GAAP ALERT

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COLIN'S CORNER

30 June reporting is not so easy

Hooray!!

No substantial accounting standards have come into play for the 30 June reporting season. So some entities may just update the previous years' financial statements with the current year's figures.

Easy? Not so.

Last year's statements most likely contained immaterial information (such as irrelevant accounting policies, reconciliations of assets and liabilities that are unnecessary given the nature of an entity's business, and boilerplate disclosures picked-up from a model set of accounts). The usefulness of such statements for decision-making is reduced.

Every balance date has its own unique challenges. The Australian Securities & Investments Commission has identified shortcomings in last year's financial reporting and its focus areas detail them (as this newsletter reports). Directors, preparers and auditors need to keep them front-of-mind and address them.

By not early-adopting AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* for-profit entities are foregoing significant transitional benefits. When they come to implement AASB 2020-2 next year, some (many?) will regret the decision to decline going early.

A revised definition of materiality applies to 30 June financial statements for the first time. It is important. Let me quote:

'[I]nformation 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 on the basis of those financial statements, which provide financial information about a specific reporting entity.'

Be very familiar with the nuances 'obscuring', 'could reasonably be expected to influence', and 'primary users'. The reference to 'specific reporting entity' should, I hope, see the end of lazy boilerplate disclosures and a trend towards more meaningful ones.

The revised definition applies to both recognition and disclosures. It should drive a thoughtful rethink of disclosures in particular.

It's supported by application guidance in AASB 101 *Presentation of Financial Statements*.

INSIDE THIS ISSUE

Practice statement 2: *Making Materiality Judgements* provides guidance to help entities to make materiality judgements when preparing general-purpose financial statements. It contains a four-step process for applying materiality and includes guidance on how to make materiality judgements in specific circumstances.

It is an essential part of understanding and applying the new definition. Along with the two conceptual frameworks – the recent for-profit one and older not-for-profit.

Embrace the challenges and provide more meaningful reporting for users. It will help in their decision-making.

FINANCIAL REPORTING

ASIC highlights focus areas for 30 June

TThe Australian Securities & Investments Commission has highlighted key focus areas for financial-reporting periods ending 30 June.

Among them are:

- The impact of COVID-19 conditions on asset values, provisions, going concern, and disclosures of key assumptions, risks, strategies and prospects
- The treatment of impairment reversals for non-IFRS profit measures
- The implementation of the International Financial Reporting Standards interpretations committee's agenda decision on cloud-computing costs, and
- Climate disclosures.

ASIC expects directors, preparers, and auditors to pay attention to asset values, provisions, solvency and going-concern assessments, events occurring after year-end and before completing financial reports, disclosures and operating and financial reviews.

ASIC commissioner Cathie Armour said, 'As COVID-19 conditions continue to evolve, the quality of financial reports and related disclosures remain more important than ever for keeping investors informed.

'The circumstances of companies and the environment in which they operate can change significantly from one reporting period to the next. This could significantly affect assessments of asset values and financial position.

'Disclosing key assumptions, risks, the drivers of results, management strategies and prospects will be important for investors and other users of financial reports. This includes both full-year and half-year reports.'

Entities may continue to face uncertainties about future economic and market conditions and their impacts on business. Assumptions underlying estimates and assessments should be realistic – neither overly optimistic nor pessimistic – and supportable.

Useful and meaningful disclosures about business impacts and potential uncertainties will continue to be vital. Uncertainties might lead to a wider range of valid judgements on asset values and other estimates and may change from period to period. Disclosures about them, key assumptions, and sensitivity analysis will be important to investors.

OFRs should complement the financial report, telling the story of how an entity's businesses are affected by the pandemic. Underlying drivers of results and financial position should be explained as well as risks, management strategies, and prospects.

ASIC will conduct its regular review of full-year financial reports of selected larger listed entities and other public-interest entities as at 30 June. The commission's reviews will focus on entities and industries most affected by current conditions.

For detail, see Appendix 1, *ASIC focus for 30 June financial reports*.

Check out our **GAAPinar session No.11** *Solvency, liquidity and going concern* (27 May), with Carmen Ridley and Colin Parker. The session's outline and a recording are available at www.gaaptraining.com.au.

ASIC relieves pressure on reporting deadlines

ASIC has extended the deadline for both listed and unlisted entities to lodge financial reports under chapters 2M and 7 of the *Corporations Act 2001* by a month for balance dates from 23 June to 7 July.

