GAAP ALERT

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COLIN'S CORNER

Revised definition of *materiality* needs your attention

The definition of 'material' in AASB 101 *Presentation of Financial Statements* has been amended and applies to the 31 December balance date for the first time. The changes made by AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* are subtle but significant.

The revised definition: 'Information is material if omitting, misstating or *obscuring* it could *reasonably be expected* to influence decisions that the *primary users* of general-purpose financial statements make based on those financial statements, which provide financial information about a *specific reporting entity*.' (Emphasis added.)

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole. No change there.

Information is obscured if it is communicated in a way that would have a similar effect to omitting or misstating the information for financial-statement primary users. 'Obscured' is a new consideration.

Examples of circumstances that may result in material information being obscured are helpful:

- Information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear
- Information regarding a material item, transaction or other event is scattered throughout the financial statements
- Dissimilar items, transactions or other events are inappropriately aggregated
- Similar items, transactions or other events are inappropriately disaggregated, and
- The understandability of financial statements is reduced because of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by primary users requires an entity to consider users' characteristics and its own circumstances.

Many existing and potential investors, lenders, and other creditors cannot require reporting entities to provide information direct to them. They must rely on general-purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general-purpose financial statements are directed.

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Practice statement 2 *Making Materiality Judgements* and the Frameworks applicable to for-profits or not-for-profits should help in making materiality decisions.

CFOs and auditors should ensure that they identify who are the primary users and the decisions they are likely to make.

As materiality drives accounting standards' recognition, measurement, and disclosure, the revised definition and application guidance should significantly influence how boards, accountants and auditors make their financial-reporting decisions and disclosures.

Don't overlook what is now required of you.

Financial reporting

ASIC focus areas for 31 December

Under COVID-19 conditions, the Australian Securities & Investments Commission expects directors, preparers of financial reports and auditors to pay particular attention to asset values, provisions, solvency and going-concern assessments.

Other focuses include events occurring after year-end and before completing a financial report, disclosures, and the operating and financial review.

Assumptions underlying estimates and assessments should be reasonable and supportable. They should be realistic and neither overly optimistic nor pessimistic.

Disclosures about uncertainties, key assumptions, and sensitivity analysis are important to investors.

OFR should complement the financial report and tell the story of the pandemic's effects on a business. Underlying drivers of results and financial position should be explained as well as risks, management strategies, and prospects.

Appropriate experience and expertise should be applied in reporting, particularly in more difficult and complex areas such as asset values and other estimates.

Directors and auditors should be given sufficient time to consider reporting issues and to challenge assumptions, estimates, and assessments.

Directors should make appropriate enquiries of management to ensure that key processes and internal controls have operated effectively during periods of remote work.

See **Appendix *ASIC focus areas for 31 December 2020 financial reports under COVID-19 conditions*** for further details.

ASIC has also extended by a month the deadline for lodging financial reports for certain balance dates up to and including 7 January.

Our **GAAPinar No. 12 *Reporting and auditing considerations for 31 December*** on 17 December with Colin Parker dealt with unique challenges for accountants and auditors, ranging from new accounting standards to ASIC's and the ACNC's regulatory targets. A recording and PowerPoint notes are available.

ASIC probes 27 listed entities

After reviewing 30 June financial reports of 170 listed entities, ASIC has probed 27 of them about 58 matters.

Other public-interest entities with big users of their reports were also reviewed.

The inquiries were about:

Matter	Number of inquiries
Impairment and other asset values	19
Operating and Financial Review	8
Revenue recognition	7
Tax accounting	4
Provisions	4
Non-IFRS profit measures	4
Operating segments	3
Classification of debt	2
Other matters	7
Total	**58**

Matters involving four of the entities were concluded without any changes to their financial reporting. Inquiries of the remaining 23 entities are continuing.

'Business' definition amended

If a business combination has occurred during the year, remember that AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a business* came into effect on 1 January.

The standard amends AASB 3 *Business Combinations* to clarify the definition of a business, assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- Clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs
- Remove the assessment of whether market participants can replace any missing inputs or processes and continuing to produce outputs
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs, and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Insurers urged to respond to new standard

ASIC is calling on insurers to respond to a new accounting standard for insurance contracts.

