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IPA INSTITUTE OF PUBLIC ACCOUNTANTS

Public accountant

THE OFFICIAL JOURNAL OF THE INSTITUTE OF PUBLIC ACCOUNTANTS

iSPY

How to solve the cloud accounting data dilemma

Contents

Public accountant

THE OFFICIAL JOURNAL OF THE INSTITUTE OF PUBLIC ACCOUNTANTS

14
Privacy rules but clouds reign
Cloud computing is mostly safer than keeping your files on-site. But a layer of regulatory uncertainty still hangs over this new technique.
by Beverley Head and David Walker

In this edition, we respond to reader queries about how to engage in cloud computing and still meet professional standards and new privacy laws. Our story on page 14 outlines current best practice in an area even legal experts say remains challenging.

We also detail the ways in which accounting underpins not just modern business but the broader society. Jacob Soll's book *The Reckoning*, explored on page 30, looks at accounting's role in the great nations of the past.

And Adrian Rollins' report on governments' accounting failures on page 40 confirms the errors of the past are still being repeated around the world today.

Features

22 **The Maister of Management**
If you want your accounting practice to succeed, then one consultant's work on helping clients and building relationships remains essential reading.
by Leon Gettler

26 **Voice for the poor**
World Vision CEO Tim Costello was selected not for his business experience but for his ability to raise the public profile of Australia's largest aid charity.
by Tom Ormonde

30 **How accounting runs the world**
Jacob Soll's book *The Reckoning* depicts accounting as a driving force in history, from the Italian Renaissance to the modern day.
by David Walker

36 **Time to plug in**
Fifteen months after AFS licensing began, lessons are finally starting to emerge about the relative attractions of the three different licensing options.
by Mark Story

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Public Accountant magazine is now available to read online on the *Public Accountant* digital hub, which contains articles from the print magazine and much more.

Visit pubacct.org.au and join the conversation.

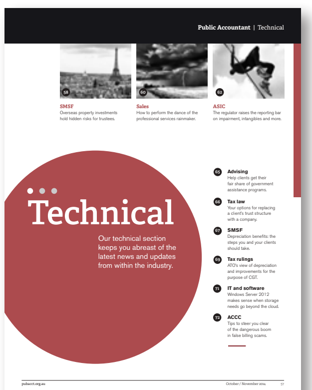
Contents

40
Repairing public sector accounting
Public sector accounting needs more of the scrutiny that governments have imposed on private businesses.
by Adrian Rollins

"The financial condition of most government entities is much worse than advertised"

46 **Know your limits**
Advising small and medium companies on risk and governance might seem an unlikely career for a farmer's son who grew up in rural South Australia.
by Amanda Woodard

76 **Mind over natter**
The modern office gives us all unprecedented opportunities to distract ourselves from the work tasks that really matter.
by Petris Lapis



57
Our technical section brings you up to speed with the latest in tax and regulatory issues, IT and more.

Regulars

4 **President's report**
6 **CEO's report**
8 **Upfront**
News from the accounting industry; the IPA's *Small Business White Paper* and Financial Services Package; IPA in the media; and IPA submissions.
73 **Disciplinary Tribunal findings**
74 **Register of members**
75 **Business directory**

Opinion

48 **360 degrees**
What are the most productive techniques accounting practice leaders can use to bring in new referrals?
50 **IPA comment**
An ATO project challenges taxpayers to disclose unreported foreign-sourced gains.
53 **IOSCO comment**
Brisbane's G20 meeting is an opportunity for accountants to step up.

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President's report

Reflections on **a very good year**

The IPA's annual general meeting this year will be held in November, during the National Congress in the Hunter Valley. As we head towards the AGM, it is a good time to reflect on the past year's accomplishments, many of which are highlighted in the IPA's annual report.

What stands out for me is the considerable work carried out in the areas of advocacy and leadership recognition, as well as activity aimed at further enhancing our members' experience.

The IPA's advocacy and policy work was extensive, focusing on fiscal policy, the Financial System Inquiry, changes to the Future of Financial Advice reforms and the Competition Policy Review. The IPA's pre-Budget submission was yet again a significant piece of work that formed part of ongoing advocacy efforts on behalf of members.

"... a strong recruitment engagement campaign designed **to strengthen relationships** with recruiters"

The IPA made valuable contributions to tax reform throughout the year, with numerous submissions and representation on issues of concern to members and the small business sector. This advocacy work included Division 7A, small business tax impediments, third-party reporting and ATO support for tax practitioners.

The small business community has remained a key focus for the institute, with the *Australian Small Business White Paper* added to the continuing I Love Small Business campaign.

We also embarked on a strong recruitment engagement campaign designed to strengthen relationships with recruiters to further IPA member recognition. Speaking of relationships, numerous new partnerships with leading financial services organisations and telecommunications providers were forged to provide service offerings to benefit our members.

Recognition of the IPA – and, with it, a voice for small business – has continued to grow through the Institute's extensive media and social media exposure. The social media footprint increased across all channels by an average of 51 per cent, and the popularity of the IPA's YouTube channel grew, with both the number of views and subscribers increasing by more than 200 per cent over the past 12 months.

For those members attending the National Congress in November, I would encourage you to also attend the AGM. I look forward to seeing you there in the beautiful Hunter Valley.

Jason Parker FIPA

From the CEO

Charting a sustainable future

In the previous issue of *Public Accountant*, I wrote of the Australian Small Business White Paper Summit that was held in June this year in Canberra. This summit was attended by a number of regulatory and industry leaders, who contributed to the discussion on key issues facing small business.

> "The *Australian Small Business White Paper* is a living and evolving document"

Since then, the IPA has extended the conversation to incorporate further stakeholder consultation and input into the *Australian Small Business White Paper*. This has included presentations in capital cities and major regional centres around Australia.

The importance of small business growth as a driver of Australia's productivity is increasing rapidly, and we must do what is in our power to develop economic policy that charts a sustainable future for small business.

It is our commitment to facilitate ongoing discourse to ensure that when small business speaks, it does so with the support of industry and evidence-based research and on a platform that aims to boost the productivity of our nation's small business sector.

The *Australian Small Business White Paper* is a living and evolving document that we hope will influence key policy decisions to support this discourse. The lead discussion points in the White Paper include:

- a simplified and targeted small business tax system that supports small business growth;
- how Australia's small businesses can be appropriately regulated, providing a safety net without stifling entrepreneurship;
- competition policy that supports and promotes small business by creating a level playing field;
- adequate and affordable access to responsible finance for small business;
- promoting productivity through innovation and use of technology (such as Standard Business Reporting);
- facilitating links to our regional trading partners to open export markets for small business.

It is our intention to incorporate stakeholder input and finalise the White Paper for delivery to the government in December 2014.

I would encourage all of our members to read the current draft, which is on the IPA website (www.publicaccountants.org.au/whitepaper) and the I Love Small Business website (www.ilovesmlbiz.com). We welcome your feedback via the special email address established for this purpose: asbwp@publicaccountants.org.au

Andrew Conway FIPA

White Paper a ‘first’ for small business

—

From left: Minister for Small Business Bruce Billson, Xero’s Chris Ridd and IPA chief executive Andrew Conway at the summit

The IPA, with the support of its SME research partnership with Deakin University, has commenced an exciting journey towards the first *Australian Small Business White Paper.*

The final White Paper will be presented to the Australian Government in December 2014, and the first stop in its creation was the IPA’s summit at Canberra’s Parliament House in June. The Canberra summit tapped the insights of key industry and regulatory leaders to gain further insights, with presentations from Small Business Minister Bruce Billson and Shadow Minister Assisting the Leader for Small Business Bernie Ripoll.

Local summits have taken place at other sites, including Frankston in Victoria, Bunbury in Western Australia and Darwin in the Northern Territory, providing further input and support for the cause.

This work aims to provide not just a policy paper but also a platform for ongoing discourse and a new voice for small business, backed by rigorous research, practitioner insights and industry views.

Small business growth is rapidly becoming more important as a driver of Australia’s productivity, as was highlighted in the recent Treasury publication *Australia’s Productivity Challenge*. As such, Australia needs to recalibrate the policies that affect the small and medium business sector.

As the most trusted advisers to small business, we believe Australia’s public accountants are among the best placed to articulate, in a mature and robust way, the various issues facing the sector and the most effective ways to foster its growth.

The working draft

The draft White Paper covers six key areas and focuses on outcomes, with the macro objective of Australia becoming a global small business hub. The outcomes are:

1. A simplified and targeted small business tax system that supports small business growth.
2. Appropriate regulation of Australia’s small businesses, providing a safety net without stifling entrepreneurship.
3. Competition policy that supports and promotes small business by creating a level playing field.
4. Adequate and affordable access to responsible finance for small business.
5. Promoting productivity through innovation and use of technology (such as Standard Business Reporting).
6. Links to our regional trading partners being facilitated to open export markets for small business.

The current working draft can be accessed online: www.publicaccountants.org.au/whitepaper

SMSFs top half a million

509,362

Number of SMSFs in Australia at the end of the 2013/14 financial year

$524,905

Average account balance of members of small funds

Source: APRA

SMEs’ online presence

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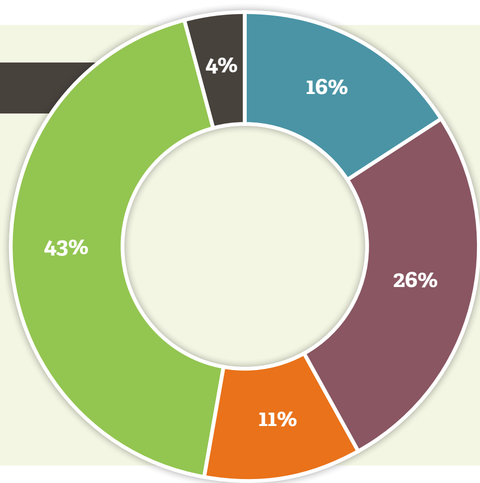
- No online presence
- Business website only
- Business website and business social media site
- Business social media site only
- Don’t know



Source: State of the Digital Nation – MYOB Business Monitor, March 2014

From the IPA Digital Hub

The IPA digital hub at pubacct.org.au contains not only the articles from this magazine but also online extras like *Lessons for leadership beginners* by Edward Vukovic, of the Australian and New Zealand Institute of Insurance and Finance (ANZIIF).

This extract quotes business consultant Scott McDowell:

"As a new leader, first try to adopt three specific [often counterintuitive] mindsets of good leadership."

McDowell says that many new leaders fall victim to thinking they have to have all the ideas and direction worked out before they've even taken on the job. Instead of trying to force your ideas into life, "you must be a steward of people and ideas. Stewardship is the careful and responsible management of something entrusted to you."

According to McDowell, leadership isn't about being diplomatic or choosing the lesser of two evils.

"Have a point of view – or better yet, a world view – and don't be afraid to say it aloud, repeatedly. Say what's in your heart. People are attracted to this quality," he says.

—

See more at pubacct.org.au

Member snapshot:
Andrew Gricks FIPA

Who is he?
Andrew Gricks is the principal of FINPAC Financial Advisors in Townsville, Queensland. He started the firm in 1983. "It's one of those companies owned by the shareholders," he says. "I own over 90 per cent, and it has its own licence and is different to a lot of other financial advisory firms, where they are either owned by – or the advisers are licensed through – a subsidiary of a bank or some large institution."

What's his background?
"I was the manager of a finance company in North Queensland and was poached to become the North Queensland representative of Sydney stockbrokers Bain and Company. It was the only one north of Brisbane and I moved that along for a couple of years. It was very successful, then I thought I should branch out on my own. I was stockbroking and I realised that there was more to investment advice than just doing stocks and shares and government bonds, particularly for retirees. So I went out and got my own licence – it was then called a security dealers licence; it's now called an AFSL – so that I could give all-round holistic financial advice, particularly for retirees."

What does he do?
"I look after clients on a long-term basis and I get a lot of pleasure out of that. I have had some clients who have been with me for 25 to 30 years and they still keep coming back."

What sort of education does he have?
"I did a commerce degree to start, then did the applied finance and investment graduate diploma with the Securities Institute of Australia. From there, I became a tax agent. I joined the Tax Institute of Australia and am now a chartered tax adviser as well."

What advice would he give to new accountants?
"New accountants should realise that once they do their degree and then become a fellow of the IPA, that should not be the end of their study. They need to do a lot more to specialise in whatever area they want to go into, be that audit or tax or whatever. It's really just the start of their studies; they are studying for the rest of their life."

Fleshing out the 'virtual CFO'

The latest Future of Accounting event in Melbourne on 29 July homed in on the idea of the 'virtual CFO'. In a virtual CFO arrangement, the accountant sells a fixed-price, 12-month subscription to real-time accounting services. They interpret numbers flowing from cloud software and advise the client of what they need to do next.

Deloitte Private's Ben Shields showed off the Deloitte Private Connect cloud-based accounting solution, a business intelligence package designed to pull information from cloud software, which he said was helping Deloitte move to greater engagement with its clients. "Understanding the business is how you get to help the business," he told attendees.

Other speakers included Intuit Australia CEO Nicolette Maury and the managing director of Reckon's business group, Pete Sanders.

LinkedIn

LinkedIn and speaking out

You can join the IPA LinkedIn group and share your views with fellow members: just go to http://goo.gl/9cyzkX. Below are extracts from recent member discussions.

Changes to FoFA

Win for big players and loss for consumers! Consumers could be $530 million a year worse off ... Dilution of financial advice reforms could see the return of a grab bag of commission charges.

That is why clients see us as trusted advisers not them. They just want to sell product and collect pennies...

Just plain wrong. Are we all going to go out and get our limited financial planning licences? I'm signing up for an RG146 course.

ASIC

They have been underfunded for some time and now the budget makes that worse. Abbott responds with telling them to make their services user-pays. I have just paid my exempt Pty Ltd company's annual fee of $236 for which ASIC did nothing.

New to public practice

Often grads are expected to hit the ground running, and often they do, but their success is ultimately going to be determined by their training and having the work passed to them, or briefed to them, efficiently and effectively.

Naturally, the practice environment they are in heavily influences what challenges they face.

Bitcoins

Seems very risky to use this "unstable currency" ... in an age where world governments are trying to clamp down on organised crime.

Trading outside of the traditional money market ... putting a value on them at year end will be interesting.

Although still in its infancy, I think that virtual currencies will be here for the long term.

AFSLs

The investment required in terms of time, money and effort to continue SMSF work could really only be justified if a practitioner has a large number of SMSF clients in their care.

I'm currently doing a diploma in financial planning to be RG146 compliant. I want to become an authorised rep rather than a licensee ... I don't want to be a financial planner, just more qualified and able to provide a better service to my existing clients.

There is enough work for us keeping our clients at peak profitability with tax-effective income, without getting mixed up with the SMSF mob.

ATO National Tax Practitioner Conference

... The ATO and organisers are wanting to charge any person who attends this event a fee of $400 per person. How does the ATO expect to obtain and receive input from small business and tax practitioners when they want to charge such a fee for our input and assistance?

IPA submissions

The IPA's latest submissions cover everything from the ATO's troubled online portal to price gouging against small and medium businesses.

Submission on the Inspector-General of Taxation (IGT) work program for 2014 and beyond

The IPA recommended initiatives across a number of areas, including information technology and systems, the time delay in obtaining ABNs, the ATO Portal, ATO practitioner support, communications, lodgement program, website and more.

Review of tax impediments facing small business

The IPA provided a submission to the Board of Taxation to identify features in the tax system that are hindering or preventing small businesses from reaching their commercial goals. The submission looked at CGT concessions for small business, Division 7A, fringe benefits tax overhaul, introducing the loss carry-back regimen and other issues that were outlined in greater detail in the 2014/15 pre-Budget submission.

Proposed ISA 720 (Revised) – 'The Auditor's Responsibilities Relating to Other Information'

The IPA does not support the proposed standard, as it inappropriately broadens the auditor's responsibility in dealing with other information in documents containing the financial statements and the auditor's report. Extending the boundary of auditors' responsibilities requires a relevant framework and guidance with respect to expectation of audit procedures and audit evidence.

