

It is important that those involved in preparing and approving financial reports understand that impairment losses on available-for-sale equity investments must be taken to profit where there is objective evidence of impairment, such as a significant or prolonged decline in fair value below cost. [HLR](#)

## ATO to publish tax details of companies with turnovers of \$100m or more

Laws requiring the Australian Tax Office (ATO) to publish the tax affairs of companies with more than \$100 million turnover are to come into effect on 1 July. They are expected to affect around 700 private firms.

The ATO will publish the ABN, company name, total revenue, declared taxable income and tax payable. It has announced that information likely to be released towards the end of 2015 would cover information from the 2014 tax year. [HLR](#)

# Restoring integrity to the consolidation regime draft legislation



The Treasury has released exposure draft legislation covering five measures that were announced in the 2013-14 and 2014-15 federal budgets regarding the restoration of integrity to the tax consolidation regime. They are:

- Remove a double benefit (or double detriment) that can arise when certain liabilities held by a joining entity are acquired by a consolidated group
- Remove anomalies that arise when an entity joins or leaves a consolidated group and it has securitised an asset
- Prevent the tax costs of a joining entity's assets from being uplifted where no tax is payable by a foreign-resident owner on the disposal of the joining entity in certain circumstances
- Clarify the operation of the 'Taxation of Financial Arrangements' provisions when certain intra-group assets or liabilities emerge from a consolidated group because a subsidiary member leaves the group, and
- Remove anomalies that arise when an entity leaves a consolidated group holding an asset that corresponds to a liability owed to it by the old group because the value of the asset taken into account for tax cost-setting purposes is not always appropriate.

Closing date for submissions is 19 May. [HLR](#)

## Updating due-diligence committee requirements for accountants



Accountants who act as members, observers or advisors to a due-diligence committee are invited to consider and comment on a proposed revision to the professional and ethical standard APES 350 'Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document' issued by the Accounting Professional and Ethical Standards Board (APESB).

APES 350 deals with Australian accounting firms and practitioners involved with due-diligence committees. The revision includes expanded definitions and provides guidance about bringing matters to the attention of clients or due-diligence committees.

Significant revisions to the existing APES 350 proposed in this exposure draft include:

- Addition of objectives
- Clarification of a member in public practice's professional obligations when bringing significant matters identified during an engagement to the attention of the client and/or its due-diligence committee
- Professional obligations of a member who is a due-diligence committee observer in respect of a 'new circumstances' statement
- Revisions to the example 'materiality letter' due to changes to Australian accounting, auditing and assurance standards, and
- Addition of an example of a 'new circumstances' statement to be issued by a due-diligence committee observer.

Feedback is sought by 15 June. [HLR](#)

## Further restrictions on provision of non-assurance services to clients

The International Ethics Standards Board for Accountants (IESBA) released 'Changes to the Code Addressing Certain Non-Assurance Provisions for Audit and Assurance Clients' to enhance the independence provisions in the 'Code of Ethics for Professional Accountants'. The changes will flow through to the Australian Context via APES 110 'Code of Ethics for Professional Accountants'.

The revisions include the removal of provisions that permitted an audit firm to provide certain bookkeeping and taxation services to Public Interest Entities (PIEs) audit clients in emergency situations, as these were susceptible to being interpreted too generally. In addition, the revised provisions include:

- New and clarified guidance about what constitutes management responsibility, and
- Clarified guidance about the concept of 'routine or mechanical' services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs.

The revisions also include corresponding changes to the code's non-assurance services provisions with respect to other assurance clients.

The changes will be effective from 15 April 2016, early adoption permitted. [HLR](#)



## Fair-value disclosures relief for NFP public-sector entities

The AASB will issue an exposure draft proposing limited relief for NFP public-sector entities from certain disclosures specified by AASB 13 'Fair Value Measurement'. It will apply only to fair-value measurements categorised as level 3 in the fair-value hierarchy. It is expected that amendments will be finalised in time for early adoption by entities for 30 June 2015 financial year-ends.

The board decided that the proposed relief would:

- Be limited to property, plant and equipment (including infrastructure assets) within the scope of AASB 116 'Property, Plant and Equipment' that are held for their current service potential rather than to generate future cash inflows, and
- Include relief from disclosure of quantitative information about the significant unobservable inputs used in fair-value

measurements and a description of the sensitivity of fair-value measurements to changes in unobservable inputs. The board acknowledged that AASB 13 requires the sensitivity description only to be narrative, and that an example of the disclosure is included in the illustrative examples accompanying IFRS 13 'Fair Value Measurement'.

The board also tentatively decided that it was unnecessary to propose relief from disclosing a reconciliation of the movements in each class of assets measured at fair value and categorised as level 3, or a description of the valuation processes used by the entity. It noted that disclosure of a description of the inputs used in fair-value measurement would continue to be required.

It directed staff to prepare an adverse-comment ED with a 30-day comment period. [HLR](#)

## AASB April meeting highlights

The AASB's April meeting highlights included:

- Fair-value disclosures for not-for-profit public-sector (NFP) entities – an exposure draft proposing limited relief for NFP public-sector entities from certain AASB 13 'Fair Value Measurement' disclosures will be issued shortly, and
- Reporting Service Performance Information – a revised draft ED will be discussed at the May AASB meeting and it is expected that the ED will be issued for comment in July.

The May meeting agenda items include reporting service-performance information, the recognition of residual value for infrastructure, principles of reduced-disclosure requirements, depreciation replacement cost as value in use, and classification of liabilities. [HLR](#)

# ACNC round-up

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

- Announced that 6000 'double defaulter' charities were at risk of losing registration and access to Commonwealth tax concessions for failing to meet their reporting obligations for two consecutive years
- Reminded charities that some will need to update their subtype by 1 July
- Announced that non-government schools will not have to provide any financial information direct to the ACNC for the 2014 and 2015 reporting periods as the ACNC will extract relevant data from Department of Education and Training financial questionnaires
- Made a decision to revoke the registration of Get Rid of Sids Project Inc following a review of the organisation's operations and activities
- Developed a template for a governing document for charities (for example, small religious congregations) that might not have their own governing documents but instead use statutes (Acts of parliament) or canon law (church law) for this purpose
- Published a checklist and guidance to help charities avoid financing terrorist activity
- Published a resource page for Aboriginal-and-Torres Strait Islander-controlled charities at [acnc.gov.au/indigenous](http://acnc.gov.au/indigenous)
- Registered its 6000th charity since establishment in December 2012. 

## Queries

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