AASB 17 *Insurance Contracts* is effective for reporting periods beginning on or after 1 January 2023.

ASIC commissioner Cathie Armour said, 'The new standard can significantly affect the reported financial results of many insurers and […] insurers should be determining the extent of any impact now.

'Directors and management of insurers need to plan for the new standard and inform investors and other financial report users of the impact on reported results.'

Insurers are required to disclose the impacts of the new standard in 31 December 2020 financial reports.

ASIC has outlined a few key matters to be considered as part of any implementation plans. These include identifying changes to accounting treatments, required system changes, business impacts, impacts on compliance with financial requirements, disclosures required in financial reports before the effective dates of the standards, possible continuous disclosure obligations, and the impact on any fundraising or other transaction documents.

Disclosure amendments to interest-rate benchmark reform

The AASB has issued AASB2020-9 *Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments* to amend the Tier 2 (simplified disclosures) requirements in AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

The amendments provide relief for entities applying AASB 1060 from disclosing the financial effects of changing accounting policies in response to interest-rate benchmark reform.

The latest interest rate benchmark reform amendments were addressed in AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2* (issued in September).

AASB 2020-9 also:

- Does not add disclosures to AASB 1060 that would replicate the new disclosures on benchmark reform in AASB 7 *Financial Instruments: Disclosures* (paragraphs 24I and 24J)
- Does not reduce the disclosures for Tier 2 entities reporting under the *Australian Accounting Standards – Reduced Disclosure Requirements* framework, so that such entities will be required to comply with the new disclosure requirements in paragraphs 24I and 24J of AASB 7, and
- Makes several editorial corrections to AASB 1060.

AASB 2020-9 applies to annual periods beginning on or after 1 July 2021.

AASB seeks comments on emerging issues

The AASB's exposure draft 306 *Transition Between Tier 2 Frameworks for Not-for-Profit Entities* proposes limited comparative-information relief for not-for-profit entities adopting AASB 1060 early by transitioning from *Tier 2 – Reduced Disclosure Requirements to Tier 2 – Simplified Disclosures*. Comments are sought by 15 January.

Exposure draft 305 *Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback* proposes to specify the method a seller-lessee uses in initially measuring the right-of-use asset and liability arising in a sale and leaseback transaction. The amendments would also address how the seller-lessee subsequently measures liability. Comments are sought by 21 February.

The AASB is seeking comments by 15 March on post-implementation reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

Comments have been sought on possible new accounting requirements for business combinations under common control – where mergers and acquisitions occur involving entities within the same group. Business combinations under common control are currently excluded from the scope of AASB 3 *Business Combinations*.

The requirements would aim at reducing diversity in practice and improve transparency and comparability in reporting.

A discussion paper sets out the International Accounting Standards Board's view that companies should provide similar information about similar business combinations when the information's benefits to investors outweigh the costs of providing it.

The board suggests that fair-value information should be provided when a business combination under common control affects shareholders outside the group. The suggestion is consistent with existing requirements in AASB 3 for mergers and acquisitions between unrelated companies. In all other cases, it is suggested that book-value information should be provided using a single approach to be specified in IFRS Standards.

Comments Invitation to Comment 42 *Business Combinations under Common Control* are sought by 17 July.

Regulation

Former Leighton executive acquitted

The NSW Court of Criminal Appeal has acquitted former Leighton executive Peter Gregg of two counts of falsifying the company's books.

On 29 August 2019, Mr Gregg was convicted in the NSW District Court of two offences contrary to s 1307(1) of the *Corporations Act 2001*. It was alleged that, as an officer of Leighton Holdings Limited, he engaged in conduct that resulted in the falsification of the books.

Mr Gregg was sentenced to 12 months' jail on count one and two years' on count two to be served concurrently by way of an intensive-correction order. He appealed against both his conviction and sentence.

In allowing the appeal on several grounds, the Court of Criminal Appeal quashed the verdicts of guilty and entered a verdict of acquittal on each count.

ASX

Revised governance principles for ASX listers

As at 31 December, the revised principles and recommendations apply to entities admitted to the Australian Securities Exchange's official list regardless of their legal form and whether they are established in Australia or elsewhere.