The extended deadlines aim to relieve pressure on the resources of *smaller entities*, providing adequate time for audit completions given COVID-19 challenges.

When deciding whether to depart from normal statutory deadlines, directors should consider the information needs of shareholders, creditors, and other report users as well as meeting borrowing covenants and other obligations.

Apply expertise, says ASIC

ASIC reminds entities that appropriate experience and expertise needs to be applied in reporting and audits, especially in more difficult and complex areas such as asset values and estimates.

Directors and auditors should be given enough time to consider 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. Where possible, auditors should work on-site rather than remotely, including for the assessment of stock counts and system walk-throughs.

ASIC's FAQs updated

ASIC's FAQs about the pandemic's effects have been updated.

They cover changes to JobKeeper and insolvency reforms as well as developments relating to 'casual employees'.

The FAQs are also informative about:
- Focus areas and factors to consider
- Disclosures in financial reports and OFRs
- Using non-IFRS financial information
- Half-year report disclosures
- Directors' liability
- Loans and receivables provisioning
- Lessor and lessee accounting for rent concessions
- Non-COVID-19 focus areas
- Directors' solvency statements
- Time extensions for reporting
- The 'no action' position on the timing of AGMs
- Virtual meetings, and
- Reporting by auditors.

ASIC's latest financial-reporting findings

ASIC's latest listed-entities review continues to show that impairment and asset values are most troublesome.

The commission reviewed financial reports of 85 listed entities for the year ended 31 December.

It sought explanations from 15 entities on 22 matters, 13 of them concerning impairment of non-financial assets, asset values, and disclosures in operating and financial reviews. It's a continuing theme from earlier reviews.

Matter	No. of inquiries
Impairment and other asset values	10
Operating and financial reviews	3
Consolidation accounting	2
Lease accounting	2
Off-balance sheet arrangements	1
Revenue recognition	1
Provisions	1
Other matters	2
Total	**22**

Matters involving two of the entities have been concluded without changes to their financial reporting. Inquiries of the remaining 13 continue.

Many companies have continued to make useful and meaningful disclosures on the impact of COVID-19 conditions. However, some entities adversely affected by the pandemic did not appear to give sufficient attention to the reporting of asset values and financial positions.

COVID-19 conditions might create uncertainties that require using probability-weighted scenarios. Disclosure of assumptions is key. The commission continued to query companies that appeared to have made unrealistic and unsupportable assumptions about future cash-flows, and where disclosures did not clearly identify the impacts of COVID-19.

ASIC emphasised that directors and auditors needed to focus on impairment of non-financial assets, particularly as businesses navigate the pandemic.

For more detail see Appendix 2, *ASIC review of 31 December 2020 financial reports*.

Misunderstandings over the removal of SPFSs

by Carmen Ridley, former AASB member

Five aspects of removing special-purpose financial statements seem to be troubling preparers and auditors.

AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* needs explaining. Let me set out the misunderstandings and what to do about them.

No.	Misunderstanding	Clarity
1	Not-for-profit entities will no longer be able to prepare special-purpose financial statements	The changes to the framework (except for the removal of RDR) affect only for-profit private sector entities. NFPs can continue to prepare special-purpose financial statements if they have made the assessment that they are not a reporting entity under SAC 1 *Definition of the Reporting Entity.* The AASB has indicated that a discussion paper on the proposals for the NFP financial-reporting framework will be released late this year or early next.
2	All trust deeds (and other documents) will need to be updated before 30 June 2021	If a constituting or other document contains a requirement to prepare financial statements in accordance with *Australian Accounting Standards* and the document was *created or amended after 1 July 2021* then the entity will be required to prepare general-purpose financial statements. If the document was created before 1 July then AASB 2020-2 contains a grandfathering provision to allow entities to continue to prepare special-purpose financial statements. There is no requirement to update constituting or other documents before 30 June.
3	If any change is made to a constituting or other document after 1 July 2021 then general-purpose financial statements will be required	If the constituting or other document contains a requirement to prepare financial statements in accordance with *Australian Accounting Standards* and it was amended after 1 July then the entity will be required to prepare general-purpose financial statements unless the sentence requiring preparation of financial statements in accordance with Australian Accounting Standards is removed simultaneously with the change that is already being made.
4	Grandfathered companies under the Corporations Act can continue to prepare special-purpose financial statements	Grandfathered companies under the Corporations Act are not required to lodge financial statements with ASIC, however they are required to prepare statements as if they were lodging them. Therefore, they will be required to prepare general-purpose statements from 1 July 2021.
5	Companies subject to a class order that provides an audit exemption can continue to prepare special-purpose financial statements	If a company is required to prepare financial statements in accordance with the Corporations Act but they have class order relief from audit, they will be required to prepare general purpose financial statements since there is no relief from preparation.

