GAAP ALERT

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COLIN'S CORNER

Plenty to know about

ASIC has highlighted key reporting areas for 30 June and released its findings on previous surveillance – directors, accountants and auditors take note. There are new disclosures for SPFSs. Two companies have been heavily fined for non-lodgement of accounts.

The AUASB has been very active with three noteworthy bulletins: considerations in times of changing and uncertain economic conditions, audit quality responsibilities, general IT controls risks, and a revised standard on group audits.

On governance, we have two contributed articles *Hanging out greenwashing is dangerous* by Stephen Newman, executive counsel, Hope Earle, and *When a Crown slips* By Tom Ravlic, columnist and reporter, Banking Day.

My hot issue is the ASIC media release *ASIC announces financial reporting changes for AFS licensees*. It has raised several questions for licence holders, their auditors and advisers.

Why is it necessary for ASIC to provide timing relief for AFSLs when applying AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* and related standards?

Is AASB 10 *Consolidated Financial Statements* really a disclosure standard?

How is the conflict between the ASIC media release and the requirements of AASB 2020-2 to be resolved?

Can the operative date of AASB 2020-2 be effectively deferred thru FS 70?

How does the auditor's report reflect the differing compliance requirements of AASB 2020-2 and those identified in the ASIC media release?

Where the licence is held by a trust and the operations holding client monies or controlling assets are carried out by subsidiaries that are authorised representatives, do such arrangements fall within the exemptions?

ASIC has identified 12 types of entities that have public accountability. Is that list inclusive? For public accountability, what constitutes a 'broad group of users'?

Will APESB revise the Australian specific requirements of the ethics code to pick-up ASIC's determination of public accountable entities as public-interest entities?

The identification of entities that have public accountability should also have auditors revisiting their policy on PIES and the flow-through effect on the provision of certain non-assurance services to audit clients.

INSIDE THIS ISSUE

To conclude on a related matter, ASIC has announced that it will routinely reveal to directors negative findings from its reviews of audit files rather than using the current 'exception' basis.

Auditors will need to manage proactively associated risks. You should first of all update or develop your risk-management policy. Heed the lessons from the commission's auditor-surveillance program, pay very close attention to its 30 June focus areas, and consult on contentious issues.

FINANCIAL REPORTING

ASIC highlights key reporting areas

The Australian Securities & Investments Commission is urging directors, report preparers and auditors to assess whether financial reports provide useful and meaningful information for investors.

The commission is highlighting several key areas for companies to get right for the 30 June year-end.

Among them are asset values, provisions, solvency, and going-concern assessments. Events occurring after year-end and before completing reports will also be examined. Disclosures and operating and financial reviews will also be under the microscope.

ASIC has noted that companies will be affected differently depending on their industries, where they operate, how their suppliers and customers are affected, and a range of other factors.

Companies may continue to face uncertainties about future economic and market conditions and the impacts on their businesses, the commission noted. Assumptions underlying estimates and assessments for reporting purposes should be reasonable and supportable.

Directors and management should assess how current and future company performances, the value of assets and provisions and business strategies might be affected by changing circumstances, uncertainties, and risks such as:

- COVID-19 conditions and restrictions
- Changes in customer preferences and online purchasing trends
- Use of virtual meetings and more flexible working arrangements
- The discontinuation of financial and other support from governments, lenders, and lessors, including possible increases in insolvency levels
- The availability of skilled staff and expertise
- Restrictions to deal with COVID-19 in different jurisdictions
- The impact of rising interest rates on future cash-flows and on discount rates used in valuing assets and liabilities
- Increases in oil prices
- Geopolitical risks, including the Ukraine-Russia conflict
- Government commitments and policies on climate and carbon emissions
- Technological changes and innovation
- Legislative and regulatory changes, and
- Other economic and market developments.

ASIC noted that these factors might also be relevant in assessing the ability of an entity's borrowers, debtors, and lessees to meet their obligations to the entity and the ability of key suppliers to continue to provide goods and services.

Industries that might be particularly affected included construction, commercial property, and big carbon-emitters.

Uncertainties might lead to a wider range of valid judgements on asset values and other estimates. Uncertainties might also change. Disclosures in financial reports about uncertainties, key assumptions, and sensitivity analysis will be important to investors.