Principle	Description
Lay solid foundations for management and oversight	Clearly delineate the respective roles and responsibilities of board and management and regularly review their performance
Structure the board to be effective and add value	The board should be of an appropriate size and collectively have the skills, commitment and knowledge of the entity and the industry in which it operates to enable it to discharge its duties effectively and to add value
Instil a culture of acting lawfully, ethically, and responsibly	Instil and continually reinforce a culture across the organisation of acting lawfully, ethically, and responsibly
Safeguard the integrity of corporate reports	Have appropriate processes to verify the integrity of its corporate reports

Principle	Description
Make timely and balanced disclosure	Make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price and value of its securities
Respect the rights of security holders	Provide its security holders with appropriate information and facilities to allow them to exercise effectively their rights
Recognise and manage risk	Establish a sound risk-management framework and periodically review its effectiveness
Remunerate fairly and responsibly	Pay director remuneration sufficient to attract and retain high-quality directors and design its executive remuneration to attract, retain and motivate high-quality senior executives and to align their interests with the creation of value for security holders and with an entity's values and risk appetite

The principles and recommendations are specifically directed at, and only intended to apply to, ASX-listed entities. But as they reflect a contemporary view of appropriate corporate-governance standards, other bodies may find them helpful in formulating their own governance and practices.

Former Murray Goulburn executives disqualified for continuous-disclosure breaches

The Federal Court has disqualified from managing corporations former Murray Goulburn managing director Gary Helou and former chief financial officer Bradley Hingle.

The move followed an ASIC investigation.

The Court found that Mr Helou and Mr Hingle contravened sections 674(2A) and 675(2A) of the *Corporations Act 2001* on various occasions from 8 March to 27 April 2016 by being knowingly concerned in the failure of MG Responsible Entity Ltd and Murray Goulburn Co-operative Co. Ltd to disclose that:

- There was likely to be a material decrease in MG's earnings guidance for FY16 published on 29 February 2016, and
- The earnings guidance for FY16 was unlikely to be achieved from 8 March to 27 April 2016.

In an agreed statement of facts and admissions, Mr Helou and Mr Hingle admitted to contravening sections 674(2A) and 675(2A) of the Corporations Act.

In handing down judgment, Justice Jonathan Beach said, 'The objectives sought to be served by the continuous-disclosure regime relate to the efficiency and reliability of the capital markets and the accountability of participants in those markets. Contraventions of the continuous-disclosure regime are serious'.

The court ordered the disqualification of Mr Helou and Mr Hingle for three years and two years respectively following their involvement in Murray Goulburn Co-operative Co. Ltd and MG Responsible Entity Ltd's continuous-disclosure contraventions.

They are also required to pay a portion of ASIC's investigation and legal costs.

Sections 674(2) and 675(2) of the Corporations Act require certain disclosing entities to notify the ASX and ASIC of information not generally available that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

On 15 December 2017, the Federal Court ordered MGRE, as trustee and responsible entity for the MG Unit Trust, to pay a pecuniary penalty of $650,000 for contravening its continuous-disclosure obligations.

ASIC restricts Holista CollTech

ASIC has restricted until 17 October Holista CollTech Limited from issuing a reduced-content prospectus and using exemptions for reduced disclosures in fundraising documents.

The decision was based on Holista CollTech's failure to disclose to the market that:

- On or about 29 June last year the company was aware of updated expected revenue from the sale of Natshield of $500,000, having announced expected revenue from Natshield orders of $3.8 million on 9 April. The updated sales figures were announced on 9 July, and
- Testing of the efficacy of Path-Away was being undertaken on a surrogate of COVID-19, a feline coronavirus, and not COVID-19 itself, as Holista had informed the market.

The commission said that the reduced-disclosure privilege depended on compliance with continuous-disclosure obligations.

It found that Holista CollTech's breaches occurred when the market was affected by the pandemic's uncertainty, and that the impact of the breaches was compounded due to several other statements made that were later retracted.

ASIC's investigation into Holista CollTech continues.