Check out our **GAAPinar session No.7** *Special-purpose financial statements – stepping through the transition* (13 May) with Carmen Ridley and Colin Parker. The session's outline and a recording are available at www.gaaptraining.com.au.

New deferred-tax amendments

The Australian Accounting Standards Board has issued AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*.

The amendments clarify accounting for deferred tax on transactions that, at the time of the transaction, give rise to equal taxable and deductible temporary differences.

AASB 112 *Income Taxes* specifies how a company accounts for income tax, including deferred tax, which represents tax payable or recoverable in the future.

In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which companies recognise both an asset and a liability.

AASB 2021-5 clarifies that the exemption does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal taxable and deductible temporary differences. This might be the case for transactions such as leases and decommissioning, restoration, and similar obligations. Entities are required to recognise deferred tax on such transactions.

The amendments apply to annual reporting periods beginning on or after 1 January 2023, earlier adoption permitted.

New transition amendments to service concession arrangements

The AASB has issued AASB 2021-4 *Amendments to Australian Accounting Standards – Modified Retrospective Transition Approach for Service Concession Grantors*.

It amends the modified retrospective-transition method for service concession grantors measuring the grant of a right to the operator (GORTO) liability when implementing AASB 1059.

AASB 2021-4 amends paragraph C4(c) so that the GORTO liability is initially measured based on the fair value (current replacement cost) of the service concession asset at the date of initial application, adjusted by:

- Deducting the carrying amount of any consideration transferred by the grantor to the operator that is recognised as an asset
- Adjusting the resulting amount to reflect the remaining period of the service concession relative to the total period of the arrangement, and
- Deducting any outstanding related financial liabilities.

The board has issued AASB 2021-4 to address an issue raised by a stakeholder that paragraph C4(c) did not specify how contributions transferred by the grantor to the operator prior to the date of initial application are to be treated when measuring the GORTO liability under the modified retrospective-transition approach.

AASB 2021-4 is applicable to annual periods ending on or after 30 June, earlier application permitted.

IASB proposes revised management commentary

The International Accounting Standards Board has published for public comment a proposed comprehensive framework for companies preparing management commentaries that are aligned with investors' information needs.

Management commentary – in some countries referred to as management discussion and analysis – is a report that complements a company's financial statements.

The proposed framework represents a major overhaul of *IFRS Practice Statement 1 Management Commentary*. It builds on innovations in narrative reporting and would enable companies to bring together in one place the information investors need to assess a company's long-term prospects, such as information about a company's intangible resources, relationships, and sustainability.

Management commentary would not only explain a company's financial statements but also give investors insights into factors that affect a company's ability to create value and generate cash-flows, including in the long term. It would be based on information used to manage a business, including financial and non-financial metrics about performance.

The proposed framework sets out disclosure objectives for information about a company's business model, strategy, resources and relationships, risks, external environment, and financial performance and position.

The disclosure objectives are designed to enable companies to identify and provide information that is material to investors, and to enable regulators and auditors to assess compliance with the proposed framework.

IFRS standards do not require companies to provide management commentary – this is unchanged by the proposed new framework. However, regulators may require companies to provide management commentary in accordance with the proposed framework and companies may choose to do so.

The AASB would welcome comments on the proposed framework by 1 October. They may be sent to the International Accounting Standards Board by 23 November.

On narrative reporting, the AASB recently published staff paper *Comparison of Narrative Reporting Requirements Applicable to For-Profit Entities*.

The paper examines several aspects of narrative reporting for Australian for-profit entities and those in selected overseas jurisdictions through their comparison with the draft disclosure objectives expected to be included in a forthcoming IASB exposure draft on revised IFRS practice statement 1 *Management Commentary* to provide early input into the AASB's consultation on the IASB's proposals.

Lessons for interim reporting

The UK Financial Reporting Council's *The Thematic Review – Interim Reporting* highlighted examples of good reporting practices and areas where further improvements are required.