Operating and financial reviews should complement the financial reports and tell the story of how an entity's businesses are affected by both COVID-19 and non-virus factors. Underlying drivers of results and financial positions should be explained, as well as risks, management strategies, and future prospects. Forward-looking information should have a reasonable basis, and the market should be updated through continuous disclosures if circumstances change.

ASIC commissioner Sean Hughes said, 'Many companies are facing changing market conditions and uncertainties. Directors and preparers should assess the impact on current and future performance, asset values, and provisions. They should also ensure that increasing demands for better information for investors on uncertainties, key assumptions, business strategies, and risks are met as required under the existing reporting regime for both annual and half-year reports'.

For the detail see *Appendix: ASIC focus areas for 30 June*.

Carmen Ridley and Colin Parker covered these developments in **GAAPinar #14** (9 June) ***Reporting and auditing considerations for 30 June***. A recording is available from www.gaaptraining.com.au.

Use experienced experts

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

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.

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, the commission says.

As in previous reporting periods, ASIC will review full-year financial reports of selected larger listed and other public-interest entities as at 30 June.

Need help? Contact Colin Parker, Principal, GAAP Consulting.

ASIC's reporting-surveillance results

ASIC's latest review of the financial reports of 70 listed entities for the year ended 31 December 2021 has resulted in inquiries of 18 entities about 31 matters. They mostly related to insufficient disclosure of business risks in the OFR and impairment of assets.

Matter	Number of inquiries
Operating and financial review	10
Impairment and asset values	7
Provisions	2
Revenue recognition	2
Non-IFRS profits	2
Going concern	2
Leases	2
Other matters	4
Total	**31**

Matters involving three of the entities have concluded without any changes to their financial reporting. Inquiries of the remaining 15 continue.

ASIC commissioner Sean Hughes said, 'We acknowledge that many companies are facing changing market conditions. With this comes increasing demand for better information about uncertainties, key assumptions, business strategies and risks.

'Financial reports are critical in providing useful and meaningful information for investors and other users. Our most recent review has identified that some entities still did not appear to give sufficient attention to the disclosure of business risks in the operating and financial review and the reporting of asset values.

'ASIC continues to raise inquiries where the assumptions about future cash flows appear unsupportable, and where the impacts of changing market conditions on the business were not clearly disclosed.'

Transition relief under AASB 1 extended

AASB 2022-2 has amended AASB 1 and AASB 1053 to help entities with first-time preparation of general-purpose financial statements in some circumstances.

Those affected include certain for-profit private-sector entities that can no longer apply the reporting-entity 'concept' or prepare special-purpose financial statements from 1 July 2021.

AASB 2022-2 amends AASB 1 *First-time Adoption of Australian Accounting Standards* to allow:

- A subsidiary preparing a general-purpose financial statement for the first time to apply the optional exemption in paragraph D16(a) and measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements where the parent has already adopted either Australian or IFRS standards, and
- A first-time adopter of Australian standards in its consolidated statements later than its subsidiary (or associate or joint venture) to use the amounts included in the subsidiary's (or associate's or joint venture's) separate financial statements where the subsidiary (or associate or joint venture) has already adopted either Australian or IFRS standards.

It also amends AASB 1053 *Application of Tiers of Australian Accounting Standards* to allow for-profit private-sector entities transitioning from unconsolidated Tier 2 – reduced-disclosure requirements to consolidated Tier 2 simplified disclosures to apply AASB 1 when preparing consolidated statements for the first time.

AASB 2022-2 applies to annual reporting periods ending on or after 30 June.

Help in transitioning from SPFS to GPFS

CA ANZ and CPA Australia have released a 29-page guide to assist members as they transition to the new reporting framework or help others to do so.

Importantly, *Can I Still Prepare Special Purpose Financial Statements? A Guide To Navigating The New For-Profit Financial Reporting Framework In Australia* helps to identify circumstances where there is no change to current financial-reporting practices.

The guide will also be useful for private-sector NFPs. It explains the impact of the initial stages of for-profit reforms on NFP financial reporting, especially entities preparing Tier 2 GPFSs.

The guide was authored by HLB Mann Judd with help from accounting bodies' Jeanette Dawes, Ram Subramanian, and Nadee Dissanayake. Carmen Ridley and David Hardidge gave technical advice.