ASF licensees

Lease-assets treatment under review

ASIC has issued consultation paper 336 *Financial requirements: Treatment of lease assets*, which seeks feedback on the commission's proposal to change the treatment of lease assets in the calculation of financial requirements applicable to Australian financial-services licensees.

Following the introduction of accounting standard AASB 16 *Leases*, some AFS licensees might find it difficult to comply with financial requirements because intangible assets, excluding deferred tax assets, are not included in satisfying them.

ASIC's proposal will allow AFS licensees to include a right-of-use lease asset in calculations of net tangible assets, adjusted surplus liquid funds, and surplus liquid funds.

The proposal involves changes to:

- ASIC Class Orders [CO 13/760] – *Financial requirements for responsible entities and operators of investor directed portfolio services*
- [CO 13/761] – *Financial requirements for custodial or depository service providers*
- [CO 12/752] – *Financial requirements for retail OTC derivative issuers,*
- The standard conditions in ASIC Pro Forma 209 – *Australian financial services licence conditions,* and
- The existing conditions of each AFS licence.

ASIC cancels Jels AFS licence

ASIC has cancelled the AFS licence of Victorian financial-services provider Jels Financial Group Pty Ltd.

The commission said that Jels had failed to demonstrate that it had the competence or resources to provide financial services as required under its licence.

Under the terms of its AFS licence, Jels was required to have a 'key person'. Following the death of its key person, the company failed to appoint a new one. Jels's sole corporate authorised representative was also insolvent. The company had failed to lodge audited accounts for the 2017-19 financial years.

AFS licensees must lodge annually financial statements and auditor's reports. The lodgements demonstrate that they have the financial resources to provide services covered by their licence and to conduct their business lawfully. ASIC may suspend or cancel a licence if the licensee fails to meet this obligation.

ASIC cancels AFS licence of Selectinvest

ASIC has cancelled the AFS licence of Western Australian financial services provider, Selectinvest Pty Ltd.

The licence was cancelled because Selectinvest failed to maintain its external dispute resolution membership with the Australian Financial Complaints Authority and had failed to lodge its annual financial and audit reports since 2017.

Under the Corporations Act, ASIC may suspend or cancel an AFS licence if the licensee fails to meet its obligations under s912A. This includes the obligation to hold membership of a dispute resolution system.

AFS licensees must lodge their financial statements and auditor's reports annually. Licensees must do this to demonstrate they have the financial resources to provide the services covered by their licence and to conduct their business lawfully.

ASIC expects AFS licensees to do all things necessary to meet their obligations under financial services laws, comply with their licence conditions, and ensure that the financial services covered by the licence are provided efficiency, honestly and fairly.

Ethics

Revised APES 305 *Terms of Engagement* issued

The Accounting Professional & Ethical Standards Board has issued a revised APES 305 *Terms of Engagement* to replace the August 2019 version.

Key changes include:

- A new subsection on matters to be considered for inclusion in an engagement document when a member in public practice uses an outsourced service or cloud computing
- Inclusion of guidance to consider APES GN 30 *Outsourced Services*
- A requirement that where outsourced services are used, the member must give clients details about the service provider, including where the services will be performed and their nature and extent, and
- New application material on communicating with clients about cloud computing that is not an outsourced service.

The revised APES 305 will be effective for engagements commencing on or after 1 July, with early adoption permitted.

Audit

ASIC's latest audit-inspection findings

Auditors were failing to ensure that financial reports were free of material misstatements, the latest ASIC report on audit-firm inspections has revealed.

The findings in report 677 found that auditors did not, in the commission's view, obtain reasonable assurance that financial reports were free from material misstatement in 27 per cent of 179 key audit areas that it reviewed across 53 audit files.

The report detailed results for 12 months to 30 June last year. The counterpart figure for 2019 was 26 per cent.

Most adverse findings were in the audit of asset values, particularly impairment of non-financial assets, and the audit of revenue.

ASIC commissioner Cathie Armour said, 'Audit firms need to work on improving audit quality and significantly reducing the number of instances where auditors do not obtain reasonable assurance that a financial report is free of material misstatement.

