



COLIN'S

CORNER

First *Fraud and NOCLAR* newsletter released

The fraud and NOCLAR section of *GAAP Alert* has become very popular. So much so that its content has been expanded into a quarterly newsletter called *Fraud and NOCLAR*. I suspect it's something you can't do without.

The first edition has just been released. The newsletter seeks to help directors, executives and managers to reduce the risks of corporate misbehaviour and corral the damage when it does occur. We hope that this means more accurate financial reporting, compliance, and accountability. And better risk-management.

Fraud and NOCLAR will:

- Detail changes in regulations that affect fraud and NOCLAR and the risks and responsibilities they pose for governance, management, accountants, and auditors
- Give tips and tools to help prevent and detect fraud and NOCLAR, and
- Alert readers to instances of fraud and NOCLAR so that they may assess likely similar threats to their businesses.

In the first edition, we reported on:

- Steps to minimise fraud and non-compliance risks
- Whistle-blowing developments
- High profile instances of fraud and NOCLAR, and
- Resources available to help you to identify trends in fraud, bribery, and non-compliance.

Insights into fraud-prevention and detection techniques are provided as well as what to do when fraud or NOCLAR is suspected.

The newsletter informs, but it's also a call to action for governance, management, stakeholders, and auditors.

I am delighted to be a contributor to *Fraud and NOCLAR* and have organised with *ReportFraud* to share the first edition with you.

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FINANCIAL REPORTING

Amendments improve accounting policy disclosures

The International Accounting Standards Board has issued narrow-scope amendments to IAS 1 *Presentation of Financial Statements* and IFRS practice statement 2 *Making Materiality Judgements*.

The amendments will help companies:

- Improve accounting-policy disclosures so that they provide more useful information to investors and other primary users of financial statements, and
- Distinguish changes in accounting estimates from counterparts in accounting policies.

The amendments to IAS 1 require companies to disclose their material accounting-policy information rather than their significant accounting counterparts. The amendments to IFRS practice statement 2 provide guidance on how to apply the concept of materiality to accounting-policy disclosures.

The board has also issued amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. They clarify how companies should distinguish changes in accounting policies from changes in estimates.

The distinction is important, because changes in estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and events.

The amendments to IAS 1 and IAS 8 will be effective for annual reporting periods beginning on or after 1 January 2023, early application permitted.

Feedback sought on charities' reporting thresholds

The Council on Federal Financial Relations has asked that a framework for increasing harmonised financial-reporting thresholds for charities registered with the Australian Charities and Not-for-profits Commission be announced by 30 June.

A thresholds working group of state, territory, and commonwealth government officials is developing the framework.

The group seeks the views of stakeholders.

A consultation paper *Increasing harmonised financial reporting thresholds for ACNC registered charities* provides a snapshot of present regulatory arrangements, outlines proposed new reporting thresholds, and sets out key issues for consideration during the consultation.

The paper includes specific areas in which the group seeks feedback.

You may either complete a survey or lodge a submission to indicate your views on the proposal. The survey will be anonymous unless you provide an email address to receive notification of new thresholds and their implementation schedule.

Email your response to Thresholds@treasury.gov.au or post to the Thresholds Working Group Secretariat, Not-for-profit Unit, Individuals and Indirect Taxes Division, Treasury, Langton Crescent, Parkes, ACT 2600.

You can submit responses until 11:59pm on 21 March.

AASB proposes extending rent concessions

An Australian Accounting Standards Board exposure draft proposes a year's grace in accounting for rent concessions brought on by COVID-19.

Covid-19-Related Rent Concessions beyond 30 June 2021 extends a practical expedient added last year to AASB 16 *Leases*.

An original amendment issued in June last year made it easier for lessees to account for COVID-19 rent concessions, such as holidays and temporary reductions, while continuing to provide information about leases to investors.

The amendment permitted lessees, as a practical expedient, not to assess whether particular rent concessions provided because of the pandemic were lease modifications. The relief applies to rent concessions that reduce lease payments due on or before 30 June this year.

The draft proposes to extend the relief to cover concessions that reduce lease payments due on or before 30 June next year.