GAAPinar revealed GPFS lowdown

Carmen Ridley and Colin Parker in an extended **GAAPinar #2** (12 April) covered the topic ***The end of SPSFs for many***.

On 30 June, the first audited general-purpose financial statements will have been lodged. Special-purpose financial statements for certain entities will no longer be permitted under AASB 2020- 2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*.

ASIC is expected to monitor closely entities' first GPFSs' compliance with standards.

In the session, Carmen and Colin:

- Recapped on who is caught and who is not
- Explained the key changes and how errors can be addressed
- Described the transitional arrangements and disclosures
- Discussed the importance of AASB 1 *First-time Adoption of Australian Accounting Standards*
- Explained whether Tier 1 or Tier 2 applied
- Discussed how to avoid disclosure overload
- Drew the audit-independence line not to be crossed, and
- Described the steps accountants and auditors needed to take.

A recording is available for those who missed the session. Contact Andrew@gaaptraining.com.au.

New disclosures in SPFSs

Disclosures informing users about the basis on which special-purpose financial statements were prepared will be required under new amendments to standards.

The new disclosures aim to support SPFSs' greater transparency and comparability.

Following the issue of AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities,* for-profit private-sector entities that are required only by their constituting document or another document (being a document created before 1 July 2021 and not amended on or after that date) to prepare financial statements that comply with Australian Accounting Standards can continue to prepare SPFSs.

When such entities prepare SPFSs that refer to Australian Accounting Standards, AASB 2022-4 requires financial statements to disclose the basis upon which the decision to prepare an SPFS was made and information about the material accounting policies applied in it.

The latter includes the extent of compliance or otherwise of the policies with the recognition, measurement, consolidation, and equity-accounting requirements of Australian standards.

The new disclosures will be added to AASB 1054 Australian Additional Disclosures.

Financial statements will also be required to disclose an entity's reporting framework, that the entity is a for-profit, and that the statements are special-purpose financial statements. These disclosure requirements are already included in AASB 1054.

AASB 2022-4 *Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* applies to annual reporting periods ending on or after 30 June.

Examples illustrate NFP amendments

AASB 2022-3 amends Australian illustrative examples for NFPs accompanying AASB 15 *Revenue from Contracts with Customers*. The amendments do not change the requirements of AASB 15.

Example 7A illustrates how AASB 15 applies to the recognition and measurement of upfront fees charged to customers and members.

The basis for conclusions accompanying AASB 2022-3 documents the AASB's decision to retain the accounting-policy choice for NFP private-sector lessees who might elect to measure initially a class of right-of-use assets arising under concessionary leases at cost or at fair value.

The board has deferred consideration of accounting-policy choice for NFP public-sector lessees until it decides on any additional guidance for measuring the fair value of right-of-use assets under concessionary leases.

AASB 2022-3 applies to annual reporting periods beginning on or after 1 July.

IFRIC agenda-decisions compilation released

Volume 6 of the IFRS Foundation's compilation of agenda decisions brings together decisions published by its interpretations committee from November 2021 to April 2022.

Decisions included in the compilation relate to IFRS 9 *Financial Instruments,* IFRS 16 *Leases,* IAS 7 *Statement of Cash Flows,* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance.*

Agenda decisions may also include material that explains how applicable principles and requirements in IFRS accounting standards apply to the transaction or fact-pattern described in the decision.

GOVERNANCE

Court finds AFSL failed to manage cybersecurity risks

In an Australian first, the Federal Court has found Australian Financial Services licensee RI Advice breached its licence obligations to act efficiently and fairly in that it failed to have adequate cybersecurity risk-management.

The finding comes after many cyber incidents among authorised representatives of RI Advice between June 2014 and May 2020. In one incident, an unknown malicious agent obtained unauthorised access to an authorised representative's file-server from December 2017 to April 2018 before being detected, resulting in the potential compromising of confidential and sensitive personal information of several thousand clients and others.

ASIC deputy chair Sarah Court said, 'It is imperative for all entities, including licensees, to have adequate cybersecurity systems in place to protect against unauthorised access.

'ASIC strongly encourages all entities to follow the advice of the Australian Cyber Security Centre and adopt an enhanced cybersecurity position to improve cyber resilience in light of the heightened cyber-threat environment.'