Submission to the Competition Policy Review

The IPA made comment on two main parts of the competition laws and policy, which are of particular concern to small and medium businesses. The main concerns are with the existing unconscionable conduct and unfair contract terms provisions of the Australian Consumer Law (ACL), which do not adequately protect small or medium businesses from being the victims of price gouging or price squeezes.

Financial Services Package – new developments

In November 2011, the IPA launched our Financial Services Package, offering members various licensing solutions and opportunities in financial services. The package was initially offered in partnership with AXA and MLC. Subsequently, AXA was bought by AMP and MLC withdrew from the accountants market. The IPA continued the package with AMP's SMSF Advice.

In order to replace MLC, the IPA went back to tender earlier in 2014. After an extensive process, we have decided to enlarge the panel to include five partners. This will ensure broad coverage to accommodate the different preferences of members.

The five partners include:

- our existing partner, SMSF Advice (part of the AMP Group);
- BT/Securitor (part of Westpac);
- Capstone Financial Planning;
- Accountable Financial Group; and
- Shadforth (SFG).

This provides IPA members with a choice between:

- two large institutions, both offering different levels of licensing;
- a mid-tier independent provider offering different levels of licensing;
- a smaller, independent provider offering different levels of licensing plus assistance for members wanting their own limited licence; and
- a mid-tier independent offering B2B services and a referral network to salaried planners.

Members wanting more information about our Financial Services Package can find it on the IPA website at publicaccountants.org.au. We have also prepared a summary of all the key criteria across each provider to enable members to compare the offerings and determine the best fit for their practice, their clients and their business model, both now and in the future.

The IPA will be holding ongoing workshops, webinars and information sessions for members who may be going through the decision-making process in response to the Future of Financial Advice reforms and all the other changes in the profession and in the market.

For further details, visit the IPA website or contact Vicki Stylianou at vicki.stylianou@publicaccountants.org.au or Tony Greco at tony.greco@publicaccountants.org.au.

Upfront

IPA in the media

With the end of the financial year, the media featured IPA comments on a wide range of issues.

Making the AFSL decision

"If your decision is to get out altogether, it's still a decision you've got to make, but if you decide to stay in the financial services sector and do it yourself, you've got to make the decision as to whether to become an authorised representative under an AFSL holder, or you can apply to ASIC to either get a limited licence or a full licence."

– IPA's Vicki Stylianou, *financialobserver*

Super and small business

[Tony] Greco agrees that superannuation is a happy hunting ground for small business owners looking to move some money and bulk up their retirement savings.

– *The Courier-Mail*

Deciding your accounting future

"The end of the transition period will come soon enough and accountants should make decisions about the future of their businesses now to seize the opportunity to diversify and grow," IPA chief executive Andrew Conway said yesterday.

– *financialobserver*

How SMEs can dodge errors

IPA chief executive officer Andrew Conway said, "We encourage small businesses to draw on the expertise of their public accountant beyond compliance reporting and income tax returns."

– *Management Today*

Regulator funding critical to FoFA

"The IPA has always said to government and to Treasury that the funding of regulators is absolutely critical because it's not just about enforcing, it's about education as well."

– Vicki Stylianou, *financialobserver*

Taking the trifecta bet on property

He [Tony Greco] said it had led to people taking out a "trifecta bet on property". That is, "own your own home, negatively gear an investment property and then as a geared investment in an SMSF."

– *The Australian Financial Review*

Making evidence-based policy

"The critical thing for us is actually being able to prosecute the case for policy change but backed by evidence and research."

– Andrew Conway, *Money in Business*

Keen advocates for small business

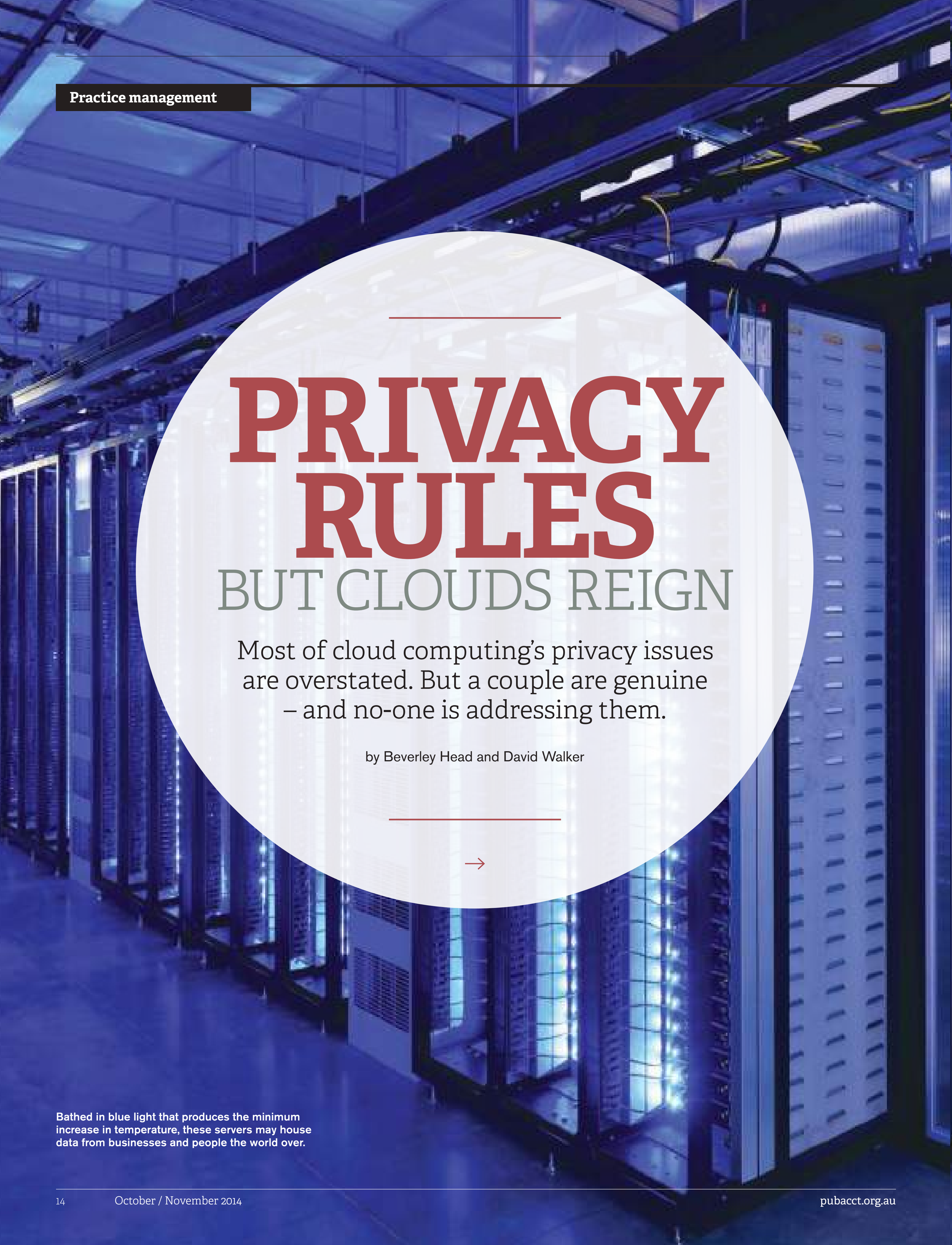
IPA board president Jason Parker said Mr [Andrew] Conway was a keen advocate for the rights of small businesses in Australia. "We look forward to better outcomes for small business stemming from this important committee, which will feed directly into future government policy," Mr Parker said.

– *Herald Sun*

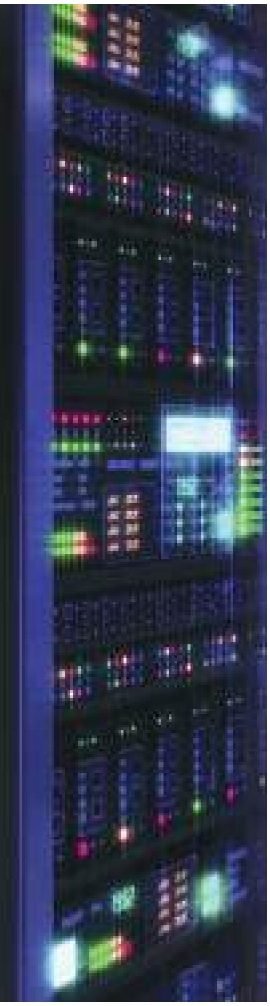
PRIVACY RULES BUT CLOUDS REIGN

Most of cloud computing's privacy issues are overstated. But a couple are genuine – and no-one is addressing them.

by Beverley Head and David Walker



Bathed in blue light that produces the minimum increase in temperature, these servers may house data from businesses and people the world over.



→

More than 120,000 Australian businesses use the Xero cloud-based accounting system. Their data sits far across the Pacific, in row upon row of US servers supplied and maintained by global hosting giant Rackspace.

In most respects, this is probably a lot safer than keeping the same data on an office server; after all, Rackspace knows more about security and backup than your office IT guy.

Yet in 2013, when the Office of the Australian Information Commissioner surveyed Australians about their attitudes to privacy, 79 per cent said they believed that sending customer data to overseas processing centres could be a misuse of that data. And 90 per cent were concerned about personal information being held overseas. No wonder Australia has a raft of regulations and laws on privacy and data handling.

Are Australian accountants complying with those rules when they use cloud computing?

The answer is mostly 'yes'. What's frustrating for experts and practitioners alike is the layer of uncertainty that still shrouds the issue.

Privacy principles

Since March 2014, all businesses with turnovers above $3 million – accounting firms included – have had to adhere to the new Australian Privacy Principles (APPs). These are a refinement of 2001's National Privacy Principles (NPPs), and they retain the same overarching requirement.

Any organisation handling personal data must be able to show that it has taken reasonable steps to protect that data wherever and however it is stored, and to keep its clientele informed.

Two APPs apply particularly to cloud computing.

APP 5 says that companies collecting personal information need to make clear in their privacy policy the kinds of information collected and held; the use to which that information will be put; access and correction procedures; and complaint procedures.

In this, it echoes the old NPPs. But it also introduces a new obligation to disclose information about any cross-border disclosure of information and, "if it is practicable", to name the countries where the data will be held.

APP 8, meanwhile, makes clear that you remain accountable for the protection of that data even if it is processed offshore by a third party. You can't outsource privacy obligations.

Besides the APPs, accountants must comply with the guidance notes (GNs) issued by the Accounting Professional & Ethical Standards Board (APESB).

APESB GN30 suggests accountants engaged in offshore outsourcing and cloud computing should disclose to clients where their data will be located. This appears to be a stronger requirement than the "if it is practicable" clause in APP 5.

The security question

Besides compliance with these rules, cloud computing raises a second set of privacy issues: can any offsite data be private in an era of aggressive US Government data monitoring? That concern first arose with 2001's passage of the USA Patriot Act. It cropped up again when Edward Snowden's revelations essentially confirmed that the US National Security

A model policy

Former privacy commissioner Malcolm Crompton points to the Australian Institute of Company Directors' privacy policy (at goo.gl/4RZdVg) as a useful template for firms using cloud computer services.

The AICD policy uses clear language and layers of detail. Its opening page outlines what data it collects, how this data is used and its policies with regard to privacy. That summary notes that some of the AICD's service providers are based outside of Australia, in countries including the US, UK and Singapore. And it says the AICD takes "reasonable steps" to ensure that the overseas data hosts do not breach the Australian Privacy Principles.

Website visitors who want more granular detail can then click through to the AICD's complete privacy policy.

Agency (NSA) could access any information, anywhere.

Malcolm Crompton, a former Australian privacy commissioner who is now managing director of Information Integrity Solutions, acknowledges that, "Rightly or wrongly, the US is a sensitive place because of all the brouhaha about the NSA and the Patriot Act."

> "Cloud computing's big players have no intention of negotiating with the average accounting firm"

What matters

Privacy experts like Crompton and intellectual property lawyers like DLA Piper's Alec Christie advise that concerns about prying security agencies are overblown. As Christie points out, most governments (including Australia's) will have access to your information when it's under their jurisdiction. Cloud storage does not change this.

Australia's treaties with the US probably mean in practice that Washington can easily summon up Australian data, too. Christie also argues that the probability of your data being disclosed for security reasons is so low as to be irrelevant for privacy purposes.

In short, you should not move your data out of the US just because the NSA might look at it.

Risk-reduction strategy

Meanwhile, experts consulted by *Public Accountant* say firms can broadly follow the APPs and fulfil their responsibility for the privacy →


Of course your clients want more bang for their buck
WIN a $200 Tea Tree Day Spa treatment at Crowne Plaza Hunter Valley*
Maybe they've considered investment property but aren't sure what or how.
Maybe they'll think about another property when they've paid off their house or put the kids through school. Perhaps they aren't sure how another mortgage could fit in their budget, or even if they can afford another loan.
Let us help them find a way
At IPH we help clients discover if investing in property is right for them now. We start with a full cashflow analysis and if property is a good fit we guide them through all stages of property selection, purchase and settlement.
We're here for the long run
We don't just do the deal then cut and run, instead we work one on one with clients all the way through.
When you partner with us you'll add property expertise to your business at no cost and earn referral income without burdening your resources.
Talk to Tim Jess on 0400 274 535 - iphelp.com.au
Managing Director - B. Comm, Grad. Dip. Applied Finance/Investment
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> "Concerns about prying security agencies are overblown"

of cloud data by following industry best practices and contracting with firms who store data in jurisdictions that have strong privacy regimens of their own. Crompton recommends a transparent approach that lets individuals decide whether an organisation's measures adequately protect their privacy.

Lawyer Nick Abrahams, a partner at Norton Rose Fulbright, says it's important that organisations interrogate prospective cloud vendors about their experience in the accounting sector. Using providers with a proven record and a big name – Google, Microsoft, Xero, Intuit and the like – will reduce your risk. "You don't want to be Robinson Crusoe," he says.

You can also refer customers to your provider's own policies. For instance, Xero's privacy policy sets out where customers' data is held, how it is secured and how any complaints are handled.

Xero Australia managing director Chris Ridd says that a growing number of users are referring to Xero's terms and conditions and privacy policy in their own terms and engagement letters, to ensure that their clients are provided with proper transparency about how and where their data will be handled.

Crompton says that the key issue for any company collecting personal data is to adhere to the fundamental tenets of transparency and openness.

Most of cloud computing's privacy issues, then, are less confronting than they appear. But a couple of problems remain.

Keeping locations under wraps

The first problem is data location. GN30 and APP 5 both suggest that all data storage locations should be disclosed. Christie calls GN30 "crystal clear" on disclosure.

Yet many cloud providers currently refuse to disclose data storage locations as a matter of policy. Xero stores its data in the US and MYOB stores its data in Australia. But Google provides only a partial list of its global data storage locations and didn't even respond to a request by *Public Accountant* to know where it stores Australian users' data. Intuit told us it stores data "primarily in the US and Canada", implying it also stores data elsewhere.

Colin Parker, of GAAP Consulting, which advises the IPA on standards issues, notes that "clearly, the individual practitioner doesn't have the means" to make big cloud providers disclose the information necessary to comply with GN30.