Reports of 20 quoted companies across a range of industries were reviewed to assess the quality of interim reporting.

Timely and reliable interim reporting is vital for investors, creditors, and others to understand properly a company's financial position, performance, and liquidity. High-quality reporting is vital for investors and other users of accounts to make better-informed decisions about a company's health and prospects.

Overall, the FRC was pleased with the quality of interim reports, most companies considering FRC COVID-19 recommendations enhanced their disclosures, particularly on going concern and cash-flow statements.

For significant events such as impairments and transactions taking place during interim periods, many companies provided detailed explanations and other helpful information normally reserved for annual reports and accounts.

Providing better explanations on balance-sheet movements needed improving, however.

GOVERNANCE

DINs on the way

By Stephen Newman, executive counsel, Hope Earle

As part of the *Treasury Laws Amendment (Registries Modernisation and Other Measures Act)* 2020, directors, including alternative directors and those of registered foreign companies and companies governed by the *Corporations (Aboriginal and Torres Strait Islander) Act* 2006 will be required to apply for a director identification number (DIN).

DINs hope to combat illegal phoenixing by providing more effective tracking of directors and their corporate histories. The move also improves data integrity and security.

A DIN will be a permanent unique identifier and will be issued only once a director has established his or her identity to the satisfaction of the registrar of the Australian Business Registry Services. The registrar is the commissioner of taxation.

DIN provisions began on 4 April, and testing, which ends on 31 October, aims to ensure their effective operation.

Deadlines set by Treasury through various legislative instruments for DIN implementation are:

- Directors will need to obtain a DIN by 30 November 2022
- CATSI-Act directors will need to obtain a DIN by 30 November 2023, and
- Persons wishing to be appointed as a director after 30 November 2022 must have a DIN before appointment.

Penalties for non-compliance, such as applying for several DINs or misrepresenting a DIN, include infringement notices and civil and criminal penalties, including jail.

Check out our **GAAPinar session No.10** *The legalities of contemporary business risks affecting directors, accountants and auditors* (20 May), with Stephen Newman. The session's outline and a recording are available at www.gaaptraining.com.au.

Whistleblowing and anti-corruption recommendations in force

The fourth edition of the Australian Securities Exchange's *Corporate Governance Principles and Recommendations* comes into force for entities with a 30 June balance date.

Revisions include changes to principle 3 *Instil a culture of acting lawfully, ethically and responsibly*, which has been strengthened by the inclusion of two new recommendations – to implement a whistleblowing and anti-bribery and corruption policy and suggestions as to how to do it.

Listed entities are expected to measure their governance practices against the fourth edition's recommendations.

Each ASX-listed entity is required under listing rule 4.10.3 to include in its annual report either a corporate-governance statement that meets the rule's requirements, or the URL of the page on its website where such a statement is located.

Recommendation 3.3 states: *A listed entity should: (a) have and disclose a whistleblower policy; and (b) ensure that the board or a committee of the board is informed of any material incidents reported under that policy.*

Recommendation 3.4 states: *A listed entity should: (a) have and disclose an anti-bribery and corruption policy; and (b) ensure that the board or a committee of the board is informed of any material breaches of that policy.*

The principles and recommendations are specifically directed at ASX-listed entities. Other bodies, however, might find them helpful in formulating governance rules and practices.

REGULATION

ASIC's plans for the next six months

Over the rest of 2021, ASIC will release audit-firm inspection reports, update guidance and information sheets affected by new reporting tiers, and continue to work on a model to assess the severity of its audit findings.

The commission will:

- Release audit-firm inspection reports for the 12 months to 30 June, probably in November or December
- Continue its work on a model for measuring the severity of adverse findings from ASIC audit-file reviews for possible adoption for inspection reporting for the 12 months to 30 June 2022
- Consult publicly on possible changes to regulatory guide 260 *Communicating findings from audit files to directors, audit committees or senior managers*. The commission might propose reporting adverse findings from audit-file reviews to audit committees rather than by exception, and
- Update regulatory guides, information sheets and instruments affected by the two new tiers of reporting, including FS 70 *Australian financial services licensee profit and loss statement and balance sheet* and RG 85 *Reporting requirements for non-reporting entities*.

Legislation might also be introduced into parliament to give ASIC the ability to regulate financial reporting and auditing of public-offer superannuation funds from years commencing 1 July 2022.