When handing down judgment, Justice Helen Rofe made clear that cybersecurity should be front-of-mind for licensees.

She said, 'Cybersecurity risk forms a significant risk connected with the conduct of the business and provision of financial services. It is not possible to reduce cybersecurity risk to zero, but it is possible to materially reduce cybersecurity risk through adequate cybersecurity documentation and controls to an acceptable level'.

Her Honour said that declarations ordered in the matter should serve to record the court's disapproval of the conduct and should deter other AFS licensees from engaging in similar conduct.

Hanging out greenwashing is dangerous

by Stephen Newman, executive counsel, Hope Earle, and GAAPinar presenter on business risks and employment law

Several regulators are cracking down on companies' climate-change credentials.

Entities making climate-change claims about their products and services that might be misleading, deceptive, vague, and broad-based could face enforcement action by several regulators, including the Australian Competition & Consumer Commission and ASIC. Environmental, social and governance (ESG) credentials might also be investigated.

In a speech to the Committee for Economic Development of Australia, former ASIC chair Rod Sims said, 'Many consumers are increasingly considering the environmental impact of the products and services they buy. We are hearing growing concerns that some businesses are falsely promoting environmental or green credentials to capitalise on these consumer preferences'.

The ACCC's position was reinforced by its deputy chair Delia Rickard, who was reported as saying at a recent *Australian Financial Review* ESG summit that the ACCC intended to target 'greenwashers' in 'problem sectors' and that the commission was prepared to be pro-active rather than wait for complaints.

ASIC has been no less forthright in its approach. In a speech at a Law Council of Australia workshop, its chair Joseph Longo said that the commission wanted to see continued improvement in climate-change governance and disclosure practices and, in particular, that climate-related disclosures by listed companies should comply with the law and make climate-change decisions that help investors.

Mr Longo said that ASIC was focused on preventing harm from 'greenwashing' and misleading claims about the extent to which products are environmentally friendly, sustainable, or ethical.

To reinforce this objective, ASIC recently issued guidance to responsible entities of managed funds, corporate directors of corporate collective investment vehicles and trustees of registrable superannuation entities about 'How to avoid greenwashing when offering or promoting sustainability-related products' (see media release 22-141 14 June and info sheet 271).

Other Australian and international regulators and standard-setters have also weighed into the debate with pronouncements about climate change and ESG disclosures and claims. Pending standards on climate change and ESG disclosures to be issued by the International Sustainability Standards Board towards the end of 2022 will be important further developments.

Meanwhile, stakeholder litigation against major corporates for alleged false or misleading climate-change and ESG disclosures and claims continues unabated.

There is much for directors and officers, accountants and auditors to think about to ensure that unnecessary business risks and exposure to regulatory action and private litigation are avoided.

Stephen Newman covered in this and over business law developments in **GAAPinar #12** (2 June) ***A legal view of contemporary business risks affecting directors, accountants, and auditors.*** A recording is available from www.gaaptraining.com.au.

When a Crown slips

By Tom Ravlic, columnist and reporter Banking Day

A Crown Casino case study is so full of examples of organisational dysfunction that it should be studied for years by all those interested in governance.

It has occupied the attention of senior judicial figures that were at the helm of three major inquiries. Two of them –in Victoria and Western Australia – were royal commissions.

Kicking it all off was the regulator's inquiry led by Patricia Bergin into Crown Casino in New South Wales. She found that that there was a litany of legal breaches and other questionable corporate-governance behaviours that were at the heart of Crown's operations over an extended period and that the entity was unsuitable to hold a casino licence.

The royal commissioners came back with the same decision. All three proposed a pathway to suitability rather than removing the licence.

Crown was in a sense too big to pull the plug on in the short term because the cost to the economy of losing 12,000 jobs alone was ominous.

Strict conditions and extra monitoring were imposed on the company. The monitor would report back to gambling regulators on progress towards suitability.

Blackstone, a private-equity play, now has control of Crown Casino following an acquisition deal being accepted by shareholders and being given a green tick by regulators . This does not mean that the company will have it easy – regulators will uniformly require that it follows agreed undertakings.

What is concerning among the various issues raised in the case study is that executives at times failed to push essential information up to ultimate decision-makers on the board.