AASB proposes new model on regulatory assets and liabilities

The AASB's exposure draft 307 *Regulatory Assets and Regulatory Liabilities* proposes a new model that would require companies subject to rate regulation to give investors better information about their financial performances.

The proposed model would require entities to:

- Recognise regulatory assets and liabilities in the statements of financial position
- Recognise regulatory income and expense in the statements of financial performance, and
- Measure regulatory assets and liabilities on a modified historical-cost basis, reflecting updated estimates of future cash-flows that would arise from the measurements.

The proposals would replace AASB 14 *Regulatory Deferral Accounts*, an interim standard that permits a variety of accounting approaches for the effects of rate regulation to continue temporarily but only where they are applied in accordance with generally accepted accounting principles before adopting Australian accounting standards.

Intangibles and goodwill insights

Balance-sheet intangibles and goodwill as a percentage of assets have increased over the past decade.

A new study by CA ANZ and Melbourne University has analysed recognition levels of intangibles and goodwill in 121 developed countries. Companies are categorised by their size and sector.

Despite its wordy title, *How long is the piece of string? Intangibles and goodwill on balance sheets worldwide, in Australia and New Zealand* is relevant to questions raised by the International Accounting Standards Board in its recent discussion paper *Business Combinations — Disclosures, Goodwill and Impairment*. The study is also relevant to value-creation in general.

Some \$US8 trillion in goodwill was recognised on company balance sheets worldwide in 2020, says the IASB, which is consistent with the CA ANZ study. In Australia, \$A111 billion was recognised, and in New Zealand the counterpart figure was \$NZ5.54 billion.

The CA ANZ analysis reveals that:

- Intangibles and goodwill on balance sheets as a percentage of assets have been increasing over the past two decades

- The distribution in the amount of goodwill and intangibles recognised as a percentage of assets is skewed
- About 20 per cent of firms impair goodwill every year
- Impairment frequency and magnitude imply an effective close to complete write-downs of goodwill to zero over a 15-year period
- There is no evidence of goodwill being overvalued for large companies

- There is worldwide evidence for over-valuation of goodwill for some smaller companies, and
- The most significant issue associated with the measurement of goodwill is the level of uncertainty associated with forecasting future benefits.



ETHICS

Revised engagement-terms standard issued

The Accounting Professional & Ethical Standards Board has issued a revised APES 305 *Terms of Engagement*.

Key changes in the revised standard include:

- A new subsection on matters to be considered for inclusion in engagement documents when a member in public practice uses an outsourced service or cloud computing
- Inclusion of guidance to consider APES GN 30 *Outsourced Services*
- Where outsourced services are used, the member must document and communicate

to the client the details of the outsourced service provider, the geographic location, where outsourced services will be performed and their nature and extent, and

- New application material on communicating with clients about using cloud computing that is not considered outsourced.

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

New guidance on COVID-related business support

Staff of the UK Financial Reporting Council and the International Ethics Standards Board

for Accountants have jointly released *Ethical and auditing implications arising from government-backed Covid-19 business support schemes*.

The publication highlights ethical and auditing implications arising from government-backed business-support programs that have been taken up at unprecedented levels during the pandemic.

The guidance sets out important ethical considerations for professional accountants who help employers and clients apply for COVID-19-related funding.

The document includes guidance for preparers of related financial information and disclosures and those who independently audit or provide assurance services.



AUDIT

Help with auditing accounting estimates

Auditing accounting estimates continues to be the area with the most findings in reports by the Australian Securities & Investments Commission.

So much so that the Auditing and Assurance Standards Board has a dedicated portal on its website about auditing estimates.

A series of FAQs provides answers to potential implementation problems that stakeholders seek clarification on. They include questions related to professional scepticism, risk assessment, using management's experts, disclosures, and documentation – particularly helpful in audit planning.

Auditors are encouraged to read ASA 540 resources and the FAQs.

Guidance enhanced on engagement-quality reviews

The International Ethics Standards Board for Accountants has released revisions of *The International Code of Ethics for Professional Accountants (including International Independence Standards)* addressing the objectivity of an engagement quality reviewer and other appropriate reviewers.