ASIC applies for Semantic liquidation

ASIC has applied to the New South Wales Supreme Court for the appointment of provisional liquidators to Semantic Software Asia Pacific Ltd.

ASIC alleges that Semantic, an artificial intelligence development company based in North Sydney:

- Has failed to lodge financial statements, failed to hold annual general meetings, and failed to keep accurate financial records and minute books
- Is insolvent or likely to become insolvent, and
- Has issued shares without compliance with the act and to investors with a share buy-back guarantee in circumstances where the company did not have sufficient funds to meet the obligation.

Former managing director charged

Former managing director of Global Merces Funds Management Ltd (in liquidation) Holly Marie Grofski of Cranley, Queensland, has appeared in Brisbane Magistrates Court on criminal charges.

Ms Grofski has been charged with:

- One count of dishonestly or recklessly failing to exercise her powers and discharge her duties (section 184(1) of the *Corporations Act*; maximum sentence 15 years' jail)
- One count of providing false information to the auditors of Global Merces (section 1309(1) and s1311(1) of the *Corporations Act*; maximum sentence five years' jail), and
- One count of engaging in conduct resulting in the falsification of books regarding the affairs of Global Merces (section 1307(1) and s1311(1) of the *Corporations Act*; maximum sentence five years' jail).

Ms Grofski managed Global Merces until it was wound up following a Federal Court decision and ASIC investigation.

She was released on bail, the matter adjourned.

ETHICS

APESB revises outsourced services

The Accounting Professional & Ethical Standards Board Limited has issued a revised APES GN 30 *Outsourced Services*.

Key changes included:

- Updated definitions for cloud computing and material business activity resulting from recent amendments, aligning with APES 305 *Terms of Engagement*
- Revisions to paragraph 3.9 and new paragraph 3.11 to refer members in public practice to the requirements and application material in APES 305, and
- Revisions to existing examples, including references to APES 305 and the development of new examples 7 to 10 of Appendix 1 on outsourced services and cloud computing.

The revised APES GN 30 was effective from its date of issue.

Comments invited on EQR amendments

The APESB has invited comments on exposure draft ED 02/21 *Proposed Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers*.

The draft proposes to amend the code to address the objectivity of engagement-quality reviewers and other appropriate reviewers.

Key changes are:

- Inclusion of a new section (section 325) providing guidance on identifying, evaluating and addressing threats to compliance with the fundamental principle of objectivity that might arise in the appointment of an engagement-quality reviewer or appropriate reviewer
- A new requirement for an engagement partner to undertake a two-year cooling-off period before assuming the role of engagement-quality reviewer for the same client
- Clarification on the interaction of the long-association provisions in the code with the proposed EQR provisions, and
- Additional application material on familiarity threats of appropriate reviewers.

The proposed amendments should be effective for engagements beginning on or after 1 January 2023, earlier adoption permitted.

APESB proposes stronger fees provisions

The APESB has announced proposals to strengthen fees provisions in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

Exposure draft 3/2021 *Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* proposes key changes, including:

- Articulate and address the issue of threats to independence created when fees are negotiated with and paid by an audit or assurance client
- Clarify that audit fees should be standalone within total fees paid by a client so that the provision of services other than audits does not influence audit-fee levels
- Provide guidance for firms to evaluate and address the threats to independence created when a large proportion of total fees charged by a firm or network firms is for services other than audits
- Enhance the provisions regarding fee dependency when audit clients are PIEs and non-PIEs, including establishing a threshold for addressing threats in the case of non-PIE clients
- Require firms to cease to be auditor for a PIE if circumstances of fee dependency continue beyond a certain period
- Enhance transparency about fee-related information for PIE clients to help those charged with governance and the public to form views about a firm's independence, and
- Enhance the robustness of guidance in the code about factors that evaluate the level of threats created when fees are paid by an audit or assurance client and safeguards related to such threats.

The APESB expects that the proposed amendments will take effect from 1 January 2023, early adoption encouraged.

AUDIT

Uncovering cash-flow failures

The UK Financial Reporting Council has published a *Thematic Briefing: The audit of cash flow statements* that highlights the results of key findings and the steps taken by audit firms to strengthen the audit of cash-flow statements.

Internal consistency checks by audit teams were failing to pick up basic errors in cash-flow statements. Classification errors among sections of cash-flow statements were also likely.