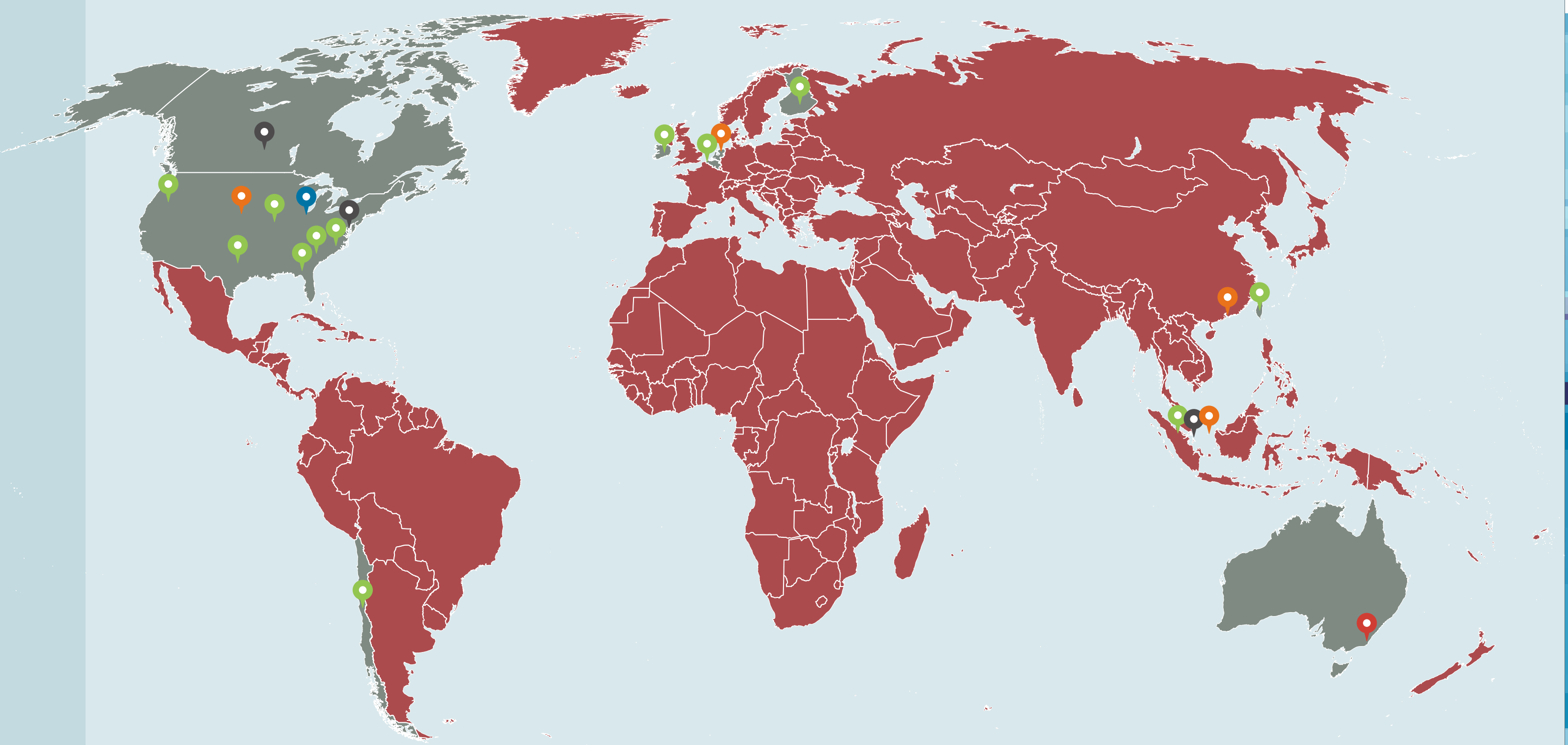
This problem may dwindle with time. Cloud infrastructure providers, such as Amazon Web Services, Rackspace and Microsoft, are investing in Australian cloud data centres that cloud computing firms can use.

Lack of dialogue

The second problem is that most experts read the various rules and guidelines as requiring accounting firms to engage in dialogue with providers to establish that standards are being met. →

Protecting your practice on cloud computing

- Use only highly reputable providers and accounting industry specialists.
- Ask cloud providers whether they are using Australian-based data centres.
- Disclose as specifically as possible where data is held overseas, based on providers' statements.
- Ask cloud providers for evidence they are taking measures that would protect information to Australian Privacy Principle standards.
- Cite your cloud provider's privacy and security statements in engagement letters.



Where Australian cloud data lives

Microsoft (Office 365 and Dynamics CRM Online): US, Netherlands, Hong Kong, Singapore

Google: Berkeley County, South Carolina; Council Bluffs, Iowa; Douglas County, Georgia; Mayes County, Oklahoma; Lenoir, North Carolina; The Dalles, Oregon; Quilicura, Chile; Changhua County, Taiwan; Singapore; Hamina, Finland; Saint-Ghislain, Belgium; Dublin, Ireland; others undisclosed

Xero: US (possibly Chicago)

Intuit: Singapore; Quincy, Washington; Canada; possibly others undisclosed

MYOB: Sydney; possibly others undisclosed

Sources: xero.com; Microsoft APAC Data Map; Google public statements; media reports

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Desirable as that is, cloud computing's big players have no intention of negotiating with the average accounting firm.

Crompton, for instance, suggests firms need to include provisions in the contracts with cloud partners to share the risk and liability for any breaches of the APPs; *Public Accountant* could find no major cloud provider willing to do that with a typical medium-sized accounting practice.

As Christie points out, the major providers have yet to be convinced to address these practical privacy issues.

Waiting for the providers

For the moment, any recommendations on cloud computing for accountants remain covered by a thin layer of residual uncertainty.

That will likely persist until the practical effects of the laws and guidelines are clarified, more providers put data in Australian data centres and providers better understand the dilemma that accounting practices face.

The MAISTER of MANAGEMENT

David Maister is the one management consultant whose work every accounting practice leader needs to understand.

by Leon Gettler

Five years after he retired from consulting, David Maister continues to be regarded as the world's leading authority on the operations of professional services firms. He left aspiring professional services firm managers with at least three landmark books: *The Trusted Advisor; Managing the Professional Service Firm*; and *True Professionalism*.

At a time when professional services firms are under more pressure than ever before, it's worth revisiting what Maister argued firms need to do and reminding ourselves of his core principle for professional advice – effective professionals find ways to help their clients, rather than just give their clients the right advice. It's a task that requires professionals to suppress their egos, use their emotional intelligence to build relationships and apply their expertise to offer clients options and recommendations.

Pioneering principles

Maister pioneered the territory of professional services. While most management consultants focused on corporate giants, Maister defined the key principles for running accounting firms, financial services providers, law firms, ad agencies, engineering firms and the like.

Maister's early training was all numbers. Born in England (and later becoming a US citizen), he earned a degree in maths, economics and statistics, then a master's in operations research from the London School of Economics, and finally a doctorate in logistics and transportation from the Harvard Business School.

Thus armed, he went out and created a global services consulting practice, charging $20,000 a day back when that was big money. He also wrote the management classics that continue to sell today.

The trusted adviser

Maister says that the best firms are run by managers who know how to earn their clients' trust. Not an easy thing to do these days, he told this author, because many firms have overlooked one thing – in the corporate world, the best businesses are run by managers who stick to their principles. →

"A trust-based strategy is a profitable strategy"

– David Maister

→

The best managers, he says, are the ones who create firms that the clients trust, and trust is profitable. The more your clients trust you, the more they will generate business, bringing you in on more complex and strategic issues and referring you to their friends and business acquaintances. They are also more likely to pay their bills without question.

Indeed, as he writes in *The Trusted Advisor,* there's an economics of trust. "We have found in our work with professional service firms that the cost of developing new-client business is four to seven times higher than the cost of developing the same amount of business from an existing client," writes the measurement-aware Maister. "High-retention relationships are high-trust relationships. A trust-based strategy is a profitable strategy."

Maister's formula for maximising trust stresses credibility and reliability and the ability to be oriented to clients' needs.

It also stresses a term little heard in business discussions – *intimacy*, meaning the ability to have honest conversations about difficult agendas.

Find the energisers

In their pursuit of cash, says Maister, professional services firms end up promoting the wrong people as managers. Domain expertise is easy to hire, he says.

The only competitive advantage is having managers who can energise those around them. Rainmakers and superstars are usually not best suited for that role; indeed, they frequently turn out to be disastrous people managers.

Delegation is key

In *Managing the Professional Service Firm*, Maister nailed systemic under-delegation as a recipe for firms' under-achievement.

Maister's research showed that 40 to 50 per cent of a typical firm's productive capacity is consumed with a higher-priced person performing a lower-value task. This affects profitability, because it costs the firm more to do the task than if it used trained juniors. It also undermines the skill-building of people and destroys morale.

Managing the Professional Service Firm sets out a system for managers to monitor areas like client feedback, training, marketing, coaching, scheduling and people management. Maister compares this system to a diet.

"If firms are to achieve excellence in client service quality, a system must be designed – an inescapable mandatory diet," he writes. "Not one that the firm leaves to each individual's best intentions. That's like saying 'Make your New Year resolution and we'll get you on the scales on December 31. See you then'. That's not going to work. What is required is a monitoring system."

A moral dimension

It's a paradox of Maister's career that a numbers man became the great advocate for employing passion and generating excitement in professional services firms.

Kerry King, IPA member and Advisor Institute founder, is one who believes Maister has much to teach the accounting profession.

"It's not just about selling packaged services," says King. "The community needs more than that from the profession."

Read this article online at **pubacct.org.au**

More from Maister

Some famous David Maister comments from over the years ...

"There's no intelligent substitute for understanding how people work."

"To make the most money you can, you must provide consistently superior value to the client ..."

"The only way you motivate people and change them is one-on-one. Everything else is window dressing."

Read more about Maister at about.davidmaister.com and see a complete list of Maister's books at goo.gl/90Q6e3

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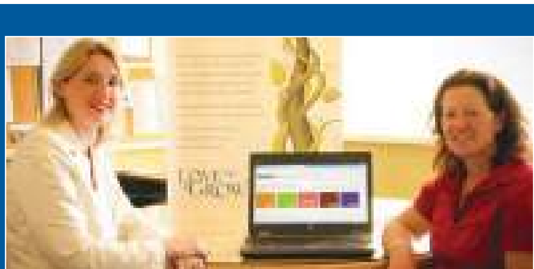
To see the full Scorecard, simply click on the tab after requesting the PDF report in the App and insert your Firm's details, or contact Glyn directly.



The Attaché Scorecard can help clients of all sizes because many of the tactics can be done manually. Once turnover exceeds $1m automation is usually a better option and that's when the new 'Attaché BI' software should be considered.

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VOICE for the poor

The CEO of Australia's largest aid charity demonstrates the importance of being a voice for your organisation – and pays close attention to accountability.

by Tom Ormonde

He doesn't look or act like your typical CEO. And by his own admission – or perhaps it's a boast – Tim Costello is conspicuously lacking in the formal credentials you'd expect of a man who runs a $350 million-a-year enterprise.

Ten years ago, when he was headhunted to take over as Australian chief executive of global charity juggernaut World Vision, Costello had no degree in business management or accounting and very little experience in running anything.

Sure, he had been mayor of Melbourne's colourful bayside suburb of St Kilda and an outspoken advocate for the disadvantaged – a regular 'media tart' to some. And as an extension of his day job as a Baptist minister, he had helped to set up and run Urban Seed, a Christian charity dedicated to tackling homelessness and drug abuse in the city centre.

But by conventional measures, he seemed well short of the expertise needed to run World Vision, whose established name and child sponsorship pitch have helped it dominate Australian overseas aid fundraising.

"I was an unusual choice at the time," Costello concedes, with apparent satisfaction. "I certainly wasn't chosen because I was a 'you beaut' manager. There is no doubt that in this day and age, I'm an unusual CEO. You look at private companies of that size, the CEOs are very hands on, very MBA-literate; they love devouring management books … But good CEOs build teams; I think I'm good at building a team."

Steep learning curve

Team building aside, what particularly attracted the World Vision board to Costello was the power of his personality – his potential to give the organisation a higher profile and a voice.

"Back then, the board felt World Vision was well organised and well run, but it lacked the voice to match its size," he says.

Costello's inexperience in running things ensured a difficult first few years in the job. One of his first initiatives was to pack himself off to Harvard for a three-week management course. He also buried himself in books about management, lots of them. →

Photography by Jarrod Barnes

"I was on a learning curve steeper than climbing Mt Everest," he says. "I learned about balance sheets, for example. It was sort of nuts and bolts, hands-on stuff. [But] in the end I gave up reading them, because they all seemed to say the same thing."

Team with a difference

Costello is talking to *Public Accountant* in his suitably austere office at World Vision headquarters in Melbourne's Burwood East – a middle-class suburban sanctuary that presents a surreal contrast to the desperately impoverished and otherwise stricken corners of the world to which he frequently travels for his job.

Sometimes he wears suits, but it's not unusual for staff to see their CEO in the more casual attire of open-neck shirt and jacket. Just back from lunch in the World Vision canteen (another indication of his unpretentious style), his manner is jovial, welcoming and engaging, which is not only endearing to strangers but has propelled him a long way in his career as perhaps Australia's best-known advocate for, and supporter of, the disadvantaged and displaced.

No doubt Costello has also used his personality to great advantage in wooing and surrounding himself with a team of administrators at World Vision, who, he says, compensate for his own shortcomings and help him sustain and expand the organisation's position in the Australian development charity sector.

He certainly didn't attract his key people with bulging remuneration packages. One of the big differences that he observes between running a not-for-profit organisation and a conventional business is that his employees tend not to be motivated by money. This puts Costello in the fascinating position of being able to lure key staff to his organisations by offering them a cut in salary.

"Many people who've come here have taken a significant pay cut," he says. "I rarely have people here asking for pay rises. They're not motivated by bonuses – and they don't get them either. They're here to make a difference."

Christian values

Another striking feature of his 600-strong Australian workforce is the high proportion of active Christians among them.

World Vision International was set up in 1950 as a Christian aid, development and advocacy

The charity challenge

World Vision is Australia's largest overseas aid charity, by a huge margin. It has an annual turnover of close to $370 million and says it helps more than 20 million people every year.

According to CEO Tim Costello, World Vision has to spend approximately 23 cents for every dollar it raises – a much lower ratio than most comparable organisations. "We are one of the lowest in terms of overheads for charities," he says. "We're very proud of that."

But last year, World Vision's marketing overheads went up more than 25 per cent to almost $50 million – a situation Costello blames on the emergence of a tougher fundraising environment. "When the [2004] tsunami hit … people were touched and they gave," says Costello. "[But] since the global financial crisis, all charities have been finding it really tough. Australians have turned inwards, felt grumpy, felt they were the victims.

"You've had both sides of politics saying to Australians in 'McMansions' with two cars, 'we feel your pain, your energy bills are going up'. Australians have actually shifted from that optimistic frame of mind to 'I'm the victim'."

With that, says Costello, comes a corresponding increase in funding costs.

“Good CEOs build teams; I think I’m good at building a team”

– Tim Costello, World Vision

organisation, and to this day – despite the increasingly secular profile of many of the developed countries from which it operates – its philosophical underpinnings remain firmly Christian.

“I’m here because of my Christian faith,” says Costello. “And a lot of people here – maybe 65 per cent – are motivated by their Christianity. They may not all be churchgoers, but that would be their motivation.”

Costello points to the website of the Australian branch of World Vision, detailing the theological foundations of the organisation’s commitment to accountability.

On ‘accountability to the poor’, for example, the website document declares: “World Vision must remain vigilant in its mission to children in poor communities for that is the godly calling from which the organisation was born.”

On accountability to its donors, it says: “Christians should be beyond reproach in their financial dealings… God expects, and Scripture applauds, the highest standard of probity in dealing with donated resources.”

Costello confirms that he believes World Vision would apply higher standards of probity to its staff than a comparable private sector organisation. “I would say it’s probably more diligent,” he says. “The thing you get sacked for here is any blurring of the lines on finances or probity. Our only leverage is our brand and reputation. Any financial mismanagement or question marks, it just savages the brand.”

Costello concedes his job can be gruelling, but he loves it and has no immediate plans to move on. “The travel knocks you about. I’m away about three months every year, a trip every six weeks. And I’m not going to Paris; I’m going to Harare and Addis Ababa. And then you drive for hours into the bush on African roads with potholes big enough to swallow trucks. It’s very demanding.”

And it’s certainly not the life of your typical CEO.

How accounting RUNS THE WORLD

A new book by historian Jacob Soll attempts nothing less than recasting accountants as the people who make modern civilisation possible.

by David Walker

→

Portrait of a Merchant by Jan Gossaert

The Money Changers by Marinus van Reymerswaele

Every accountant knows the stereotype of the profession: obsessive, uncreative, money-obsessed buzz-kills, decent rather than actually good. Enter US historian Jacob Soll's new book, *The Reckoning*, which casts the accountant in a very different light.

Soll lays out his belief that good accounting drives strong nations, that financial transparency leads to political openness and that accountants – and an accountability mindset – have made the world a far better place. *The Reckoning* gives accounting a place in the human story alongside art and science, engineering and literature.

Soll's big, detailed, colourful case studies take readers through double-entry accounting's role in the glories of Renaissance Florence, the rise and fall of Spanish and French kings, the Industrial Revolution, Darwin's discovery of natural selection, to the present day – where he sees the world after the global financial crisis as a prime example of a society suffering anew from a shortage of accountability.