The project dovetailed with the International Auditing and Assurance Standards Board's development of *International Standard on Quality Management 2 Engagement Quality Reviews*, which was finalised in December 2020.

The revisions provide guidance that supports ISQM 2 in addressing the eligibility of an individual to serve in an EQR role, focusing on the critical attribute of objectivity.

The guidance:

- Elaborates on the need to identify, evaluate, and address threats to compliance with the fundamental principle of objectivity that might arise in the appointment of an individual as an EQR
- Explicitly refers to and supports the requirement in ISQM 2 for a firm to establish, as a condition for eligibility, a cooling-off period of two years before an engagement partner can assume the EQR role on the same engagement, and
- Emphasises that this cooling-off requirement in ISQM 2 serves the dual objective of supporting compliance with the fundamental principle of objectivity while aiming for high quality.

The enhanced guidance will become effective December 2022.

IESBA proposes revised PIE definitions

The IESBA has released for comment the exposure draft *Proposed revisions to the definitions of listed entity and public interest entity in the code*.

The proposed revisions broaden the definition of a public-interest entity to include more categories.

They:

- Introduce an overarching objective for additional requirements to enhance confidence in the audit of PIEs' financial statements
- Provide guidance on factors to consider when determining the level of public interest in an entity
- Broaden the definition of PIE to additional categories of entities
- Replace the term 'listed entity' with the term 'publicly traded entity' and redefine the category
- Introduce new requirements for firms to determine if additional entities should be treated as PIEs for independence purposes, and to disclose publicly if an audit client was treated as a PIE, and
- Recognise and encourage local regulators to refine PIE categories according to national conditions.

PIE-category specifications vary given a wide diversity in national PIE definitions that necessarily reflect local circumstances.

The IESBA expects regulators, national standard-setters, and other relevant local bodies to refine high-level categories so that the right entities in local contexts are captured.

Comments are requested by 3 May.

What committee chairs think of audit quality

The Auditing and Assurance Standards Board has released *Audit Quality in Australia: The Perspective of Audit Committee Chairs*.

Audit-committee chairs are important – they play an integral role in aiding and assessing the performance and quality of their external auditors.

The AUASB report details the results of a survey and gives further insights on chairs' perspectives. The report aims to help audit committees and auditors improve quality and ultimately the integrity of financial reporting.

IAASB seeks comments on QMS amendments

The International Auditing and Assurance Standards Board is requesting public comments on its exposure draft *Conforming and Consequential Amendments to the IAASB's Other Standards as a Result of the New and Revised Quality Management Standards*.

The draft aligns the IAASB's standards on review, assurance, and related services with quality-management standards through conforming amendments. This ensures that the board's international standards continue to be applied as intended.

Proposed changes will modify IAASB standards to reflect aspects of a new quality-management approach and emphasise the importance of firm-level quality management.

Comments are requested by 24 May.

UK FRC updates operational-separation principles

The UK Financial Reporting Council has updated principles for operational separation of audit practices.

The FRC has made the changes following its analysis of firms' implementation plans. It aims:

- To clarify that services provided to non-audited entities should be commissioned by those charged with governance at the entity or be assurance services for third-party recipients
- To increase the minimum proportion of revenue within the ring-fence that must be derived from audit, and
- To confirm that an audit practice should not receive fees for introducing business to other parts of a firm and that partners in a practice should not be incentivized for sales passed to other parts of a firm.

The objectives of operational separation are to ensure that audit practices are focused on delivering high-quality audits in the public interest and that they do not rely on persistent cross-subsidy from the rest of a firm.

The FRC's desired outcomes include:

- Audit-practice governance prioritises audit quality and protects auditors from influences from the rest of a firm that could divert focus away from audit quality
- The total amount of profits distributed to the partners in an audit practice does not persistently exceed the contribution to profits of the audit practice
- The culture of the audit practice prioritises high-quality audit by encouraging ethical behaviour, openness, teamwork, challenge, and professional scepticism/judgement, and
- Auditors act in the public interest and work for the benefit of shareholders and the wider society.