The FRC discovered that:

- Audit teams did not always adequately challenge management on accounting policies and disclosures that affected cash-flow statements
- Guidance available to audit teams to deal with technical and complex judgements was not always sufficient and embedded through staff awareness and training
- Reviews did not always identify and adequately respond to matters, and
- The use of spreadsheets and manual cash-flow workings increases the complexity of auditing consolidated cash-flow statements.

Check out our **GAAPinar session No.12** *Cash-flow statements, presentation and auditing* (27 May), with Carmen Ridley and Colin Parker. The session's outline and a recording are available at www.gaaptraining.com.au

IAASB releases quality-management guides

The International Auditing and Assurance Standards Board has released two guides to help stakeholders implement new and revised quality-management standards that come into effect on 15 December next year.

The guides are:

- *First time implementation guide for 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,* and
- *First time implementation guide for ISQM 2 Engagement Quality Reviews.*

The IAASB will issue in the third quarter an implementation guide for ISA 220 (Revised) *Quality Management for an Audit of Financial Statements.*

The board encourages practitioners to plan early for appropriate implementation, given the potential impact of the changes on firms' quality management.

KAMS now optional for RSE audits

Prudential Standard SPS 310 *Audit and Related Matters - Approved Form* has been released and is effective for reporting periods ending on or after 30 June. An optional section on key audit matters has been included. It may be inserted at the discretion of a registrable superannuation entity auditor.

Changing auditors

The *Fair Work (Registered Organisations) Act 2009* places limits on how many consecutive years a registered auditor can work on a reporting unit's audit. The requirement began in 2017. Some units are already at the limit and must change auditors.

The Registered Organisations Commission has issued a factsheet explaining:

- How long a reporting unit can use the same auditor
- Important definitions, and
- How you can calculate the number of consecutive financial years your auditor has played a 'significant role'.

SELF-MANAGED SUPER FUNDS

Revised independent auditor's report form released

A new version of the *Self-managed super fund independent auditor's report (IAR)* (NAT 11466-07.2021) form has been released and must be used for audits completed on or after 1 July, regardless of the income year to which they apply.

The new version contains two new paragraphs that highlight the need for auditors to ensure that they comply with independence requirements in APES 110 *Code of Ethics for Professional Accountants (including Independence standards)* (2018).

The changes emphasise that:

- Auditors need to ensure that their firm or network firm is not providing non-assurance services to a client that are prohibited under the code, and
- Where their firm or network firm is preparing financial statements for a client after 1 July that a management responsibility has not been assumed for the fund and the services provided are routine or mechanical and safeguards have been applied.

IAR changes after 1 July are:

- Part A: A new independence clause has been included in the basis-of-opinion requiring auditors to choose the applicable option that describes whether their firm or network firm also prepared financial statements for the fund and an acknowledgment that the firm hasn't provided any non-assurance services to the audit client that are prohibited under the code, and
- Part B: A similar independence clause has been inserted under the basis-of-opinion paragraphs on independence and quality control. Other modifications to Part B include a reference to the new auditing standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements.* Systems of quality management in compliance with this ASQM are required to be designed and implemented by 15 December 2022. Until then, an auditor may continue to apply the existing ASQC1.

None of the sections and regulations listed at Appendix 1 of the reports requiring compliance assurance have been changed.

To enable auditors time to transition to the new IAR, the ATO will refrain from compliance action where auditors continue to use the previous version of the IAR (NAT 11466-07.2019) during the month of July. The version will be removed from the ATO's website at the end of July.

Check out our **GAAPinar session No.13** *SMSF audit update for 30 June* (3 June), with Shelley Banton. The session's outline and a recording are available at www.gaaptraining.com.au.

ATO guides on 'appropriate' reviewer

Safeguards reduce to an acceptable level threats to independence. One safeguard is appointing an appropriate reviewer who was not involved in providing the service review, audit work, or service itself.

An 'appropriate reviewer' is described in the APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* as a professional having the necessary knowledge, skills, experience, and authority to review, in an objective manner, the relevant work performed, or service provided.

The ATO has issued guidance on the term.