'The current findings suggest firms' action plans have not sufficiently improved audit quality. Firms must strengthen existing initiatives and implement further new initiatives to improve audit quality. This includes enhancing a culture focused on audit quality, the experience and expertise of partners and others, supervision and review of audits, and accountability of partners and others for audit quality.'

To assist auditors, ASIC's report includes better-practice recommendations from its reviews of conflicts of interest, governance, and accountability for audit quality. The report also includes focus areas for audits in COVID-19 conditions.

ASIC expects the report to interest the audit firms inspected or otherwise as well as directors, audit committees, investors, and other interested stakeholders.

ASIC report 678 *Audit quality measures, indicators, and other information: 2019–20* provides audit-quality measures, indicators, and other information to supplement the commission's audit-inspection findings.

It includes information from the biggest six audit firms showing that firms caused 78 material corrections to net assets and profit after tax before the release of financial reports of the biggest 300 ASX-listed Australian entities for financial years that ended from 1 April 2019 to 31 March 2020.

Final report released on audit inquiry

The Commonwealth Parliamentary Joint Committee on Corporations and Financial Services has released its final report into the *Regulation of Auditing in Australia.*

The report confirms all 10 recommendations made in an interim report tabled in February. The timelines and thresholds have been reconsidered because of COVID-19.

Revised auditing-estimates standard operative

The revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* is operative for 31 December year-ends for the first time.

The standard deals with an auditor's responsibilities relating to accounting estimates and related disclosures in an audit of a financial report.

It includes requirements and guidance that refer to, or expand on, how ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment,* ASA 330 *The Auditor's Responses to Assessed Risks.* ASA 450 *Evaluation of Misstatements Identified during the Audit* and ASA 500 *Audit Evidence*, and other relevant standards are to be applied to estimates and related disclosures.

It also includes requirements and guidance on the evaluation of estimates misstatements and related disclosures as well as indicators of possible management bias.

Our **GAAPinar No. 4** ***Another look at auditing accounting estimates and related disclosures through illustrative examples*** on 17 November last year examined estimates and disclosures, and the pandemic has made them even more tricky to get right. A recording and PowerPoint notes are available.

Revised review standard operative

ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* is operative for financial-reporting periods commencing on or after 1 July 2020.

The standard deals with an auditor's responsibilities when undertaking a report review. It also examines the review's form and content.

Our **GAAPinar No. 7** ***Implementing the revised auditing standard on a review of a financial report*** with Colin Parker on 3 December provided an insight into the 65-page ASRE 2410 – audit partners must understand the new rules and their business impacts. A recording and PowerPoint notes are available.

Revised *Agreed-upon Procedures* standard issued

The Auditing and Assurance Standards Board has released a revised version of ASRS 4400 *Agreed-upon Procedures Engagements* to respond to a growing demand for such engagements.

The revised requirements and application material include enhancements on the exercise of professional judgement, compliance with independence requirements, engagement acceptance and continuance considerations, using the work of a practitioner's expert, and greater clarity and transparency in an agreed-upon-procedures report.

The Australian version of the standard conforms with the International Standard on Related Services Engagements ISRS 4400 *Agreed-Upon Procedures Engagements*, and includes the following Australian-specific amendments:

- Additional requirements that restrict the use of AUP reports to intended users identified in the report
- A requirement for an AUP report to include an explicit statement that the practitioner has complied with the principle of objectivity
- Changes to the wording relating to independence in the illustrative-example engagement letter for situations where the practitioner is independent, and
- An additional appendix containing a table of differences between an AUP engagement and an assurance engagement.

ASRS 4400 is operative for agreed-upon-procedures engagements for which the terms of engagement are agreed on or after 1 January 2022, early adoption permitted.

COVID-19 Snapshot of Auditor Reporting released

The 35-page *AUASB Research Report 5: COVID-19 Snapshot of Auditor Reporting in Australia* provides a summary and analysis of auditor reporting for listed entities over the June 2019 and 2020 reporting seasons, focussing on the impact of the pandemic.

The June 2020 reporting period was extremely challenging, and the AUASB has researched the impact of COVID-19 on auditor reporting and tried to identify issues requiring an AUASB response.

The report findings show that, although the impact of COVID-19 was significant, the level of going-concern reporting and modifications in auditors' reports was lower than in previous years. This is possibly attributable to government and other financial assistance to entities during the crisis.