The fragility of accountability

Among Soll's most important themes is the historical fragility of double-entry accounting.

For centuries after the first appearance of double-entry accounting – in northern Italy around 1300 – it follows the same pattern: it pops up, helps a society flourish for a while and then dwindles again, because people would really rather not know the score. "Accounting arrives on the scene with great effect," writes Soll, "only to retreat into dangerous obscurity."

So it was in Renaissance Florence in the early 1400s, where Cosimo de' Medici, banker to the Catholic Church, became the richest man in western Europe and one of the greatest art patrons in history.

For Soll, part of Cosima's secret was that he had learnt the new art of double-entry accounting working in his father's Medici Bank. When Cosima took over, he developed a series of audit and control measures that ensured he always knew how much he was making – and the Medici Bank became Europe's largest.

He began a tradition of arts patronage that funded such works as Brunelleschi's magnificent Basilica of San Lorenzo; his descendants became the chief patrons of Michelangelo and Leonardo da Vinci. But his sons and grandsons neglected his accounting system, and by the 1490s, the Medicis slid from total dominance of Florence, at least for a time.

The Spanish Empire of Philip II, on the other hand, crumbled away almost before Philip's eyes. In Soll's view, Philip exemplifies the ruler who could not enforce rigorous accounting standards – though he tried hard after the disaster of the Spanish Armada devastated Spain's finances.

The French did a little better under Louis XIV, in part through

> "When you start looking for it, accounting crops up at a remarkable number of historical turning points"

"*The Reckoning* gives accounting a place in the human story alongside art and science, engineering and literature"

Pictured above (centre): *The Moneychanger and his Wife* by Marinus van Reymerswaele

“Accounting is at the basis of building businesses, states and empires”

– Jacob Soll, author

Jacob Soll

More *Reckoning*

The Reckoning: Financial Accountability and the Rise and Fall of Nations is available at Amazon for US$20: goo.gl/Wz8lUp

Read Jacob Soll on the themes of *The Reckoning* at the PBS site: goo.gl/fnZo5S

Hear Soll presenting on *The Reckoning*: goo.gl/m9gjoM

→

the efforts of Louis' finance minister, Jean-Baptiste Colbert, to centralise financial information. Colbert schooled Louis in accounting, providing him each year with accounting books summarising the affairs of his empire. But Louis would not keep the system going after Colbert's death – and France descended into turmoil and revolution for more than a century.

The northern powers

It was in the tiny society of the Netherlands, with fewer than a million people, that Soll argues the accounting mentality first took lasting hold.

The Dutch in the 1400s and 1500s created the first truly modern economy, championed engineering and science, and preserved relative religious and intellectual tolerance, all while fighting a war against Spanish occupiers.

And accounting was central to this society, reports Soll. Accounting and bookkeeping make frequent appearances in the great Dutch artworks of the time. Accounting schools proliferated. The Dutch created the first great listed company – the Dutch East India Company or VOC. In Soll's eyes, they created the first accountable government.

As the British Industrial Revolution gets underway in the 1700s, Soll moves his gaze to individual industrialists – notably Josiah Wedgwood, who introduced various accounting innovations as he built his pottery empire and campaigned against slavery.

Wedgwood passed his belief in the value of record keeping on to his children and grandchildren. One of those grandchildren, Charles Darwin, considered account keeping one of his chief talents – and put those skills to good use when he took his two-year voyage on HMS *Beagle*, collecting the data that would underpin his theory of evolution by natural selection.

When you start looking for it, accounting crops up at a remarkable number of historical turning points.

A perception problem

For all that they have done, accountants have always struggled with their public image.

The cover of the US edition of *The Reckoning* neatly reflects the evolution of thinking about the morality of accounting. It shows a fragment of the exquisitely detailed *The Moneychanger and his Wife* (pictured on page 33), painted by the Dutch artist Marinus van Reymerswaele in 1539, just when the value of accountability was at its height in the Netherlands.

In the painting, a Dutch wife watches her husband count their coins, an account book under her hand. Art historians don't quite know what to make of it: does it celebrate commercial virtue or condemn greed? In an era when usury (lending at high interest) was considered a sin, even the artist himself may have been in two minds.

English writer Charles Dickens arguably did the most damage of all to the public image of the accountant – an irony, since Dickens' father was an accountant until he lost his job and was thrown into debtors' prison.

There are decent accountants in Dickens' works, like philosophical Mr Micawber in *David Copperfield* and honest clerk and family man Bob Cratchit in *A Christmas Carol*. But it's *A Christmas Carol's* miserly accountant Ebenezer Scrooge whom everyone remembers. Then there's what Soll calls the "proto-Orwellian" Circumlocution Office in *Little Dorrit*, based on the British Treasury.

In English-speaking countries, the image of the people who count the money has never quite recovered from Dickens' depictions. From Soll's viewpoint, this is not just unfair, but a little dangerous.

Genius of accounting

Accounting and accountability may not be popular notions, but Soll convincingly places them at the heart of commercial and governmental success.

The genius of accounting, of course, is that it explains not just 'what' but 'how much'. The importance of this mental shift from qualities to quantities has been explored before, most notably in Alfred Crosby's *The Measure of Reality*, which classes accounting with other world-changing techniques, such as mechanical clocks, precision maps, Kepler's astronomy, musical notation and perspective painting. But never has accounting seemed more vital than in *The Reckoning*.

Soll's work has its weaknesses. He's a historian happiest with events several hundred years old. His history ranges no further west than Washington DC and no further east that Athens, even though accounting's mathematical underpinnings (and some of their conceptual foundations) come from the Islamic Golden Age.

He also sometimes overstates his case – flirting, for instance, with the bizarre idea that the global financial crisis happened because the Wall Street banks ignored their auditors.

But *The Reckoning* is entertaining history, and something more. It shows accountants their role in the human story. Everyone in the profession is engaged in an activity which makes modern life possible and which has been working away, quietly, underneath the big events in the history books.

Read this article online at **pubacct.org.au**

AFS LICENCES: TIME TO PLUG IN

More than a year into the new Australian Financial Services (AFS) licensing framework, most accountants have yet to commit. But the first practical learnings are beginning to appear.

by Mark Story

Many accountants want to provide clients with investment advice, particularly advice on setting up self-managed superannuation funds. For a large number of accountants, that desire is driven by their clients, who look to them for advice. For some accountants, investment advice provides an important income stream; for others, it's a straightforward extension of the work they already do.

But the arrival of the Australian Financial Services (AFS) licensing framework means accountants must make a choice. Federal Treasury estimates around 10,000 individual accountants may apply for a licence to continue offering advice.

Vicki Stylianou, IPA executive general manager, leadership, sees the cost of AFS licensing as an investment in a revenue stream that will grow the sustainability of accountancy practices. With about 60 per cent of SMSFs being set up by accountants, Stylianou says financial advice is a natural progression of this work.

"With a lot of accounting work becoming highly commoditised, accountants need to question what compliance business will be worth going forward," she says.

Picking your option

So, 15 months after AFS licensing began, how many accountants are making licensing choices and what are they choosing?

Initial expectations about the number of limited licences being issued have not been realised. However, one firm that will be using a limited licence is Perth-based accounting firm Ledger Corporate. It will do so in an interesting way: through a partnership arrangement with local financial planner Michael Bowler. Once Bowler's AFS licence is approved, he will move his established clients within the banner of the merged entity. It's still early days, but Bowler expects the costs of operating a limited AFS licence to be shared between

Your licence decision

Since July 2013, providing SMSF advice has required an Australian Financial Services (AFS) licence. For the moment, accountants have an exemption – but that exemption runs out on 1 July 2016.

There are three types of licences:

- The full AFS licence, which requires three years of experience, offering (full) financial advice.
- A limited licence, which lets you give advice on superannuation, securities and other types of basic investments.
- Or, you can become an authorised representative under an investment group's licence.

both entities, based on their ongoing usage.

Meanwhile, many in the industry suggest around 100 accountants have become authorised representatives of an AFS licence holder, such as a dealer group. The dealer groups are fighting to lure more accountants into their circle.

Stevie-Ann Dovico is the manager for strategic growth and offer development at one of those dealer groups – Securitor, owned by Westpac (and an IPA partner). Depending on size and operating model, says Dovico, working with a dealer group can be a better and more affordable way for accountants to widen their financial advice offering.

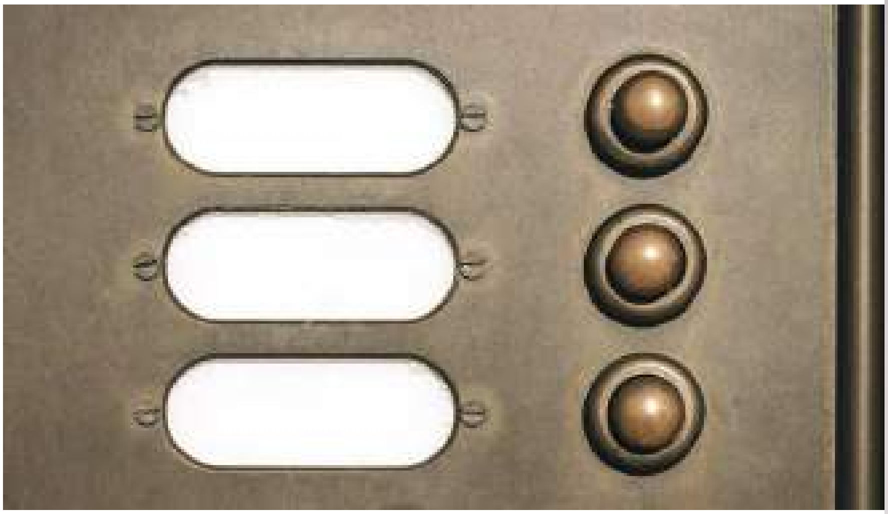
Based on her numbers, being authorised under a dealer group arrangement could halve the cost of operating under the licensing regimen. It also relieves accountants of the administrative processes and gives them more time to concentrate on providing advice and writing a statement of advice (SOA).

"The accountant doesn't have the expense and effort of getting and maintaining an AFS licence, and the dealer group can secure their referrals and indirectly the distribution," says Dovico. "If you only want to offer 'class-of-product' advice, a dealer group path may be more appropriate."

Equally important, with accounting firms selling at about 0.9 to one times revenue, compared with 2.5 to three times for financial advice businesses, Dovico says that bolting on a financial planning practice should give a generous return when it comes time to exit the business.

"There is no 'one-size-fits-all' dealer group model"

– Stewart Chandler, AFSL Compliance



Making it work

With more than 50 SMSF clients, Brisbane-based sole trader Mara Denham, of Denham and Associates, is one who has decided that becoming an authorised representative is the best road ahead. "I think all clients need some form of advice," she says.

Some 18 months after completing the required RG146 course and becoming an authorised representative, she knows she has plenty of work to do to build up the advice side of her business: so far, she has earned $1,000 from financial advising and has completed one SOA.

Denham says costing out the value of a client remains a big challenge. It comes down to what the client is prepared to pay – which sometimes remains unclear until after the work is done. And she has found professional indemnity insurance can cost up to double what it is for an accountant.

"It's possible for a sole practitioner to make it work, but wearing two hats makes it difficult to promote both," she says.

Nevertheless, Denham sees financial advice as a way to replace declining revenue from traditional accounting fees. She expects that her decision to go down the AFSL path will eventually pay dividends, with recommendations embedded within an SOA continuing to add value to her client relationships over time.

Picking the right rep

Stewart Chandler, of compliance support group AFSL Compliance, says it's important for accountants to remember there is no 'one-size-fits-all' dealer group model. He says accountants should understand the business model of a dealer group before joining it and should ask questions such as: "how does the dealer group make money?" and "what will I be expected to give the dealer group in return for licensing?" Also important is the level of support provided by the dealer group.

Many accountants are either struggling with the choice or putting it off entirely. Some will leave the advice space, but for those who want to stay, the IPA's Stylianou warns against leaving a financial planning move too late. The RG146 qualifications can take up to 12 months to complete. And, she points out, clients who want advice are likely to move to those firms that can offer it.

Whatever you opt for, there's a clear competitive advantage in making an early choice.

REPAIRING PUBLIC SECTOR ACCOUNTING

In the aftermath of the GFC, nations are slowly realising that it's not just private firms that need better accounting: public sector accounting needs reform, too.

by Adrian Rollins

When the financial crisis up-ended the global economy in 2008, the attention of governments and regulators around the world swiftly and inevitably turned to failures of transparency and accountability in the private sector – particularly the financial industry. As a result, banks and financial advisers are having to learn to live with heightened public scrutiny.

But some accounting leaders believe it is not just bankers and financiers who should be feeling the heat. A small yet insistent chorus is arguing the need for governments to be more open and honest about the state of their own books.

Leading by example?

It's a point most dramatically driven home by the disastrous Greek experience.

Throughout the 2000s, successive Greek governments used flawed statistics and accounting tricks to mislead voters and investors about the nation's disastrous financial state.

When Greece joined the eurozone in 2000, the official statistician reported a budget deficit of 2 per cent of GDP and a debt-to-GDP ratio of 106.1 per cent.

→

David M Walker

"The financial condition of most government entities is much worse than advertised"

– David M Walker, former US comptroller general

Both figures turned out to be wildly inaccurate – subsequent revisions pushed the deficit to 4.2 per cent and the debt-to-GDP ratio to 114 per cent.

In addition to producing dodgy numbers, Greek authorities massaged the books by over-estimating tax revenue, understating social security payments, under-reporting military spending and shifting liabilities off the public balance sheet by striking deals with creditors to defer interest rate payments.

Inconvenient truth

But Greece is only the most egregious example of a much wider problem of governments misrepresenting the state of public accounts, according to former US comptroller general David M Walker.

Walker believes that all too often governments have foolishly hidden or understated the extent of their debt, unfunded liabilities or spending commitments. "I know that the financial condition of most government entities is much worse than advertised," Walker wrote in a recent opinion piece for the International Federation of Accountants[1]. He argues that in the US alone, the federal balance sheet did not include "several trillion dollars" of debt arising from welfare programs, including social security and Medicare.

Walker is not alone in his concerns. Former Dutch finance minister and current chair of the International Accounting Standards Board Hans Hoogervorst says that while a lack of transparency is "the scourge of financial markets", governments are also guilty of deception and obfuscation in the accounts they present to the public. "Whether [public accounting standards] always lead to a complete picture of a country's financial position is in doubt," Hoogervorst told a Sydney audience in April[2].

Like Walker, Hoogervorst believes the most glaring shortcoming

> “Most countries around the world ... keep their pension liabilities off balance sheet”
>
> – International Accounting Standards Board chair Hans Hoogervorst

→ is in the way governments treat their pension liabilities.

“There are only a few countries – such as Australia and New Zealand – that fully consolidate public sector pension obligations in the public accounts,” said Hoogervorst. “Most countries around the world … keep their pension liabilities off balance sheet.”

With such liabilities often double official public debt, “full consolidation of these enormous amounts would make it immediately clear that these pension obligations cannot be met without deep reform”. That, the former government minister said, creates a powerful political incentive to keep such an inconvenient truth off the books.

Close to home

Australian governments were forced to confront this unpalatable issue in the 1980s.

University of Sydney emeritus professor of accounting Bob Walker says the disclosure then of enormous unfunded liabilities for public entities forced governments across the country to act. Among other things, they closed defined-benefit pension schemes in favour of accumulation funds.

Until 1984, says Professor Walker, the view of the actuarial profession was that their obligation was simply to report on appropriate contribution rates, rather than identify the size of unfunded liabilities. Change came only because of scrutiny from auditors-general and parliamentary committees.

In most other countries, the ability to keep such liabilities off the public balance sheet has allowed governments to kick the reform can down the road, often with disastrous results.

The consequences of such behaviour have recently been laid painfully bare in the US city of Detroit, which in 2013 filed for bankruptcy, saddled with up to US$20 billion worth of debt, including up to US$3.5 billion worth of unfunded pension liabilities. In July 2014, Detroit city employees and retirees were confronted with a tough choice: accept a 4.5 per cent cut to pension entitlements and reduced indexation or reject the offer and risk even greater losses.