When he was boss, James Packer failed to be informed about bank accounts that had been closed because of concerns about money-laundering and Chinese police taking an interest in staff selling Crown's wares in China.

Failure to let top management know about inappropriate activities was clearly a bad call. Packer should clearly have been told about them.

Two questions arise from these issues: how do you build a corporate culture where uncomfortable conversations can take place and to what extent is a board responsible for matters about which it is unaware?

One thing the Crown case study shows is that at some point these conversations were not had and the entity had serious risk-management problems as a result.

Boards of directors of entities large and small need to think about how they incentivise better behaviour and initiate uncomfortable internal conversations.

It's a key lesson from the Crown chaos. People need to be told when wrong things are happening so that they may be properly handled. This ensures that relationships within a business are built on trust.

Tom Ravlic is a specialist writer on matters of corporate governance and regulation. *Crown - Playing in the Shadows,* his latest book, is put out by Wilkinson Publishing. His previous works have included *Vulture City*, a book on the Hayne Royal Commission, and a consumer guide to avoiding scams, *Rorts and Rip-Offs*.

REGULATORS & LEGISLATORS

Limebrook charged for breaching obligations

Limebrook Corporation Ltd has been charged with five counts of failing to meet its financial-reporting obligations and one count of failing to have the required number of company officers.

ASIC alleges that Limebrook failed to lodge within the required time-frames annual reports for financial years ending 23 October 2016-2020.

The commission further alleges that between 2 February 2018 and 8 February 2022, Limebrook failed to meet the legal requirement of having at least three directors appointed to the company and at least two that ordinarily reside in Australia.

As a public company, Limebrook is required to provide financial reports to ASIC within four months after the end of each financial year and meet minimum officeholder requirements.

Failure to lodge full-year financial reports is a breach of section 319(1) of the *Corporations Act*. The maximum penalty for a breach between 2017 and 2021 ranges from $54,000 to $266,400.

Failing to meet minimum officeholder requirements is a breach of sections 201A(2) of the Act. The maximum penalty for an offence committed on or after 1 July 2020 is $42,000.

Animoca Brands convicted and fined

Animoca Brands Corporation Ltd has been convicted of failing to lodge annual and half-yearly financial reports with ASIC.

The company failed to appear before the Downing Centre Court and was convicted in its absence on five ASIC charges of failing to lodge: annual financial reports for the 2019 to 2021 financial years, and half-year reports between 2020 and 2021.

The company was fined a total of $50,000.

An ASIC spokesperson said, 'Compliance with financial-reporting obligations is important as accurate and timely financial reports provide shareholders, creditors and the public with important information, enabling them to make informed decisions when dealing with these companies'.

ASIC will continue to prosecute companies that systemically fail to comply with their financial-reporting obligations.

AFSL

ASIC's AFSL financial reporting changes

ASIC has announced new financial-reporting requirements for Australian financial-services licensees following changes to accounting standards.

Under new reporting requirements, AFS licensees' financial reports must contain disclosures consistent with financial reports of other for-profit entities that are prepared under standards set by the AASB.

From financial years commencing 1 July 2021, for-profit companies, registered schemes and disclosing entities that prepare financial reports under Chapter 2M of the *Corporations Act 2001* and that are not reporting entities can no longer prepare SPFRs that fail to contain all disclosures required in full accounting standards.

Accounting standards instead allow entities that do not have *public accountability* to use a simplified disclosure regime. Entities that have public accountability must comply with the disclosure requirements of the full standards. All entities must apply full recognition and measurement requirements for assets, liabilities, income, and expenses.

An entity has public accountability where:

- Its debt or equity instruments are traded in a public market or it is in the process of issuing instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (this would include AFS licensees that hold client monies).

The AASB's new reporting regime will apply for the Chapter 7 financial reports of most AFS licensees using the public accountability test.

Disclosure requirements of the full standards would also be required to be applied by some licensees to avoid doubt as to whether they have public accountability (including licensees that typically hold client monies or assets) or because they are large or sophisticated licensees with greater market impact.