New FAQs on automated tools and techniques

The International Auditing and Assurance Standards Board tech working group has released new FAQs on using automated tools and techniques to identify material misstatements.

The questions partner International Standard on Auditing 315 (Revised 2019) *Identifying and Assessing Risks of Material Misstatement.*

The publication assists auditors to understand the types of automated tools and techniques that can be used to perform risk assessments.

It also addresses the use of machine learning or artificial intelligence when performing risk assessments.

Auditor-remuneration disclosures compared

AASB research report 15 *Review of Auditor Remuneration Disclosure Requirements* compares Australian and selected overseas jurisdictions' auditor-remuneration disclosure requirements.

It identifies factors that might be considered in implementing a parliamentary recommendation on fee-disclosure requirements.

The comparison shows that Australia currently requires disclosure of a relatively low level of disaggregation of auditor remuneration.

The report outlines one of the considerations for improving the quality of auditor remuneration disclosures to specify required disclosure categories of the allowed 'non-audit services' and related remuneration such as audit-related services, taxation services, other assurance services, and all other non-audit services.

The report considers whether current requirements (including terminology used) are consistently interpreted and applied, and whether accounting standards and the *Corporations Act 2001* requirements could be better aligned.

It aims to form the basis for the AASB's working collaboratively with regulators, other standard-setters, users, preparers, and other stakeholders to reach a clear, effective, broadly accepted and improved framework for financial reporting (and assurance) on auditor-remuneration disclosures.

Fraud-discussion deadline extended

The IAASB has decided to extend to 1 February the due date to respond to its discussion paper *Fraud and Going Concern in Audit of Financial Statements.*

Bar raised for quality management

The IAASB has released three quality-management standards that promote a robust, proactive, scalable, and effective approach to quality management and mark a significant evolution in standards.

'These standards will drive the audit profession to an enhanced approach to quality "management" rather than "control", which better enables the consistent performance of quality engagements, including audits', said IAASB chair Tom Seidenstein.

'The standards place greater responsibility on firm leadership for continuously improving the quality of their engagements and remediating when deficiencies are found. When effectively implemented, the standards should help ensure that a commitment to quality is at the heart of firm strategy and operations.'

The standards are:

- International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- ISQM 2, *Engagement Quality Reviews;* and
- International Standard on Auditing 220 (Revised), *Quality Management for an Audit of Financial Statements.*

At the AUASB December meeting the board discussed rolling them out. They become effective on 15 December 2022.

INSIDE GAAP CONSULTING

Recordings of our latest GAAPinars are available

The *GAAP Consulting* experts recently dissected the topics you need to know about in 12 GAAPinars, each of 90 minutes. That's 18 CPD hours.

The latest info was provided on:

Subject	Session
Financial reporting	• *Lessons from first-year reporting under AASB 16 Leases* • *Date and rules set for removal of SPFRs* • *NFP lessons from first-year reporting revenue standards and SPFS disclosures* • *Latest NFP and ACNC developments and insights*
Audit	• *Another look at auditing accounting estimates and related disclosures through illustrative examples* • *Getting compliant with laws and regulations right* • *Implementing the revised auditing standard on a review of a financial report* • *The latest on identifying and assessing the risks of material misstatement*
Business risks	• *What's new with accounting, auditing and ethical standards and the regulators?* • *COVID-19 –the ongoing financial reporting, auditing and regulatory developments* • *The latest legal developments affecting accountants, auditors and their clients* • *Reporting and auditing considerations for 31 December*

Recordings are available for anyone who missed a session. Order at www.gaaptraining.com.au or contact Andrew on 0401 858 889 or andrew@gaaptraining.com.au.

Latest *NFP Risks and Compliance* newsletter

GAAP Consulting's December-quarter edition of its *NFP Risks and Compliance* newsletter has been circulated to accounting-firm subscribers.

The newsletter aims to help accounting firms keep their current and potential NFP clients informed. It helps enormously when auditors can demonstrate expertise, knowledge and experience.