The way forward

For David M Walker, such experiences underline the need for improvements in government financial reporting around the world.

He suggests the adoption of international accounting and reporting standards, the introduction of full accrual-based financial reporting and the implementation of “stewardship” statements that quantify the likely financial and intergenerational

[1] IFAC website, 20 May 2014, DM Walker, ‘It’s time for sovereign governments to practice what they preach’, (ifac.org/global-knowledge-gateway/viewpoints/its-time-sovereign-governments-practice-what-they-preach#).
[2] Ken Spencer Memorial Lecture, FRC, 10 April 2014, H Hoogervorst, ‘Building trust in financial markets: accounting and moral hazard’, (frc.gov.au/media/speeches-lectures/ken-spencer-2014/).

effects of government policies, programs and fiscal settings.

Professor Walker, though, is wary of policy prescriptions that seek to simply transpose onto public entities the accounting concepts and standards used in the private sector. In the past, he says, this has led to “expensive follies”, such as forcing state and local governments to put a dollar value on national parks, fish stocks and other natural resources.

> “The consequences … have recently been laid painfully bare in the US city of Detroit”

Professor Walker sees a need to take account of assets and liabilities, such as public infrastructure and welfare obligations. But he also urges a more measured and nuanced approach of the kind adopted by the US’s Federal Accounting Standards Advisory Board (FASAB).

In valuing assets, FASAB considers maintenance costs, so often neglected by governments.

David M Walker expects good reporting will speed up changes to the biggest US spending programs, such as social insurance programs, and to tax policy.

Better public accounting can make clear what needs to happen. As more countries slowly realise the pressing need to own up to their grim fiscal realities and transform their finances, the need for global public accounting reform has never been greater.

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Member profile

KNOW YOUR LIMITS

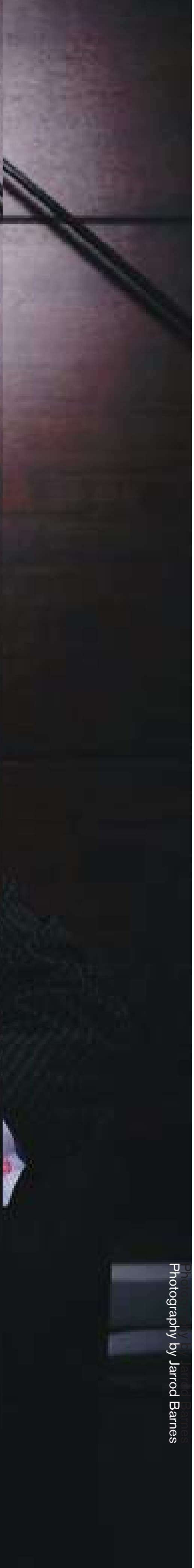
Risk expert Daryl Koch learnt early in life to control his impulses and stick to the rules – he's been applying the lesson ever since.

by Amanda Woodard

"My whole life has been about risk," says Daryl Koch, who runs his own business as a risk and governance adviser to small and medium companies. "Yet there are some things in life that will trip you up no matter how well you plan – particularly in the kitchen."

As much as he guards against cooked books, Koch loves cooking a meal. But he knows how easily things can go wrong. "I was making an old-fashioned Swiss fondue for a dinner party and transferring all the elements from the hob to portable heaters to be filled with methylated spirit. But I was talking and having a glass of wine, and by mistake I grabbed a bottle of white spirit, poured that instead – and there was an explosion. Very embarrassing."

Avoiding embarrassment has frequently been part of his job description. Before setting up Canterbury Commercial Services in Melbourne in 2013, Koch worked


Photography by Jarrod Barnes

Name: Daryl Koch

Company: Canterbury Commercial Services

IPA Status: FIPA

Location: Melbourne

at ANZ for 25 years, orchestrating work around operational risk and compliance for trading in their financial markets. Among other roles, he is also the IPA's representative on ASIC's Business Advisory Council, as well as being a director of the Association of Accounting Technicians (AAT).

New pastures

An unlikely career resume, some might think, for a farmer's son who grew up in rural South Australia. But training as an accountant after leaving secondary school wasn't quite as counterintuitive as it seems. His mother had been an accountant before meeting his father – "at a time when women were rare in a male-dominated profession", he notes with some pride.

The first non-farmer in his family for more than 170 years – "I don't like getting my hands dirty and hay makes me sneeze" – Koch admits his dad was disappointed with his career choice at first but recognised the world of high-stakes finance clearly held more interest, and prospects, for his son.

It was from his father that he learnt important lessons about the fundamentals of risk – through gambling, says Koch, which he still enjoys occasionally. "Dad liked to bet on the horses, and from a young age he taught me not to be stupid about it and to know your limits. As soon as you go outside your limits, you lose, because you become emotional."

The farming life held other lessons, too, such as the value of diversifying risk: his father switched from being a pure grain farmer to include beef, lamb and wool.

Koch applied these same rules during his early experience working as an interest rate and foreign exchange trader. "You must be clinical, disciplined and stick to the rules," he says. "Of course, you'll lose from time to time, but you'll get it back; just play the game and be consistent."

Balancing risk and opportunity

Thirty-eight years working in six banks – including the bumpy experience of the Asia Crisis in 1997 and the GFC in 2008 – honed his risk management skills. "Letters after your name look great, but there is nothing like being dropped in at the deep end," he reflects.

Seeing first-hand what can go wrong left Koch with strong views on how companies calculate – or don't calculate – risk.

"There's a tendency in large and medium-sized companies to take their eye off the ball over what can hurt them – they get so focused on sales, income and trading," he says. "And while it's great to make revenue, there have to be people who can cover you and prevent operational losses."

While noting that governance and compliance experts can make big contributions to a company's success as a trader, Koch says some companies are beset with 'anacondas' – governance people who go over the top and strangle a business. "It's a question of balance, knowing what can bite and how much it can bite you," he says. "If a risk is insignificant, at the end of the day perhaps let it go."

A new start

After 25 years working at ANZ, Koch's role was absorbed into operations head office in Singapore and he saw redundancy as an opportunity. "Even though I'm an accountant and one can make a good living from that, it's a crowded market. So, I chose to set up a governance business." He completed a company director's and company secretary's course and began preparing himself for corporate life.

Running his own show with a dozen or so clients, Koch says he could never go back. "I do different things for different people and I enjoy that variety and freedom," he says.

> "There is nothing like being dropped in at the deep end"

Not being answerable to anyone but his clients is another reward, as is the flexibility to plan his work and spend time with friends and family. He first met his lawyer wife when she worked on foreign exchange documentation with him at ANZ. "We fell out over that but eventually reached a compromise and became friends. That developed into a more serious relationship."

His wife shares his passion for cooking. Koch, as ever, understands his limits. "Being born in Kuala Lumpur, she makes wonderful Malaysian and Chinese food. So I don't try to compete with that. It's too risky!"

360 degrees

What are the most productive techniques accounting practice leaders can use to bring in referrals?

Joel Barolsky

Joel Barolsky is the founder of Barolsky Advisors, a senior fellow of the University of Melbourne and former partner of Beaton Research & Consulting.

The three Ms of referral marketing are critical:
Mindset: In one recent survey, 83 per cent of accountants' clients were comfortable providing a referral, yet only 29 per cent actually did. One of the main reasons for this huge gap was that providers were simply too afraid to ask for the referral. They felt embarrassed and fearful of being perceived as an aggressive salesperson. A positive mindset towards referral marketing is a key starting point. This also means overcoming the fear of rejection and making a mistake.
Mechanics: The 'mechanical' aspects include being clear on your target market, identifying the referral partners relevant to this target market and the contact plan for engaging with these referral partners.

The contact plan should detail what channel to use (letter, email, face to face), words to use, incentives, timing of contact and follow-up. In my experience, there is no one best method – it depends on personal preferences, both of the adviser and the referral partner. Having a system that easily captures and tracks all this referral marketing activity is a good idea.
Measurement: What gets measured gets actioned! Measuring the level of client advocacy via indicators like Net Promoter Score helps determine whether progress is being made. Measuring planned versus actual behaviour helps get things done and drives accountability.

> "What gets measured gets actioned"

Debra Anderson

Debra Anderson FIPA is the founder of bookkeeping and MYOB consulting company Legally BAS.

Referrals come in many different shapes and forms, but often they are nothing more than leads.

The best type of referral clients you can get are those that are not only qualified but are already sold on you before you've even met them.

In my experience, these referrals come from the bookkeepers that work with our clients. The bookkeepers already have a trusted relationship with their clients. So when they recommend an accountant or financial adviser with whom they already have a relationship, their clients are practically sold.

Not only does the recommendation solve more than just the obvious problem of getting an accountant or financial adviser, but the client also knows that their bookkeeper and accountant will actually communicate with each other, which can often be a pain point for businesses.

Another great source of referrals is our own staff. In our business, we offer our staff a financial incentive for all clients they introduce.

Having your staff sing your praises is not only great for business, but they also know and bring in the right client type for your business. That's a win–win all round.

> "The best type of referral clients you can get are those that ... are already sold on you before you've even met them"

Colin Dunn

Colin Dunn is an accountant, a director of accounting advisory firm Proactive Accountants Network and the author of *Accountants – The Natural Trusted Advisors.*

Having worked as an accountant for nine years and then as a coach and consultant to the accounting profession for the past 18 years, I have no doubt that in most firms, referrals are the number one source of new business.

There is a lot of talk about encouraging accountants to constantly ask for referrals whenever they meet with a client. Problem is, there is high risk attached to referring a new client.

You need to think about it from your potential referrer's point of view. They are putting their reputation on the line by sending you a referral. If anything goes wrong, it reflects badly on them.

With that in mind, the best way to secure quality referrals is to provide outstanding service to your best clients. Turn their work around quickly. Provide performance standards on how fast you will return their phone calls and emails – and exceed them. Always be focused on creating value for clients. Meet with them quarterly at no extra charge. Provide them with ideas to improve their business. Find out more about them personally and build trusting relationships.

Only then, once you have put in the hard yards and proven yourself, should you expect a referral.

"The best way to secure quality referrals is to provide outstanding service to your best clients"

Colin Parker

Colin Parker is a member of the GAAP Consulting team, advising the IPA on financial reporting, ethics and audit.

It sounds simple: a satisfied client base that is aware of your particular service and/or product offering is the key source of new work and new clients. The need to be met may be in the accounting firm itself or a need of one of its clients.

As a consulting practice, we need to be proactive in identifying issues generically and then to clearly explain the relevance of these issues to our clients.

As to identification of issues, these originate from regulatory or standard-setting regimens and from the existing client base.

The awareness message is generally framed around new and emerging risks (financial reporting, SMSF, auditing and litigation) and what needs to be done and when.

Creating awareness of an issue through LinkedIn works for us; we can use the attachment facility to suggest a service or product as a solution. Time the message to coincide with key dates or media coverage of an issue.

As to frequency of message, weekly is generally a good rule of thumb, followed by a monthly 'issues and action' message. We follow through with targeted and tailored emails, phone calls or face-to-face coffee catch-ups, knowing which issues should resonate with clients based on our knowledge of their business.

"Creating awareness of an issue through LinkedIn works for us"

Opinion

Project clean slate

The ATO's Project DO IT challenges taxpayers to come clean on undisclosed foreign-sourced gains at a time when the risk of detection is increasing.

by Tony Greco

Tony Greco FIPA is the IPA general manager of technical policy. He can be contacted on (03) 8665 3134 or at tony.greco@publicaccountants.org.au

With the international net tightening on tax evasion and global tax havens, the Australian Taxation Office earlier this year announced an initiative to encourage taxpayers to voluntarily disclose their unreported offshore interests.

Effectively a nine-month amnesty, Project DO IT pertains to Australian taxpayers who have previously not disclosed foreign-sourced income or capital gains, or taxpayers who have previously over-claimed deductions relating to foreign income.

"[Taxpayers] face a real risk that no future similar amnesty will be offered"

Given the increasing focus on international tax avoidance, along with continuously enhanced capacity for the automatic exchange of tax information with other jurisdictions, the risk of detection is increasing. The concessions offered by Project DO IT are worthy of serious consideration by eligible taxpayers seeking to come clean.

Project DO IT

Since the announcement of Project DO IT in March 2014, there have been significant expressions of interest, where taxpayers have identified themselves and stated that they will be making a disclosure of previously unreported foreign income and assets. The ATO is expecting a large number of voluntary disclosures towards the end of the amnesty, which closes on 19 December 2014.

The initiative will provide eligible taxpayers (whether individuals, companies, partnerships, trusts, etc) with a mechanism to make disclosures to the ATO concerning their international taxation affairs, with the ability to take advantage of significantly reduced penalties and a capped number of amendment years.

The ATO has further undertaken that taxpayers eligible for Project DO IT will not be investigated further for fraud or evasion.

Are you eligible?

A taxpayer who has recently lodged a voluntary disclosure outside of the Project DO IT process may still be eligible to participate in the initiative, in circumstances where amended assessments have not yet been issued and there has been no finding of fraud or evasion.

Certain taxpayers will be ineligible for Project DO IT. For example, if they are already under audit or are involved in the objection stage or litigation relating to the omitted offshore income, capital gains or over-claimed deductions.

Unique concessions

Under the initiative, the ATO is providing a number of benefits to those who are accepted. As Project DO IT will operate independently of a standard voluntary disclosure, it will have the following unique concessions:

- The taxpayer will only be assessed for years that fall within the time limit for the tax commissioner amending an assessment (generally four years). The normal rules allow for unlimited years of review for fraud or evasion.

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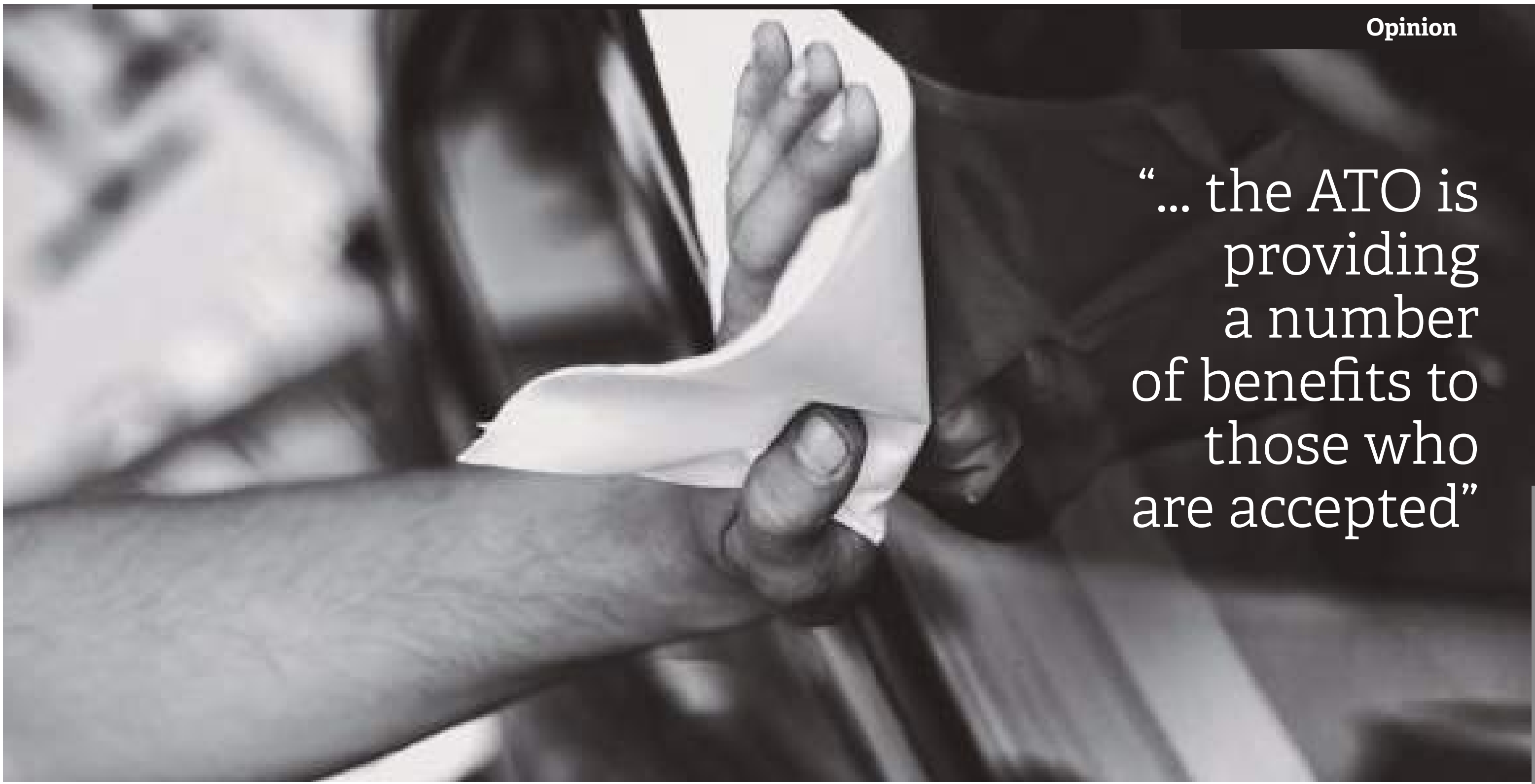

> "... the ATO is providing a number of benefits to those who are accepted"

- The shortfall penalty will be capped at 10 per cent. The normal rules can impose penalties of up to 90 per cent.
- The ATO will agree not to investigate the disclosure for the purposes of a criminal prosecution or refer the disclosure to any other law enforcement agency. (However, this will not apply to promoters of tax evasion schemes.)
- For taxpayers seeking to wind up offshore structures and repatriate their offshore assets to Australia, the ATO will provide certainty on the appropriate tax treatment of these transactions. A concession is also provided in respect of amounts repatriated to Australia when there is a winding-up of the offshore structure.
- It will enable a taxpayer to enter into a deed of settlement with the ATO to provide certainty of outcome.