FRAUD & NOCLAR

First edition of *Fraud and NOCLAR* newsletter released

In the first edition of the *Fraud and NOCLAR* newsletter Colin Parker, Stephen Newman and Andrew Parker shared news and insights on more than 15 topics. They were:

Prevention and detection

- Eleven steps to minimise fraud and non-compliance risks
- New ethical guidance on whistleblowing
- Why internal whistleblowing hotlines fail

- Fraud in the wake of COVID-19
- Improper revenue recognition is top fraud
- Once you suspect a fraud

Recent frauds

- Former NAB chief-of-staff jailed
- Executives charged with theft
- Financial adviser pleads guilty to siphoning \$2.9 million
- Sydney liquidator pleads guilty to fraud

NOCLAR

- Dusk back-pays millions
- Toy retailer fined for deliberate breaches

- Disability Services back-pays \$1.6 million

Items of further interest

- AUSTRAC releases junket-tour assessment
- AUSTRAC reports due by 31 March
- Commonwealth Integrity Commission nears
- Standard-setters seek feedback on fraud
- Whistleblowing-policy reminder
- Upcoming GAAPinars

You can register for *ReportFraud* at <https://reportfraud.org.au>

Remember the ReportFraud whistleblowing service

ReportFraud is a cutting-edge fraud-protection tool you need to have. It's designed to safeguard your organisation from fraud, non-compliance with laws, bribery, and corruption 24 hours a day, seven days a week. It allows whistleblowers to report unethical activity safely and – most importantly – anonymously.

Use ReportFraud because it:

- Allows whistleblowers to report by web portal, email, and smartphone
- Ensures their anonymity
- Helps your organisation select an internal fraud-contact person
- Sends a report of a whistleblower's alleged fraud to him or her within 24 hours
- Is available 24/7, every day of the year
- Provides tools and quarterly newsletters to help manage your fraud risks
- Safeguards sensitive company information

- Complies with Australian law, and
- Is an independent third-party.

Once the fraud is assessed and reported, ReportFraud offers several ways of dealing with it.

An annual subscription to ReportFraud is based on employee numbers. It usually works out to be the cost of a cup of coffee per person.

Can you afford NOT to investigate how ReportFraud can help your organisation?



TRAINING

GAAPinar series 1 2021 starting soon

GAAP Consulting's April-June GAAPinar series details what you need to know. You'll get expert and up-to-the-minute intelligence on financial reporting, auditing, ethics, self-managed super funds, and business risks. Your questions will be answered.

Our GAAPinar program allows your team members to participate remotely and recordings are provided for later viewing.

Our topics are highly relevant for 30-June reporters and beyond.

We're covering the topics that you need the latest and best information about. Here they are.

Financial reporting

- Preparing for the second year of *Leases*
- Special-purpose financial statements – stepping through the transition
- Refreshing our knowledge of AASB 138 *Intangibles*
- Solvency, liquidity, and going concern
- Cash-flow statements, presentation and auditing

Audit

- Planning the 2021 audit
- Checking on the fraud-risk assessment
- Fresh look at review-engagement standards
- 30 June audit check-up – stocktakes and confirmations

Self-managed superannuation funds

- SMSF audit update for 30 June

Business risks

- What's new in accounting, auditing, ethical standards and the regulators?
- Updating employment law and its risks for directors, accountants and auditors
- The legalities of contemporary business risks affecting directors, accountants and auditors
- Reporting and auditing considerations for 30 June

Topics have been especially designed for auditors, finance-team members, and accounting firms' business advisers. Auditors will find *all* of our topics relevant. (Accountants will be mostly interested in our GAAPinars on nine financial-reporting and business risks.)

Choose the sessions that meet your needs – they're all new.

Each session is worth 1.5 CPD/CPE hours. That's 21 hours in total for you and your team. Sessions cost only \$297, including GST.

Register online at www.gaaptraining.com.au or download the editable brochure and pdf and return it to andrew@gaaptraining.com.au. Don't delay, register today. Series registration closes on **Friday 26 March**.

GAAPinar library – past GAAPinars relevant to 2021

Looking for contemporary topics on financial reporting, business risks, ethics and auditing?

Our GAAPinar series are interconnected, the topics often building on previous sessions or material planned for future ones.

Previous GAAPinars are often relevant to the current reporting period. Don't forget them

when planning your training program for the current year.