Topics covered in the latest newsletter were:

Governance
- Targeted funding critical for NFPs' survival
- Thoughts on paying NFP boards
- Revised corporate principles take effect
- IIA issues helpful governance tools

Financial reporting insights
- New SPFS disclosures take effect
- Revised definition of *materiality* operative
- ASIC focus areas for 31 December
- COVID-19 and going concern
- New AASB FAQs on initial recognition of an asset
- New disclosure standard for Tier 2
- Proposals for transition between reporting tiers
- Report reviews NFPs' service-performance reporting

ACNC activities
- ACNC reports more than $195 million in revenue errors in 2018
- Know to whom you must report
- ACNC releases annual report
- Charity risk review program introduced
- Registration of hundreds of charities revoked
- Check your NFP's purpose
- ACNC sets up a COVID-19 webpage
- Amendments to reporting thresholds on the way
- Sanctions for National Redress Scheme non-joiners

Deductible-gift recipients
- Check your tax-deductible gift status
- 'In Australia' defined
- Bill proposes DGRs to be registered as charities
- ACNC urges PBIs to check their details

Fundraising
- Bushfire royal commission report released
- FIA releases guidance on disaster fundraising
- Fundraising laws to be 'harmonised'

Compliance
- Court rules on new rights for casual employees
- Recognising a superannuation liability for contactors
- Casual workers' overtime updated
- ACNC urges charities to prevent fraud and cybercrime
- Whistleblower policy reminder

At last count, there were about 600,000 NFPs in Australia, including more than 58,630 charities … a great market for accountants in public practice and auditors. Brand our NFP newsletter as if it was yours. Showcasing your knowledge and expertise is a bonus when catching up with NFP clients.

Please contact me if you would like to know more – colin@gaap.com.au or 0421-088-611.

Appendix *ASIC focus areas for 31 December 2020 financial reports under COVID-19 conditions*

Focus	Explanation
Factors affecting asset values, provisions and assessments of solvency and going concern	Factors to consider: • Business and domestic/international economic factors • Industry-specific factors • Impact on customers, borrowers, and lessees • Impact on supply chains • Exposures to overseas operations, transactions, and currencies • Short-term versus long-term conditions • Duration of containment measures and business closures • Extent and duration of assistance and support by governments and others • Impact on short-term operating cash flows • Debt refinancing, borrowing covenants, lender forbearances and liquidity support • Modifications of debt and lease contracts • Capital raising • Management plans and response to the pandemic impacts. These factors may also be relevant in assessing the ability of an entity's borrowers and debtors to meet their obligations to the entity, and the ability of key suppliers to continue to provide good and services to the entity.
Asset values – impairment of non-financial assets	Goodwill, indefinite useful life intangible assets and intangible assets not yet available for use must be tested for impairment annually. Entities adversely impacted in the current environment may have indicators of impairment that require impairment testing for other non-financial assets. The appropriateness of key assumptions supporting the recoverable amount of non-financial assets. Given uncertainties, it may be necessary to use probability-weighted scenarios in making estimates of both fair value and value in use. In those cases, modelling risk may still need to be factored into the discount rate used in a discounted cash-flow model. Disclosure of estimation uncertainties, key assumptions, and sensitivity analysis or information on probability-weighted scenarios. Key assumptions may include assumptions relating to the factors listed at the start of this attachment.
Asset values – values of property assets	Factors adversely affecting the values of commercial and residential properties should be considered, despite any absence of market transactions. These include: • Expected changes in office work practices affecting future space requirements of tenants • Possible changes in consumer preferences between 'bricks and mortar' retail and on-line shopping • Economic or industry impacts on future tenancy • Changes in the financial condition of existing tenants, and • Restructuring of agreements with tenants. The recent new lease accounting requirements, the treatment of rental concessions by lessors and lessees, and the impairment of lessee right-of-use assets. ASIC's FAQs discuss the accounting for rental concessions by lessors and lessees.
Asset values – expected credit losses on loans and receivables	The appropriateness of key assumptions used in determining expected credit losses. Assumptions should be reasonable and supportable. Any need for more reliable and up-to-date information about the circumstances of borrowers and debtors? Short-term liquidity issues for borrowers and debtors, as well as the financial condition and earning capacity of borrowers and debtors. Do not apply a mechanistic approach in determining expected credit losses for loans or for receivables. Past models and historical experience may not be representative of current expectations. This applies to all loans and receivables, including a bank's loan assets and a manufacturer's trade receivables. A probability weighting of possible scenarios may be needed. Whether the rebuttable presumptions in the relevant accounting standard for loans in arrears for 30 days or 90 days being moved into higher categories for assessing credit losses can be rebutted under current loan repayment deferral arrangements for some borrowers who may have short-term liquidity issues but who are expected to meet their obligations thereafter. Disclosure of estimation uncertainties and key assumptions.
Asset values – values of other assets	The value of inventories, including where demand decreases, and inventory levels increase. Whether it is probable that deferred tax assets will be realised. The impact of COVID-19 on the value of investments in unlisted entities.
Provisions	Consideration should be given to the need for provisions for matters such as onerous contracts, financial guarantees given and restructuring.
Subsequent events	Events occurring after year-end and before completing the financial report should be reviewed as to whether they affect assets, liabilities, income, or expenses at year-end or relate to new conditions requiring disclosure. For example, information on receipts after year-end might provide more information on the recoverability of loans or receivables at year-end.