Time is of the essence

These concessions make it very attractive for eligible taxpayers to come forward and disclose interests before Project DO IT closes on 19 December, especially given the ATO has foreshadowed that more robust compliance activity will follow.

The last time a similar initiative was offered was back in 2009, and there were similar initiatives prior to that. Taxpayers might rightly ask whether they should hold off until the next initiative is launched. But they face a real risk that no future similar amnesty will be offered. If that is right, then they are greatly increasing the possibility that they will eventually be caught.

Time is running out and until the taxpayer lodges the disclosure statement, the ATO will continue to run its normal compliance activities. If taxpayers are detected before they come forward, they may not be able to participate in this initiative.

As at 30 June 2014, there had been more than 250 expressions of interest, where taxpayers identified themselves and pledged to make a disclosure.

Will this represent the last opportunity for people to get their offshore tax affairs in order? Only time will tell.

Opinion

Stepping out of the GFC shadows

The head of the world's peak body for securities regulators argues that markets need transparency and that accountants must play their role in providing it.

by David Wright

David Wright is the secretary general of the International Organization of Securities Commissions (IOSCO).

It is more than seven years since the GFC first impacted economies around the world. The fallout has seen the likes of the G20, the Financial Stability Board (FSB) and global standard setters such as the International Organization of Securities Commissions (IOSCO) make significant progress in reforming global financial regulation and ensure a safer and more sustainable financial system.

But the job is far from finished, which is why Mark Carney, chairman of the FSB, has the coming G20 summit in November in Brisbane in his sights. Carney is urging action and agreement from the G20 leaders in regard to four major issues:

- resolution frameworks, especially cross-border resolution;
- the over-the-counter (OTC) derivatives package;
- bank capital, liquidity and leverage thresholds; and
- the shadow banking nexus.

There is also a recognition that the global regulatory political pendulum is gradually swinging from new policy development to implementation of the agreed-upon standards that are an unambiguous FSB charter requirement for all its members.

Standard setting is one thing, but uneven or 'pick-and-choose' application by certain bodies could undermine the whole global regulatory effort. Without a doubt, the four global regulatory priorities Carney is urging action on are essential. But there is a fifth that could loosely be described as behaviour, reporting, ethics and corporate governance. Over the past seven

years, we have witnessed an eerie correlation between those major firms that failed and their overpowering CEOs, incompetent boards, weak audit and risk committees, and useless risk management.

Auditors did not play an effective early warning role and the overall result in this financial crisis, as we know, has been a 15 per cent fall in global gross domestic product against trend. Worse still, we are observing a growing number of major scandals emerging – the LIBOR scandals, forex manipulation, hocus-pocus in commodity markets. What next?

"It is time for auditors and accountants to step up to the plate"

Global regulators are worrying more and more about global audit quality. There are also growing concerns about the governance of audit standard setting, largely by the profession itself (with public oversight by the Monitoring Group and the Public Interest Oversight Board) and the effectiveness and structure of the global audit oversight bodies.

Global initiatives are also being considered to improve audit quality. They could cover:

- transparency reporting and ownership of audit firms;
- a set of audit quality principles issued by regulators;
- the development of a globally consistent system for measuring firm audit quality;
- guidance on professional scepticism; and
- guidance to audit committees on their role to enhance audit quality.

IOSCO and the International Forum of Independent Audit Regulators will need to work together in this area. On the accountancy side, a plethora of high-level political statements at the G20 and elsewhere over 15 years or so have not resulted in convergence of the International Financial Reporting Standards (IFRSs) and US Generally Accepted Accountancy Principles (GAAPs).

It does not look as though this will be fully achieved with the global standard setters, which are currently unable to agree on impairment rules. This is disappointing. Life will go on for the foreseeable future, with 100 or more countries signed up to IFRS and the continuance of US GAAP.

As the world begins a long shift toward a higher share of market-based financing, effective disclosure will become even more important. In the future, integrated reporting may well play a bigger role.

Opacity and complexity destroy sound, sustainable financial markets, as the GFC has shown. Accountants and auditors can play a major role in the process of facilitating change and breaking down these barriers. And if this process works, they will have helped to ensure that more investors return to the marketplace.

If, on the other hand, too many parts of financial markets remain off limits and are impenetrable, overly complex and 'black box' in nature, expect property markets to boom and long-term investment to fail.

It is time for auditors and accountants to step up to the plate and play their part to make sure this does not happen. Today is a good date to start.

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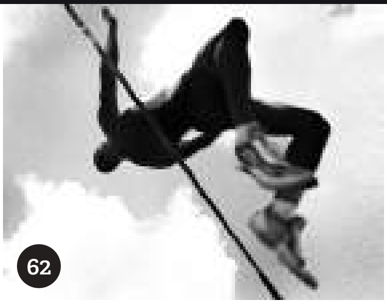
58

SMSF
Overseas property investments hold hidden risks for trustees.

60

Sales
How to perform the dance of the professional services rainmaker.



62

ASIC
The regulator raises the reporting bar on impairment, intangibles and more.

Technical

Our technical section keeps you abreast of the latest news and updates from within the industry.

65 **Advising**
Help clients get their fair share of government assistance programs.

66 **Tax law**
Your options for replacing a client's trust structure with a company.

67 **SMSF**
Depreciation benefits: the steps you and your clients should take.

69 **Tax rulings**
ATO's view of depreciation and improvements for the purpose of CGT.

71 **IT and software**
Windows Server 2012 makes sense when storage needs go beyond the cloud.

72 **ACCC**
Tips to steer you clear of the dangerous boom in false billing scams.

Home truths about an SMSF getaway

Before setting their sights on an overseas property investment, SMSF trustees need to be aware of the risks.

by Daniel Butler

Daniel Butler (dbutler@dbalawyers.com.au) is a lawyer with DBA Lawyers. Visit dbalawyers.com.au or call (03) 9092 9400.

Overseas property can easily appear an attractive investment. Who wouldn't want an apartment in Paris, a Balinese beachfront villa or perhaps a ski chalet in Colorado?

However, when an SMSF is the purchaser, there are a number of traps to navigate – regardless of whether the trustees are buying the property outright or are using a limited recourse borrowing arrangement (LRBA).

1 Investment with no borrowings

An SMSF trustee can purchase an overseas property outright, but they face many compliance hurdles.

The sole purpose test

This test asks whether the SMSF is being maintained solely for the prescribed purposes (eg to provide retirement benefits).

In the famous *Swiss Chalet Case* (43/95 [1995] ATC 374), a superannuation fund trustee invested in a unit trust, the assets of which included a Swiss chalet. The question in this matter was whether the fund met the then equivalent of the sole purpose test. Because fund members and their friends stayed in the chalet without paying rent, the fund was held to have failed the sole purpose test.

This case confirms that an SMSF trustee should only acquire real estate because it genuinely believes it is an appropriate way to achieve its core purpose of providing retirement benefits.

If an SMSF member believes the ATO will never know about their distant indulgence, they should recall that, these days, immigration, phone, credit card, GPS and other records can readily pin someone to the 'scene of the crime'. We've represented clients who were asked by the ATO to prove they did not use the overseas property owned by their SMSF or related structure.

SMSF deed and investment strategy

The acquisition must be authorised by the deed and be consistent with the fund's investment strategy.

> “Clients ... were asked by the ATO to prove they did not use the overseas property owned by their SMSF ...”

In-house assets

The in-house assets rule provides perhaps the most common constraint on overseas investment by SMSF trustees. Some overseas jurisdictions require that a company or similar vehicle in the foreign country must hold the property. This means that a company uses its capital to buy the property, while the SMSF trustee acquires shares in the company.

In some Asian countries, SMSF trustees pay a local native to hold the title on their behalf. I have questioned previously whether this arrangement will hold up under the foreign country’s laws.

Exceptions to the in-house asset rule are outlined in 13.22C of the Superannuation Industry (Supervision) Regulations 1994 (Cth) – the SISR. But among other issues, the exceptions will not apply if the company being acquired establishes a bank account with an overseas bank.

Unfortunately, many SMSF trustees are ‘lambs to the slaughter’. Smooth real estate agents tell them they are buying real estate – but when the deal is done and the advisers get involved, the detailed requirements of the local jurisdiction’s law become apparent and a company or similar structure may be needed. This results in many falling into this compliance trap, with great downside risk and substantial costs to unwind the transaction.

2 Investment with borrowings

If the SMSF trustee acquires the property by using a limited recourse borrowing arrangement, new risks appear.

Firstly, if the property being acquired has to be held via a foreign company, we question whether a bank would be willing to lend: their security is merely shares in a company or units in a unit trust. Moreover, we have found few overseas banks that provide documents that are consistent with s67A requirements. Thus, the LRBA may not be limited recourse or may otherwise contravene the law.

As an alternative or supplement to taking security over the shares of the foreign company, the bank may seek to take security over the overseas property itself. If it were to do so (and the property was held via a foreign company), this would contravene the requirements of reg 13.22C of the SISR. As such, the SMSF trustee’s investment in the foreign company would be an in-house asset again, with numerous potential penalties and downside risk.

If a related party lends instead of a bank, it is questionable whether that lending will be at arm’s length, unless evidence can be gathered that the friendly-party LRBA terms and conditions are consistent with arm’s length practices.

Our experience has also proven that dealings with different overseas jurisdictions can result in complicated legal analysis to ensure everything is properly bedded down.

Increased costs

In addition to the compliance aspects outlined, there are often inflated costs for the transaction that must be taken into account. These may include:

- costs in sourcing the property (such as a buyer’s agent or advocate in the foreign country);
- having maintenance and repairs undertaken;
- costs for the lawyers and advisers overseas to complete the conveyance and provide ongoing advice;
- costs of creating and maintaining a structure, such as a company, in the jurisdiction;
- overseas tax compliance;
- documentation to allow fund borrowings, if required;
- overseas land and wealth taxes;
- costs associated with dealing with tenants (evicting a tenant may not be a straightforward process in overseas jurisdictions); and
- and a range of other reporting and other obligations.

Clients need to consider all of these factors, plus the compliance challenges, before embarking on overseas property investment. I strongly recommend expert legal, accounting and related advice be obtained, both in Australia and the overseas jurisdiction, before SMSF trustees buy overseas property.

The overseas property challenge: key points

- SMSF trustees can invest in overseas property.
- Either with or without borrowings, compliance requirements are steep.
- Compliance costs and a wide range of other costs may make the investment less attractive.

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What makes successful rainmakers?

There's an art to successful 'rainmaking' in professional services selling – here's how to do the dance.

by Sue Barrett

Sue Barrett is founder and managing director of sales consulting firm Barrett Consulting Group, and the first person in Australia to establish a sales course in a university (Swinburne University of Technology).

In my previous column, I explained why advertising and digital media have made even more vital the role of the 'rainmaker' – the accountant who can draw new clients into the practice. If you hope to succeed in this role, you'll need to take at least these five steps:

1 Treat clients as your most valuable asset.

For most professionals, the vast majority of their new business will be generated from existing or past clients and referral sources. However, this new business does not happen by chance.

Successful rainmakers work on their relationships with clients and ensure they regularly pay attention to them, making them feel valued and keeping their clients up to date with key information, ideas and opportunities.

These activities allow the rainmakers to stay in 'relevant' touch with their clients, keeping their value at the top of the client's mind. However, successful rainmakers also know that they must strike a balance between 'new' new business development and incremental new business development with existing clients.

2 Make business development a daily priority.

There are opportunities to sell each day. Successful rainmakers recognise that to be successful at business development, they need to make it a priority and work at it consistently.

Every client interaction can be a source of new opportunities, and successful rainmakers are ever vigilant for opportunities. They know they are not selling all the time; however, they are ready to sell when the opportunity arises. They treat their business development activities with the same level of commitment that they bring to providing clients with sound professional advice. They recognise that making business development a priority is as much about mindset as it is about time management.

3 Discipline yourself.

While the approaches are limitless and highly personal, successful rainmakers create a system. Some spend the first 10 minutes of each day on a business development activity. Some schedule business development on their calendars, just like client meetings.

The important thing is that there is a disciplined structure in place that keeps selling and business development a consistent, conscious priority, as opposed to something that is done when there is a lull in a busy workload.

They treat new business development like keeping fit. They know that if you don't do exercise regularly then you lose your fitness or, in this instance, your sales edge and opportunities.

4 Make your competencies visible.

Successful rainmakers recognise that 'random acts of lunch' are not usually successful and therefore not a good use of limited sales time and resources.

Successful rainmakers ask "where am I going to focus my sales efforts this year?", and "how am I going to make my competencies visible to the people who need to know about them?". They then translate their answers into a plan of action to maximise their visibility in the right areas.

These 'visibility' plans can take on many different forms. They may be strategic and align

Rainmaking ingredients

- Develop the confidence to make your competency visible to the people who need to know about you.
- Get yourself out there talking to prospective clients.
- Position yourself to:
  – ask questions
  – listen
  – offer solutions that deliver real value
  – ask for the business.

the vision, goals, targets and activities of the business. Or they could be something more individualised, such as pursuing a particular market segment for new revenue opportunities.

Either way, successful rainmakers look at leveraging ‘visibility management’ activities, such as being a keynote speaker at selected public/industry events, writing targeted articles/blogs regularly, attending targeted networking events, building a referral base, using social media or email marketing to target key clients/prospects, and so on.

This way, they get recognised for what they do well and in turn get rewarded with more sales and work.

5 Focus on high-potential sales opportunities.

Most professionals are busy. Remember, they usually sell expensive time, so any time invested in business development is not directly fee-generating.

Under the best of circumstances, professionals have a limited amount of time to invest in selling and business development. As a result, successful rainmakers focus their limited sales time where they can get the biggest return on their investment: high-potential targets that are most likely to become clients or who can refer them to other potential clients.

Typically, these targets are existing or former clients. These are people with whom the rainmaker has a relationship based on demonstrated trust and knowledge of their capabilities.

As you can see, simply running an advert that promotes your firm isn’t enough to leverage an increase in new business. Additional new business will only come when you combine the basic ingredients of rainmaking. And remember: everybody lives by selling something.

Raising the financial reporting bar

ASIC's latest areas of focus within financial reports include impairment, amortisation of intangibles and several areas where new standards may change the results.

by Doug Niven

Doug Niven is senior executive leader, financial reporting and audit, at the Australian Securities and Investments Commission (ASIC).

ASIC recently announced its focuses for 30 June 2014 financial reports, as well as findings from its reviews of 31 December 2013 reports.