These are licensees that are:

- Regulated by the Australian Prudential Regulatory Authority
- Participants in a licensed market
- Participants in a clearing and settlement facility
- Retail over-the-counter derivative issuers
- Wholesale electricity dealers
- Corporate advisors that deal in financial products
- Over-the-counter derivative traders
- Wholesale trustees
- Responsible entities of a registered scheme
- Corporate directors of a corporate collective investment vehicle
- Providers of a custodial or depository service, and
- Operators of an investor-directed portfolio service.

All licensees will be required to prepare a cash-flow statement. As well as single-entity financial statements, consolidated financial statements must be presented where the licensee has controlled entities.

There may also be some additional disclosures for licensees that had previously prepared SPFRs, including in areas such as related party transactions, financial-instrument exposures and lease accounting.

The new disclosure requirements apply from financial years commencing on or after 1 July 2021, but many licensees can choose to defer any new disclosure requirements by a year.

AFS licensees that prepared SPFRs last year and that do not prepare reports under Chapter 2M can choose to defer the new disclosure requirements to financial years commencing on or after 1 July 2022. Comparative information need not contain the new disclosures in the first report prepared under the new requirements.

Similar transitional arrangements apply for additional disclosures for licensees that report under Chapter 2M, do not have public accountability, and would otherwise be required to give additional disclosures under full standards.

The changes will be given legal effect through the certification section of the prescribed ASIC form FS 70 *Australian financial services licensee profit and loss statement and balance sheet*.

ASIC commissioner Sean Hughes said, 'These reporting changes will assist those who prepare financial reports under both sets of requirements and provide relevant information for ASIC's surveillances of licensees and for other users of financial reports'.

Editor's note: *ASIC's statements have caused some interpretation uncertainties for licence holders, accountants, advisers, and auditors – clarifications may be forthcoming.*

ETHICS

APESB issues exposure drafts on PIES and NAS

The Accounting Professional & Ethical Standards Board has issued exposure draft *Proposed revisions to the Definition of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards).*

The draft proposes maintaining existing Australian requirement-and-application material in determining public-interest entities, with a request for specific comments as to whether there should be additional Australian-specific entity categories.

APESB has also issued exposure draft *Proposed Quality Management-related Conforming Amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards).*

The draft proposes consequential amendments to the code for the reissued APES 320 *Quality Management for Firms that provide Non-assurance Services* and the new AUASB QMS. The proposed amendments will be effective as of 1 January.

APESB seeks referral-source feedback

APESB is seeking feedback on amended proposals for the referral-source dependency provisions in APES 110.

Key revisions to fee-referral provisions include amendments to introduce a 30 per cent threshold and a five-year cumulative period to allow existing and new firms a reasonable time to address threats, and a new requirement to clarify actions to be taken if fee dependency on a referral source continues past five years.

AUDIT

ASIC to send directors negative findings

ASIC has announced that it will routinely communicate to directors negative findings from its reviews of audit files rather than use the current 'exception' basis.

The commission will tell directors the results of audit-quality reviews when the commission:

- Believes that an auditor has failed to obtain reasonable assurance that the entity's financial report is free of material misstatement
- Has concerns that the auditor did not meet the independence requirements of the *Corporations Act* and professional requirements, has failed to address a matter and/or has failed to report adequately a matter in an auditor's independence declaration, or
- Considers any other matter should be drawn to the attention of the directors, audit committee, or senior management.

ASIC regulatory guide 260 *Communicating findings from audit files to directors, audit committees or senior managers* has been updated to reflect the changes.

ASIC has the power to communicate specific financial-reporting and audit findings from its reviews. They may be sent to directors, audit committees, senior managers of companies and responsible and disclosing entities to assist the entity to properly manage its affairs (s127(2D)).

The new moves will begin with reviews for the 12 months to 30 June 2023.

ASIC commissioner Sean Hughes said, 'Communicating our negative audit review findings to directors of entities audited will assist audit committees and directors to ask the auditor about the steps they are taking to improve audit quality, and to ensure that the audit is adequately resourced.'

Group-audit standard revised

Recognising that many Australian audits are of group financial statements and that the global environment makes group audits more complex and challenging, the Auditing and Assurance Standards Board has released a revised ASA 600 *Audits of a Group Financial Report (Including the Work of Component Auditors).*

ASA 600 deals with special considerations that apply to a group audit, including when component auditors are involved while recognising that the group engagement partner remains ultimately responsible for managing and achieving quality.