Focus	Explanation
Disclosures – general considerations	When considering the information that should be disclosed in the financial report and OFR, directors and preparers should put themselves in the shoes of investors and consider what information investors would want to know. Disclosures should be specific to the circumstances of the entity, its businesses, its assets and its financial position and performance.
Disclosures in the financial report	Uncertainties may lead to a wider range of valid judgements on asset values and estimates. The financial report should disclose uncertainties, key assumptions, and sensitivities. This will assist investors in understanding the approach taken, understanding potential future impacts, and making comparisons between entities. Entities should also explain where uncertainties have narrowed since the financial report or the half-year to 30 June 2020. Disclosures may include information on probability-weighted scenarios supporting judgements on asset values and other assessments. The appropriate classification of assets and liabilities between current and non-current categories on the statement of financial position should be considered. That may have regard to matters such as maturity dates, payment terms and compliance with debt covenants.
Disclosures in the OFR	The OFR should complement the financial report and tell the story of how the entity's businesses are impacted by COVID-19. The overall picture should be clear and understandable and be supported by information that will enable investors to understand the significant factors affecting the entity, its businesses, and the value of its assets. The OFR should explain the underlying drivers of the results and financial position, as well as risks, management strategies and prospects. Significant factors not attributable to the pandemic should be included and given appropriate prominence. For example, asset impairment or reduced performance may be due in whole or part to other factors that were already present or developing such as changes in consumer preferences and demand for products, new competitors, or increased supply costs.
Disclosure – assistance and support by governments and others	Entities should appropriately account for each type of support and assistance from government, lenders, landlords and others. Both the financial report and OFR should prominently disclose material amounts, the commencement date and expected duration of support or assistance. Examples include JobKeeper, land tax relief, loan deferrals and restructuring, and rent deferrals and waivers.
Disclosure – non-IFRS financial information	Any non-IFRS profit measures in the OFR or market announcements should not be presented in a potentially misleading manner. Where a net tangible asset figure is presented by a lessee, there should be a prominent footnote on the same page explaining whether some, all or no lease right-of-use assets have been included. Disclosing the dollar impact on EBITDA of adopting the new lease standard. EBITDA no longer includes an expense for lease payments made by a lessee under leases that would have previously been classified as operating leases.
Disclosure in half-year reports	Disclosure will also be key for half-year financial reports and directors' reports as at 31 December 2020. These half-year reports may need to include significant disclosure about developments and continuing impacts since 30 June 2020 of COVID-19 conditions and other significant factors.
Documentation	The circumstances in which judgements on accounting estimates and forward-looking information have been made, and the basis for those judgements, should be properly documented at the time and disclosed as appropriate. This will minimise the risk that hindsight is applied when information, estimates and judgements are reviewed by others later. Any assumptions, estimates, assessments, and forward-looking information should have a reasonable basis, and the market should be updated through continuous disclosure if circumstances change.
Other matters	Considerations might include hedge effectiveness, sales returns, and off-balance sheet exposures.

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