Quality financial reporting contributes to confident and informed markets, so financial reports should provide useful and meaningful information for report users. Preparers and auditors should particularly focus on accounting policy choices and accounting estimates.

ASIC surveillance led to material changes to 4 per cent of the financial reports reviewed between 2010 and 2013. ASIC now publicly announces when, following ASIC contact, a company materially changes previously provided information. ASIC hopes this will help directors of other companies to avoid similar issues.

Impairment

A number of entities have made significant impairment writedowns as a result of ASIC inquiries. Some companies continue to use unrealistic cash flows and assumptions. In some cases, there have been material mismatches between cash flows used and assets tested. The calculation of fair value less costs to sell should use discounted cash flows if forecasts and assumptions are not reliable.

Intangibles amortisation

Intangibles must be amortised over the period of contractual or legal rights. Renewal periods should not be included unless there is a renewal right, renewal is expected to occur and renewal costs are not significant. Time-based intangibles should be amortised even if they have not yet generated revenue. Assertions that assets have an indefinite life should be tested.

New standards

New standards on consolidation, joint arrangements, interests in other entities and fair value measurement can significantly change the accounting for some entities.

Revenue

Revenue should be recognised when services have been performed and control of goods has passed, having regard to the substance of arrangements.

Expense deferral

Expenses should only be deferred when the definition of 'asset' is met, it is probable

Find out more

See ASIC Information Sheet 183 *Directors and financial reporting*. Regard should also be given to ASIC Information Sheet 196 *Audit quality: the role of directors and audit committees*.

For further information, see ASIC media releases 14-120 and 14-141 at asic.gov.au that future economic benefits will arise and requirements of the intangibles standard are met.

Tax

There should be a proper understanding of both the tax and accounting treatments and how differences between the two affect tax assets, liabilities and expenses. Recent changes in tax legislation should be considered, along with the recoverability of any deferred tax assets.

Disclosures

Disclosures of sources of estimation uncertainty and significant accounting policy judgements should be made and should be specific.

Key assumptions and a sensitivity analysis for asset valuations are important to users, including disclosing where a reasonably foreseeable change in assumptions could lead to impairment.

Listed entities should also disclose segment information that may be important to investors.

Proprietary companies

A review of 30 June 2013 financial reports of proprietary companies found many companies using special-purpose financial reports that omitted significant disclosures, even though there were substantial operations.

Directors

Directors should challenge accounting estimates and treatments, seek explanations and seek appropriate professional advice. Directors should review cash flows and assumptions used in asset valuations.

Entities should have a culture and incentives focused on quality reporting and adequate governance, processes and controls.

And directors should have appropriate financial literacy and ensure appropriate experience and expertise is applied to financial reporting.

Read this article online at **pubacct.org.au**

If the capital fits …

Accountancy practices are in an ideal position to help clients access the government assistance programs that *Public Accountant* has shown are available.

by Erik Anderson

Earlier this year, *Public Accountant* explored research on government grants, subsidies, rebates and tax concessions. That research showed that the bulk of the assistance ends up with the big end of town.

Many potential applicants have not taken advantage of the assistance that may be available to them because of the lack of knowledge about the various assistance programs. In some cases, the advice to the applicant has been that they are not eligible (they have been eligible!) or that the program is too difficult to apply for (rules and guidelines do change regularly).

Accountants should be aware of two different types of assistance programs. The first is a reimbursive or entitlement program; the second is a competitive program.

"If your clients have export sales products in their BAS returns, they may be eligible"

Reimbursive programs

With a reimbursive program, the applicant spends the money first and, if they meet the requirements of the program, they are entitled to be reimbursed for a portion of the eligible expenses. The two federal programs that fall into this category are the Export Market Development Grant (known as EMDG or Export Grant) and the R&D Tax Incentive program.

Both of these programs have complex guidelines and, to maximise their benefits, you need an up-to-date understanding of the respective Acts and regulations. But simple rules of thumb can guide you and your clients towards understanding eligibility for these programs.

For the Export Grant, if your clients have export sales products in their BAS returns, they may be eligible. And note that while the product needs to be Australian, it does not automatically exclude products that are made offshore (for example, in China).

If clients have spent money on patents, there is a good chance they are developing something that is generating new knowledge and, as such, may be eligible for the R&D Tax Incentive. Here, the applicant has to be a company; individuals and trusts are excluded from this scheme.

Competitive programs

Far more common are competitive government assistance programs, where governments choose which of many applications will be funded from the amount of money made available for that program.

The volume of information required for these programs varies and there is no guarantee that your application will be successful.

The largest competitive grant program available to the average accounting practice client was the Commercialisation Australia program. It provided matching funding up to $2 million on a 50:50 basis – until it was unfortunately cancelled in the 2014 Budget.

A new program, the Entrepreneur Infrastructure Program, started rolling out on 1 July 2014, with a maximum grant of $250,000 on a 50:50 matching funding basis.

How can accountancy practices assist potential applicants?

Just being aware of programs that may be of interest and benefit to clients is a good start.

If the practice does not have trained staff, there are consultants around who can assist the accounting practice and/or the applicant.

Erik Anderson runs grants consultancy Grant Central (grantcentral.com.au) and has been in the grants industry for 12 years. He has been on Austrade's list of Approved EMDG Consultants and serves on the National Executive of the Export Consultants Group.

A helping hand

In the June/July 2014 issue of *Public Accountant*, Scott Holmes, Mark Sargent and Michael Schaper set out their research on government assistance to industry. About 14 per cent of firms report receiving some form of financial help. Read more at: pubacct.org.au/who-gets-the-money/

When a trust isn't enough

At some point, a client's trust structure may need to be replaced by a company.

by George Kolliou

When a family outgrows its home, one option is to extend or renovate by calling in the builders with their toolboxes. In the same way, when a client's trust structure is no longer appropriate, accountants must dig into the toolbox to find and use the right tools to deal with the CGT consequences of a restructure.

Why become a company?

Here are some of the most common reasons:

- Division 7A compliance has become too hard.
- The client is preparing for an equity injection.
- A complex structure is being simplified.
- It is preparation for a share sale to exit the business.

The most common stumbling block or objection to a restructure is that the 50 per cent general discount will be lost on the sale of the business out of the company. Counter to this argument is that it is increasingly common to see share sales, especially where the company has been well managed, with the share sale exit plan in mind from the inception of the company.

The tool box

Some of these tools are the least used and the most complex to use. As with most things, familiarity and practice make perfect. In future issues of *Public Accountant*, we will look at each of these tools in more detail. But for now, it is important to note the following key points about your options:

CGT event A1

- Where the value of a business has fallen, triggering CGT event A1 may result in a capital loss and no CGT liability.

122-A and 122-B rollover

- A 122-A rollover may be in respect of a single asset or all the assets of a business.
- There is no uplift in the CGT cost base of the shares as a result of a 122-A rollover.
- The only consideration for the transfer of a business under a 122-A must be ordinary shares and, if necessary, the assumption of liabilities.
- The trust must own all the shares in the company after the rollover.
- A 122-B rollover works in the same way as the 122-A rollover but is used for partnerships of trusts.

SBCGTC

- Preconditions must be satisfied by the trust: the Small Business Entity test ($2 million turnover); or the $6 million net asset test; and the active asset test.
- There is uplift in the CGT cost base of the share in the company.
- Four possible concessions can be used to reduce or eliminate the capital gain.
- Care must be taken with the complex rules that apply to trusts.

124-N rollover

- CGT event E4 must be capable of happening in respect of the units.
- The rollover is not available to discretionary trusts.
- The unit trust must cease to exist within six months of the disposal of its first asset.

Familiarity with these tools will give accountants greater confidence in giving clients options to restructure and achieve their goals.

George Kolliou FIPA is principal of Kolliou Tax Pty Ltd. He can be contacted at george@kollioutax.com.au

From trust to company: your options

CGT event A1	Sale of business to a company with no rollover or concessions – no CGT liability.
122-A rollover	Trust transfers one or all assets of a business to a company in exchange for shares in the company.
122-B rollover	A partnership of trusts transfers one or all assets of a partnership business to a company in exchange for shares in the company.
SBCGTC (Division 152 Small Business Concessions)	Sale of business to a company using SBCGTC to reduce or eliminate CGT liability.
124-N rollover	Unit holders in a unit trust exchange their units for shares in a company and the business is transferred from the unit trust to the company.

Property depreciation can boost SMSFs

When an SMSF buys property, the right depreciation can add thousands to fund returns.

Bradley Beer is the managing director of BMT Tax Depreciation and has more than 16 years' experience in property depreciation and the construction industry. Contact him on 1300 268 829 or visit bmtqs.com.au

by Bradley Beer

Scenario 1 – without depreciation claim

Pre-tax cash flow		Post-tax cash flow (taxed at 15% SMSF rate)	
Total loss before tax (income - expenses)	-$7,924	Total loss before tax	-$7,924
Cash position per week	**-$152**	Less reduced tax liability ($7,924 taxable loss x 15%	-$1,189
		After tax cash position (total loss before tax + reduced tax liability)	-$6,735
		Cash position per week	**-$130**

Scenario 2 – with depreciation claim

Pre-tax cash flow		Post-tax cash flow (taxed at 15% SMSF rate)	
Total loss before tax (income - expenses)	-$7,924	Total loss before tax (income - expenses - depreciation claim)	-$23,424
Depreciation claim	$15,500	Less reduced tax liability ($23,424 taxable loss x 15%	-$3,514
Taxable loss including depreciation	-$23,424	After tax cash position (total loss before tax + reduced tax liability)	-$4,410
		Cash position per week	**-$85**

The depreciation estimates in the above case study have been calculated using the diminishing value method of depreciation, are based on a tax rate of 15% and are based on a claim for a property held for a full 12-month period. The reduced tax liability occurs assuming there is additional income generated within the super fund.

Many SMSF trustees have been keen to take up the option to purchase property as part of an SMSF portfolio, now that the law allows this. If an SMSF owns commercial properties, a trustee's business may even rent the premises, provided the corporation pays what is seen to be a fair market value rent.

And smart property investment means claiming appropriate depreciation deductions.

Accountants can play a pivotal role here. They can make clients aware of depreciation and implement a depreciation schedule to reduce tax liabilities and substantiate claims. They can keep accurate records and ensure the right deductions are made.

Claiming depreciation for SMSF properties

As with any other property investment, an investment in real estate by an SMSF creates an entitlement to a capital works deduction for the wear and tear on a building's structure and also for the depreciation of all plant and equipment items contained inside and outside the property.

The deductions claimed from depreciation can greatly reduce a fund's tax liability, so it is important for accountants to contact a specialist quantity surveyor to request a depreciation schedule on behalf of the SMSF.

Let's look at a 'before' and 'after' depreciation scenario for an SMSF that owns a two-bedroom apartment purchased for $620,000. In this case, the property has a rental income of $650 per week, resulting in a total income of $33,800 per annum.

Expenses for the property, such as interest rates, management fees and holding costs, totalled $41,724. Therefore, the SMSF has a tax-deductible loss for this residential property of $7,924 prior to lodging their tax assessment. The tables above show the difference that claiming depreciation will make to a property owned in an SMSF.

Without claiming depreciation, the SMSF is only able to claim $7,924 and reduce the fund's tax liability by $1,189, resulting in a negative cash position of -$130 per week. A typical two-bedroom apartment would expect around $15,500 in depreciation available in the first full year.

By claiming $15,500 in depreciation, the total deductible loss is increased to $23,424. By claiming the 15 per cent on the total deductible loss of $23,424, the SMSF's tax liability will be reduced by $3,514, thereby adding $2,325 to the retirement fund in the first year.

New numbers on asset values

A swag of new rulings and determinations affect how assets will be treated in the books this year.

Terry Hayes is editor-in-chief of the Thomson Reuters Tax News Division and is responsible for Thomson Reuters' full range of tax news services: *Weekly Tax Bulletin*, daily *Latest Tax News* and daily *GST News Alert*. Call (02) 8587 7600 or follow Thomson Reuters on Twitter at @TRAUS.

by Terry Hayes

Read this article online at **pubacct.org.au**

Some annual updates from the ATO about depreciation and improvements for CGT purposes are well worth noting right now:

Effective life of depreciating assets

Taxation Ruling TR 2014/4

This Ruling commenced 1 July 2014 and explains the methodology used by the commissioner in making determinations of the effective life of depreciating assets under s40-100 of the ITAA 1997. It replaces Taxation Ruling TR 2013/4.

To the extent the commissioner's views in that Ruling still apply, they have been incorporated into TR 2014/4. The ATO has prepared a consolidated version of the amended determination, which is set out in the Schedule to the Ruling.

The commissioner has made new determinations, determining the effective life of assets covered by the following descriptions:

- polymer film and sheet packaging material manufacturing;
- railway rolling stock manufacturing and repair services;
- ready-mixed concrete manufacturing;
- scientific research services; and
- waste remediation and materials recovery services.

These determinations, which formerly appeared in the schedules attached to TR 2013/4, are now incorporated in consolidated Tables A and B in the new Schedule to TR 2014/4.

Taxpayers may have to work out the effective life of some assets; however, they will need to be able to justify the basis of that to the ATO.

Note that the removal of assets from Table A or B does not indicate that the commissioner no longer considers them to be depreciating assets. In some cases, the Ruling says it has been due to the difficulties in determining an appropriate effective life that accurately reflects all the facts and circumstances particular to that asset. In these cases, the ATO has put the onus on taxpayers to work out the effective life themselves.

Capital gains: improvement threshold 2014/15

Taxation Determination TD 2014/16

This TD specifies for the purposes of s108-85 of the ITAA 1997, that the CGT improvement threshold for the 2014/15 income year is $140,443 (up from $136,884 that applied for the 2013/14 year). The improvement threshold is determined for the purposes of s108-70 of the ITAA 1997 (when a capital improvement to a pre-CGT asset is a separate asset) and s108-75 of the ITAA 1997 (capital improvements to CGT assets for which a rollover may be available).

Car depreciation limit 2014/15 – no change

Taxation Determination TD 2014/17

This TD states that the car limit for the 2014/15 financial year is $57,466, the same as the previous year. The car limit is used to work out decline in value deductions of certain cars under the income tax law.

The ATO says the index number for the year ended 31 March 2013 was 395.1 and the index for the year ended 31 March 2014 was 384.6, for an indexation factor of 0.973. As the factor is less than 1, the car limit for the current year has not been indexed and remains the same as the previous year.

"The removal of assets from Table A or B does not indicate that the commissioner no longer considers them to be depreciating assets"

Serving up a new system

While most IT talk is about the cloud, many accounting firms continue to run Windows servers – and they may be in need of a refresh.

by David Markus

David Markus is founder and managing director of Combo (combo.com.au), a Melbourne-based IT service and support company. Contact him at info@combo.com.au or on 1300 726 626.

Time is running out for those legacy tools stuck on the millions of Windows Server 2003 machines still in use around the world, in accounting firms and everywhere else. In July 2015, Microsoft will stop patching and supporting Windows Server 2003 – and it is time we had a plan to do something else.

Today, the big buzz is about mobile computing and the 'cloud' – computing over the internet using servers that someone else maintains. But we all know that the cloud is not ready for every solution. The reality is a hybrid of servers and cloud. The servers may well be in a 'private cloud' in a data centre, but they may also be in our own offices.

If you've been buying technology for a long time, you will know that in 1995 there was a battle between Linux, Netware and Microsoft for the server market in business. By 2002, the answer was pretty obvious; by 2008, it was decided; in 2012, with the release of Windows Server 2012, Microsoft locked out the competition for the foreseeable future.

The obvious benefits of Server 2012 are:

- more ways to reduce infrastructure costs of storage, space and power;
- much better for server consolidation through improved virtualisation and management; and
- more features for minimising server downtime.

If you are still dabbling with the competitors, have the expiring 2003 server or simply want some of Windows Server's newest features, now is a good time to consider an investment. Windows Server 2012 R2, released at the end of 2013, contains a number of useful improvements and provides simple, cost-effective computing with very strong user control.