In summary:

- An appropriate reviewer might be affected by the same threats (for example, self-interest and intimidation) as an auditor. They might affect an internal reviewer's ability to perform reviews in an objective manner. Accordingly, the appropriate action may be to engage another SMSF auditor external to the firm to conduct the review
- The ATO expects to see the appropriate reviewer's documented notes explaining steps taken to complete the review and its outcome, including whether the appropriate reviewer concluded that the auditor's reports were appropriate in the circumstances
- Where a sampling approach is used, the ATO expects to see the appropriate reviewer's documented notes on the audit file that explain why sampling is an effective approach to the review and what methodology was applied, and
- The sampling should be a risk-based selection and be representative of all the SMSF audits, ranging from simple to complex funds. The ATO expects the sample to include a significant proportion of more complex funds where an auditor has had to exercise a higher level of professional judgment.

ASIC disqualifies SMSF auditor

ASIC has disqualified the SMSF auditor registration of Gordon Shrubsole of Miranda, New South Wales, for breaching independence and auditing standards.

Mr Shrubsole lacked independence when he audited a close family member's fund.

He was deficient in planning audits, failed to obtain sufficient appropriate audit evidence to support the valuation of assets, and issued auditor reports that were not in the approved form.

SMSF auditors are fundamental to the SMSF sector and must meet minimum behaviour standards to ensure that they act and are seen to act with integrity and objectivity. Where SMSF auditors fail to meet minimum standards, ASIC acts.

INSIDE GAAP CONSULTING

Latest *NFP Risks and Compliance* newsletter released

GAAP Consulting's June-quarter edition of its *NFP Risks and Compliance* newsletter has been circulated to accounting-firm subscribers. It contains more than 25 news items on governance, compliance, ACNC activities, fraud, financial-reporting insights, fundraising and deductible gift recipients.

One reader said the newsletter was 'another excellent document and precise'.

Using our *white label* 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.

Would you like to get the GAAP Consulting newsletter or enquire about the white label version? Contact Colin 0421-088-611 or colin@gaap.com.au.

Second *Fraud and NOCLAR* newsletter released

Our second *Fraud and NOCLAR* newsletter is out.

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

In the June quarter, we reported on:

- Recent high-profile instances of fraud and NOCLAR
- Enforcement activities by the regulators – ASIC, AUSTRAC, and the Fair Work Ombudsman
- *ASX Corporate Governance Principles and Recommendations,* and
- Resources available to help you to identify trends in fraud, bribery, and non-compliance.

Visit www.reportfraud.org.au to see how the independent whistleblowing service works and register for the newsletter, or contact Andrew Parker 0401 858 889 or andrew@reportfraud.org.au.

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

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 and revised 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), EQCR services 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).

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APPENDICES

Appendix 1 *Detail on ASIC focus areas for 30 June 2021 financial reports*

Focus	Explanation
Factors affecting asset values, provisions and assessments of solvency and going concern	Factors to consider include: • 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 • The availability, distribution and take up of COVID-19 vaccines • 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, and • Capital raising.
Expected credit losses on loans and receivables	Think through the appropriateness of key assumptions used in determining expected credit losses. Assumptions should be reasonable and supportable. Consider the need for more reliable and up-to-date information about the circumstances of borrowers and debtors. Consider short-term liquidity issues for borrowers and debtors, as well as their financial conditions and earnings. In determining expected credit losses, past models and experience may not be representative of current expectations. A probability weighting of possible scenarios may be needed. Whether the rebuttable presumptions for loans in arrears for 30 days or 90 days being moved into higher categories for assessing credit losses can continue to be rebutted under current loan repayment deferral arrangements for some borrowers who may have had short-term liquidity issues. Remember the importance of the disclosure of estimation uncertainties and key assumptions.
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 new or continuing indicators of impairment that require impairment testing for other non-financial assets. Consider 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, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios.
Asset values – carrying amount property assets	Factors adversely affecting the values of commercial and residential properties should be considered, despite any absence of market transactions. These may include: • Expected changes in office work practices affecting tenants' future space requirements • 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 conditions of existing tenants, and • New or ongoing impacts of restructuring of agreements with tenants. Specifically, consider the lease-accounting requirements, the treatment of rental concessions by lessors and lessees, and the impairment of lessee right-of-use assets.
Asset carrying amounts – other	Consider the following: • The value of inventories, including where demand decreases and inventory levels increase • Whether it is probable that deferred tax assets will be realised, and • The impact of the COVID-19 pandemic 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.