To help you meet the challenges of 2021, we have selected the following GAAPinars from 2020:

- *Special Purpose Financial Reporting – the end is near* (GAAPinar No.13 June)
- *Date and rules set for removal of SPFRs* (GAAPinar No.5 November)
- *Rethinking general-purpose financial statements* (GAAPinar No.3 April)
- *Impairment lessons that are not being learnt* (GAAPinar No.5 April)
- *Implementing the revision to auditing accounting estimates and related disclosures* (GAAPinar No.9 May)
- *Another look at auditing accounting estimates and related disclosures through illustrative examples* (GAAPinar No.4 November)
- *The latest on identifying and assessing the risks of material misstatement* (GAAPinar No.8 December)
- *Key issues in SMSF audits for 30 June* (pop-up GAAPinar 27 August)

For previous subscribers, recordings have been provided. Access them as a refresher for 2021. Show them to new team members.

For those interested in past sessions, order online at www.gaaptraining.com.au.

Our extensive GAAPinar library is available at www.gaaptraining.com.au, giving easy access to sessions on financial reporting, auditing, ethics, self-managed superannuation funds, and business risks. Over 100 hours of CPD are just a mouse-click or two away.



INSIDE GAAP CONSULTING

How we can help

As well as our advisory services on the interpretation of accounting, auditing and ethics standards, *GAAP Consulting* can help you with:

- **Financial reporting** – implementation of new accounting standards and pre-issuance reviews of financial statements
- **Risk management** – quality-assurance reviews of audit files and risk-management systems (under auditing and ethical standards rules) and help with enquiries from regulators and accounting bodies, and managing litigation risks
- **Training** – face-to-face and web-based (*GAAPinars*) training on standards, legislative developments and business risks as well as client briefings on contemporary issues. There is also an extensive library of *GAAPinars* (www.gaaptraining.com.au)
- **Information services** – use of proprietary technical content from *GAAP Alert*, *Special GAAP Reports*, and *NFP Risks and Compliance* newsletters to enhance your brand awareness and expertise to existing and potential clients
- **Improving communication skills** – we can help you to communicate better, editing and rewriting professionally your tenders, client communications, and internal manuals. They'll be clearer, simpler, more powerful and easier to read and to understand. We can also help you to prepare formal and informal talks, speeches and seminars, and
- **Whistleblowing service** – *ReportFraud* is a cutting-edge fraud protection tool you need to have. It's designed to safeguard your organisation from fraud, bribery and corruption 24 hours a day, seven days a week. It allows whistleblowers to report unethical activity safely and – most importantly – anonymously (www.reportfraud.org.au).

Latest *NFP Risks and Compliance* newsletter released

GAAP Consulting's December-quarter edition of its *NFP Risks and Compliance* newsletter has been circulated to accounting-firm subscribers. It contains more than 25 news items.

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.

At last count, there were about 600,000 NFPs in Australia, including more than 56,650 charities ... a great market for accountants and auditors.

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

Interested in branding these topics in your NFP newsletter? Contact colin (colin@gaap.com.au) or 0421-088-611.

Communications boss releases novel

GAAP Consulting's communications director Dr Stephen Downes has released his first novel.

Its subject matter and themes are as far away from the financial world as you can get.

The Hands of Pianists tells the story of a neurotic freelance writer who aims to prove that pianos can kill elite pianists? For decades he has grappled with the guilt that followed an accident in which he severed his talented sister's fingers, ending her promising keyboard career.

His research centres on the violent deaths at 31 of three great pianists, his detective work taking him from Melbourne to Geelong and Sydney, to the south of France, London, Sussex, and the Czech Republic.

The great Liszt pianist Leslie Howard calls *Hands* a 'rich and remarkable book, full of wisdom, doubt, intense curiosity, myriad detail, and an abundance of pictorial skill'. W. G. Sebald scholar Dr Deane Blackler says *Hands* is 'destabilising, disruptive', a book that takes readers on a journey that offers 'much to reflect on, a great deal to admire, and perhaps a little to fear'.

Published by Fomite Press in the US, *The Hands of Pianists* is available through good online bookshops.



Colin Parker
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