1. You get improved virtualisation capabilities (with both Linux and Windows), which can improve your server efficiency and reduce hardware costs.
2. You can replicate your data to two different locations, which means you can have a backup server in the office and one off site. This gives you peace of mind should your main server fail.
3. You can reduce storage costs by using several hard disk formats in one storage array.
4. By using System Center 2012 R2 Virtual Machine Manager, it is now possible to clone virtual machines or export them without shutting them down. This can speed up migrations with limited downtime for your firm.
5. You can raise or lower the assigned disk space of a running virtual machine without needing a server outage to expand storage space for a server.

In short, this is every bit the latest solid server out of Microsoft and will perform well in your business.

If this conversation is too technical for you, engage with your server vendor for an explanation or for a proposal that will suit your needs. They generally do understand and can help you to get it right.

"We all know that the cloud is not ready for every solution"

What is a virtual machine?

Virtual machine (VM) technology is a collection of software that acts just like a separate computer – a computer within your computer.

The technology has taken off in recent years and Windows Server 2012 R2 further improves Windows Server's VM abilities.

If your firm runs more than one server, you can put all your servers in VMs and run them on a single physical computer. Each virtual machine is an isolated container, minimising security worries. And you can move your VMs between different physical servers.

The rise of the billing scam

The past two years have seen a boom in false billing scams – frauds that demand businesses pay for services they never ordered.

by Dr Michael Schaper

Dr Michael Schaper is deputy chair of the Australian Competition and Consumer Commission. He spoke about these and other advertising issues at the IPA Tasmanian Congress in May 2014.

Online resources

- To keep up to date, visit scamwatch.gov.au and sign up to the radar alerts.
- The ACCC's most recent scam activity report is available at accc.gov.au

Lessons learned

- False billing scams are increasing, with more than 3,600 complaints received and almost $725,000 reported lost in 2013.
- False billing and invoice scams most commonly target small businesses, with 12 per cent reporting money lost.
- Double-checking invoices before paying could save you and your clients thousands of dollars.

The Australian Competition and Consumer Commission is warning about false billing scams, after a 45 per cent surge in complaints and almost $725,000 reported lost in 2013.

False billing scams attempt to trick busy businesses into paying for unwanted and unauthorised listings or advertisements in magazines, journals or business directories.

Often a scam is disguised as an outstanding invoice to get the business to sign up for unwanted advertising or office supplies.

Another common ploy involves sending invoices for the renewal of a non-existent domain name registration. In some cases, false bills and invoices are followed up with phone calls demanding payment or legal threats.

Damage done

Our recent scam activity report found false bills and invoices are the most common scam targeting small businesses, with 3,672 complaints received in the past year. Out of those complaints, 12 per cent of businesses reported money lost.

Scams do not just hit small business owners in the hip pocket; they also waste precious time and resources in dealing with the consequences. A survey conducted by Perth's Curtin University found small businesses can spend up to 20 hours dealing with the fallout of false billing scams.

Disrupting scams

The ACCC is alive to false billing scams, and we have taken action where we can to deter and discourage scammers from targeting Australian small businesses. In 2013, Adepto Publications Pty Ltd and two individuals were penalised a total of $750,000 by the Federal Court, after they admitted to false and misleading representations. Adepto demanded small businesses pay for unwanted and unordered advertising in publications that it claimed were affiliated with charities.

Avoiding false billing scams

If you are responsible for accounts or advise small business clients on their financial management, the following tips can be used to avoid false billing scams.

1. Make sure the business you are dealing with is the real deal – if you receive a form or tax invoice out of the blue, verify who it is by contacting the company directly, using contact details sourced independently through a phone book or online search.
2. Make your business 'fraud-free' – effective management procedures can go a long way towards preventing scams. Have a clearly defined process for verifying and paying accounts and invoices and try to avoid giving too many employees authorisation to make orders or pay invoices.
3. Don't be intimidated – do not let anyone pressure you into making decisions that involve payments or contracts. If you are unsure, always seek independent financial or legal advice.
4. Update your IT security software regularly and make sure you use and offer trusted and secure online payment methods.

The ACCC and the IPA have also banded together to produce Post-it style notes that provide small businesses with a desktop checklist on how to avoid billing scams. The notes will be available via the IPA.

> "Do not let anyone pressure you into making decisions that involve payments or contracts"

Disciplinary Tribunal findings

11 April 2014

Ian Mark Atkinson FIPA

The IPA Board Disciplinary Tribunal (Tribunal) of 11 April 2014 determined that the following case presented against the member was proven:

a) Breached clause 98(2)(a) of the IPA Constitution as the member failed to pay costs of $550 and a fine of $2,000 imposed as penalties by the Tribunal on 18 October 2013;

b) Breached clause 98(2)(h) of the IPA Constitution as the member failed to comply with a reasonable request made by an Officer of the IPA. The member has not responded to letters from the Investigations Officer;

and

c) Breached clause 98(2)(f) of the IPA Constitution as the member is guilty of conduct which is not in the best interests of the IPA. The above constitutes conduct that is not in the best interests of the IPA. The Tribunal further resolved that Mr Atkinson's membership of the IPA is forfeited.

Trevor William John Baldwin FIPA

The IPA Board Disciplinary Tribunal of 11 April 2014 determined that the following case presented against the member was proven:

a) Breached clause 98(2 (a) of the IPA Constitution as the member breached the IPA By-Laws in particular clause 7.1.6. The member failed to comply with a reasonable request made by an Officer of the Institute as the member failed to respond to letters from the Investigations Officer in relation to the requirement to hold an IPA certificate of public practice;

b) Breached clause 98(2)(h) of the IPA Constitution as the member failed to comply with a reasonable request made by an Officer of the IPA. The member did not respond to letters from the Investigations Officer; and

c) Breached clause 98(2)(f) of the IPA Constitution as the member is guilty of conduct which is not in the best interests of the IPA. The above constitutes conduct that is not in the best interests of the IPA.

The Tribunal further resolved that Mr Baldwin's membership of the IPA is forfeited and costs of $550 are imposed.

Details of one other case presented at the Tribunal of 11 April 2014 can be found in the complete listing of Tribunal findings on the IPA website (www.publicaccountants.org.au/about-us/complaint-investigation-member-disciplinary-action/disciplinary-tribunal-decisions).

Register of members

The following list updates the Membership Register of the Institute of Public Accountants. The board of directors extends congratulations to all new members and to those who have advanced in status.

Admitted as AIPA

Australian Capital Territory
Thay R.

New South Wales
Addison E.
Ahling C.
Ahmed R.
Atamian G.
Bartle K.
Bhuiyan S.
Boulos P.
Brombal A.
Chittalwala K.
Cox A.
D'Silva C.
Dadson J.
Day S.
Devantier M.
Gad B.
Gallo M.
Grennan J.
Hassan I.
Islam K.
Karnib N.
Klein E.
Le D.
Lynch T.
Macaulay J.
Mazumder M.
Mirza A.
Mudaliar R.
Naickar R.
Nguyen A.
Oygur S.
Park E.
Robertson S.
Romero Galarza S.
Shaw J.
Shrestha P.
Single M.
Syeda S.
Thompson M.
Tomas C.
Trinh A.

Queensland
Anderson K.
Bavell L.
Beechey H.
Christopher-Blokland M.
Cristea M.
Francis Matos E Silva B.
Gerrett N.
Higgs M.
Kadri S.
Kathage Y.
McDonald J.
Neale P.
Nguyen N.
O'Leary A.
Raniga P.
Reddy S.
Runganga A.
Sanchez B.
Schoemaker K.
Sharma A.

South Australia
Brooks C.
Ellis D.
Emblem K.
Evans N.
Gomes L.
Havard S.
Ingoe L.
Trimboli R.

Tasmania
Styles M.
Vosper T.

Victoria
Abeydeera U.
Awad H.
Bougoure H.
Gilfedder H.
Howe F.
Johnston F.
McKinnon M.
Meagher N.
Pearce K.
Ramayanam P.
Riordan D.
Roy M.
St John N.
Su W.
Van Den Ham N.
Welgama M.

Western Australia
Allen A.
Bezant K.
Calabro C.
Wong S.

Overseas
Khan S.
Mohiy ud Din H.
Nasir M.

Admitted as MIPA

Australian Capital Territory
Anderson I.

New South Wales
Ahmed J.
Angeles V.
Brahmachari J.
Fong R.
Ibrahim S.
Muchtar J.
Peake R.
Pokhrel I.
Prasad R.
Ramien P.
Sharma R.
Singh S.
Tidball T.
Vattiguntа B.
Win T.
Wood A.
Wood N.
Zographakis P.

Queensland
McFillin M.
Voutsis G.

Tasmania
Rosinski K.

Victoria
Chan H.
Chng E.
Cooney B.
Hall I.
Hewko R.
Mirams L.
Walsh P.
Xu H.

Western Australia
Auret K.

China
Yunxia Cao
Yan Ki Chan
Jun Deng
Jianqing Du
Yan Fang
Kexing geng
Lei Guo
Ting He
Yang Huang
Jihuang Jia
Yuming Qiu
Fang Shi
Yongjun Wang
Yanhong Wu
Feng Xiao
Fengguo Yang
Haiping Zhang
Jing Zhu

Hong Kong
Kwai Chung Chan
Siu Lun Cheng
Ka Yi Ku
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Khan L.
Khokhar Mahmood A.
Lau S.
Lotia M.
Muhammad A.
Mustafa Y.
Schott C.
Song Z.
SU M.
Usman A.
Verma S.
Waidyathilaka M.
Zafar Z.
Zia M.

Admitted as FIPA

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Thirunavukarasu T.

Victoria
Kamran M.

Western Australia
Vapiwalla S.

Overseas
Harjnarayanan
Sadasivam M.

Advanced to MIPA

New South Wales
Amigo J.
Collogan D.
Davis B.
Devi S.
Jang B.
Lin L.
Little K.
Purification A.
Raza M.
Shah M.

Queensland
Mitchelson L.

South Australia
Ferraro N.
Hanumanth S.
Zhu M.

Victoria
Connor M.
Dhawale V.
Ganesharatnam V.
Hando M.
Kumar P.
Lan Y.
Li X.
Mirams L.
Overmars L.

Western Australia
Godber D.

China
Cheung Wai Man
Dai Yanqian
Qian Jiahui
Sun Yi Bing

Overseas
Malik N.
Seyon A.
Shrestha R.

Advanced to FIPA

New South Wales
Liang J.

Queensland
Robinson G.

South Australia
Nair R.

Victoria
Laptenko N.
Sureshkumar L.
Vasilevska S.

Western Australia
King K.

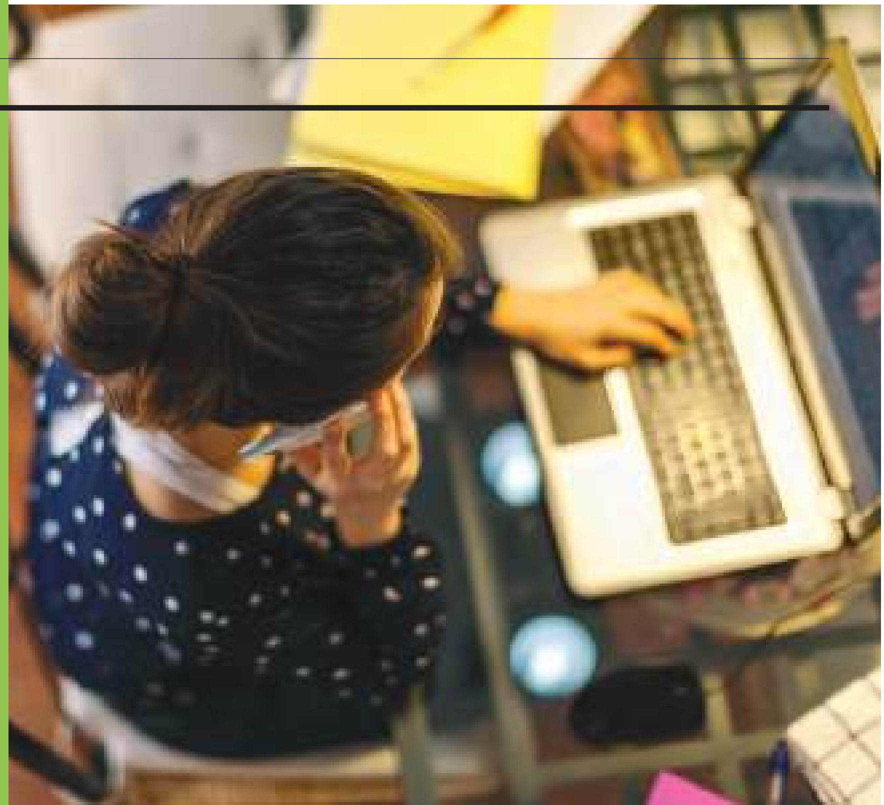
China
Li Yingyuan
Wang Shan

Overseas
Chiam T.
Tan F.

Deceased members
The board of directors notes with regret the passing of the following members:
Veigent Frantisek, MIPA, VIC; Dominic Borgese, FIPA, NSW; Claire Coumbis, FIPA, NSW; Angelo Gambino, FIPA, NSW; Neil Moore, FIPA, NSW; Richard Parkin, FIPA, NSW; Alexander Paska, FIPA, NSW; Keran Freyling, FIPA, QLD; Lynette Kingston, FIPA, QLD

Business directory

To advertise in the business directory, contact Paul Andrew on (03) 9370 0040 or Dennis Lee on (02) 8962 2681.



MIND OVER NATTER

A mountain of research shows just how much we lose by failing to concentrate on ... oh, look, new email!

by Petris Lapis

Read this article online at **pubacct.org.au**

Are distractions such as email and phones making you less productive? There's a good reason why. Using the findings of a brief study by University of London psychiatric researcher Glenn Wilson, Hewlett-Packard has claimed that working while distracted by incoming calls or emails lowers your IQ by 10 points. That would be twice the impact on IQ of smoking marijuana on the job.

> "Almost half the time you are sitting at your desk, your mind is wandering ..."

Your own worst enemy

It isn't the phone, emails, colleagues or clients that provide the most interruptions in your day.

Research shows that your mind wanders involuntarily and distracts itself[1]:

- 47 per cent of the day;
- 65 per cent of the time you spend on personal hygiene; and
- 10 per cent of the time you are having sex.

Almost half the time you are sitting at your desk, your mind is wandering and you are thinking about something else.

The multi-tasking myth

If the phone rings while you are emailing, your brain attempts to help you out by multi-tasking. Sadly, with the exception of some physical activity, researchers have found that your brain cannot do two things at once[2]. Instead, it switches rapidly between tasks.

Researchers at Stanford University found that this rapid switching has some alarming downsides for your productivity and wellbeing[3]. Downsides include:

- It is less efficient. Doing two tasks at the same time will take you 50 per cent longer than if you did them one after the other[4].
- You will make twice as many errors[5].

Is there an answer?

'Mindful' work habits are the key to overcoming distractions.

Mindfulness is a technique involving intentional focus on your own thoughts and emotions. Mindfulness meditation practice, discussed in the April/May 2014 issue of *Public Accountant*, can train your brain to focus and ignore distractions.

Strategies to help overcome distractions and maintain concentration include:

- Switch off the inputs:
  – shut down email;
  – close web browsers;
  – send phone calls automatically to voicemail; and
  – close your door.
- Train people who are distracting you to behave differently.
- Have set times for checking email and other tasks that break concentration.
- Do one thing at a time. Your brain will reward you by being quicker and more accurate.

[1] *Science*, 19 January 2007, Vol 315, 393. MF Mason, MI Norton, JD Van Horn, DM Wegner, ST Grafton, CN Macrae, 'Wandering Minds: The Default Network and Stimulus-Independent Thought' . [2] *Scientific American Mind*, December 2004. K Manhart, 'The Limits of Multi-tasking'. [3] *PNAS*, 15 September 2009, Vol 106, No 37, 15583–15587. E Ophir, C Nass, AD Wagner, 'Cognitive Control In Media Multi-Taskers'. [4] *Journal of Experimental Psychology: Human Perception and Performance*, 2001, Vol 27, No 4, 763–797. JS Rubinstein, DE Meyer, JE Evans, 'Executive Control of Cognitive Processes In Task Switching'. [5] *Journal of Experimental Psychology*, 1995, General 124, 2: 207–231, Table 2 of Experiment Cluster #1 (cross talk conditions). RD Rogers, S Monsell, 'Depth of processing and the retention of words in episodic memory'.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