Focus	Explanation
Estimates and judgements	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 later by others. 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.
Cloud computing	The IFRS Interpretations Committee issued an agenda decision *Configuration or Customisation Costs in a Cloud Computing Arrangement*. The decision confirms that a cloud computing customer should expense the costs of configuring or customising the supplier's application software in a 'software as a service' arrangement. There should be sufficient time to identify past amounts capitalised that should be expensed before 30 June financial reports are completed. Adjustments are treated as a change in accounting policy. If past amounts to be expensed may be material but cannot be identified for 30 June reporting, this should be prominently disclosed. Adjustments should be made in the next financial report.
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.
Disclosure – 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. Changes from the previous period should be considered and disclosed.
Disclosures – financial report	Uncertainties may lead to a wider range of valid judgements on asset values and estimates. The financial report should disclose uncertainties, changing key assumptions and sensitivities. This will assist investors in understanding the approach taken, understanding potential future impacts and making comparisons between entities. Explain where uncertainties have narrowed or changed since the previous full-year and half-year financial reports. 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. Other matters to consider may include off-balance-sheet exposures and the impact of recent developments concerning leave entitlements of casual employees.
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, as well as the commencement date and either the end date or expected duration of support or assistance. Examples include JobKeeper, land tax relief, loan deferrals and restructuring, and rent deferrals and waivers. Entities should also disclose the amount of any material voluntary returns of JobKeeper or other support or assistance.
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 asset impairment losses were excluded from a non-IFRS profit measure in a prior period, any impairment reversal should also be excluded from that measure. 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.
Disclosure – OFR	The OFR should complement the financial report and tell the story of how the entity's businesses are impacted by the pandemic and changing circumstances. The overall picture should be clear, understandable, and 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, such as changes in consumer preferences or new competitors. Climate-change risk could have a material impact on the prospects of entities. Directors may also consider whether to disclose information that would be relevant under the recommendations of the task force on *Climate-related Financial Disclosures.*
Disclosure – half-year reports	Half-year reports may need to include significant disclosure about developments and continuing impacts since 31 December 2020 of COVID-19 conditions and other significant factors.

Check out our **GAAPinar session No.14** *Reporting and auditing considerations for 30 June* (3 June), with Colin Parker and Chanelle Pienaar. The session's outline and a recording are available at www.gaaptraining.com.au.

Appendix 2 *ASIC review of 31 December 2020 financial reports*

Topic	Findings
Impairment	ASIC's inquiries on assessments of the recoverability of the carrying values of assets, including goodwill, mining assets, and property, plant and equipment included: *Reasonableness of cash flows and assumptions:* The cash flows and assumptions used in determining recoverable amounts were not reasonable or supportable having regard to matters such as historical trading results, current and forecast commodity prices, or the impact of and uncertainties due to COVID-19 conditions. *Disclosures:* Disclosures not being made of key assumptions, including discount rates and growth rates, and for fair values the valuation techniques and inputs used. These disclosures are important to investors and other users of financial reports given the subjectivity of these calculations/ assessments. They enable users to make their own assessments about the carrying values of the entity's assets and risk of impairment given the estimation uncertainty associated with many asset valuations.
Expected credit losses on trade receivables	No disclosure of the basis for determining expected credit losses despite indications of increased credit risk. Estimated loss rates did not adequately reflect the credit risk related to long outstanding receivables by using sufficient forward-looking information.
Operating and financial review	ASIC enquired about the quality of the entity's OFR, and the extent to which it complemented the financial report and told the story of how the entity's business is impacted by the pandemic. No information had been provided about business strategies and prospects and the impacts of COVID-19 on key assumptions. Companies continued to indicate that the impacts of COVID-19 on its business cannot be determined.
Consolidation	ASIC enquired about the accounting for the loss of control of a subsidiary and treatment of the remaining interest as a joint arrangement. The commission was concerned about the accounting for a joint arrangement where continuing indicators exist that the entity may have control.
Lease accounting	Enquired about the entity's treatment of a sale and leaseback transaction that resulted in a material gain on sale. Another was resolved with no changes to the financial report following further information and explanations from the entity.
Off-balance-sheet arrangements	Enquired about the basis for an entity's apparent derecognition of trade receivables under a debtor securitisation facility.
Revenue recognition	Concerning an entity's contracts with significant customers, where revenue recognition is dependent on agreed milestones related to product development. ASIC has also inquired with an entity about its accounting policy for late fees, which relates to a matter arising from the reviews of 30 June 2020 financial reports.
Provisions	Enquired about potential liabilities with respect to cyber breaches. Enquired about the adequacy of make-good provisions in connection with leased properties. No regard was paid to the obligations under its lease agreements.