The standard is closely aligned with the recently revised quality-management suite of standards, which strengthens and improves management quality at group engagement land-component levels by adopting a risk-based approach to planning and performing group audits.

A risk-based approach facilitates a greater focus on identifying, assessing, and responding to risks of material misstatement in a group financial report. Under the risk-based approach component auditors can be, and often are, involved in all phases of the group audit.

ASA 600 reinforces the need for robust communication and interactions and fostering an appropriately independent and challenging sceptical mindset.

It is expected to enhance audit quality by strengthening the accountability of group auditors and clarifying the relationship between group and component auditors.

It is effective for reporting periods commencing on or after 15 December 2023.

AUASB bulletin complements ASIC's focus

Preparers and auditors of financial reports have faced a challenging 30 June reporting period arising from the impact of topical and emerging risks and changing and uncertain economic conditions.

An AUASB bulletin complements *ASIC Areas of Focus for 30 June* and highlights how relevant auditing standards and existing guidance supports auditors.

AUASB releases bulletin on audit quality

The AUASB has published a bulletin that highlights how new and revised quality-management standards will support enhanced audit quality.

Quality Management Standards - Enhancing Audit Quality demonstrates how firms that effectively design and implement QMS requirements should benefit from improvements in audit quality.

Updated quality systems based on the new and revised QMS are required to be designed and implemented by 15 December.

The AUASB has produced various support materials to help firms and practitioners implement the new QMS, which is on its website.

Understanding IT risks

The AUASB has issued FAQs to help auditors to understand their responsibilities for general IT controls as part of a new ASA 315 *Identifying and Assessing the Risks of Material Misstatement.* The FAQs include new and updated material about an auditor's understanding of IT.

ASA 315 aims to address common questions from auditors about their responsibilities in relation to general IT controls. Understanding IT is becoming increasingly important for auditors as entities use it more.

Bank-confirmation requests updated

The AUASB has issued an updated GS 16 *Bank Confirmation Requests* that has been revised to reflect auditors' increased use of electronic confirmations.

The revised GS 16 includes an expanded section outlining firm and auditor responsibilities where an electronic confirmation process is used, including electronic confirmations that use a service provider.

The guidance specifically draws on the requirements of 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* and the revised ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

Aligning AUASB standards with new QMS

The AUASB has issued for public comment exposure draft 01/22 *Proposed Conforming and Consequential Amendments to the Australian-Specific AUASB Standards as a result of the New and Revised Quality Management Standards*.

Australian-specific AUASB standards comprise some review-engagements and assurance engagements that are either not issued internationally or not being updated internationally.

The amendments aim to align various other AUASB standards with the new QMS and to ensure that Australian-specific counterparts can continue to be applied together with the QMS.

The exposure draft also includes updating references to ASA 315 *Identifying and Assessing the Risks of Material Misstatement* and ASRS 4400 *Agreed-Upon Procedures Engagements*.

Going-concern guidance

The AUASB has released a revised GS 023 *Special Considerations – Public Sector Engagements* that includes further application and explanatory material to support public-sector auditors in applying ASA 570 *Going Concern*.

GS 023 has been designed to be incrementally updated to include topic-specific guidance in response to challenging issues identified in applying AUASB standards in the public sector.

The AUASB's next priority concerns the role and responsibilities of public-sector engagement leaders under ASA 220.

Auditing standards for non-members

The AUASB has issued for comment ED 02/22 *Proposed Conforming and Consequential Amendments to the other AUASB Standards to align to the IAASB Other Standards*.

Proposed amendments are intended to ensure that:

- The AUASB's assurance standards are more easily applied by assurance practitioners who are not members of the Australian professional accounting bodies, and
- Instead of being bound to the APESB code of ethics and AUASB quality-management standards, assurance practitioners may apply a different quality-management framework and/or other ethical codes where appropriate, but only if they are at least as demanding as the requirements in the AUASB's and APESB's frameworks (as required by ASQM 1 and ASA 102).

IAASB guides on fraud

The International Auditing and Assurance Standards Board has released non-authoritative guidance on fraud *The Fraud Lens – Interactions Between IAS 240 and Other ISAs*.

The guidance illustrates the relationship and linkages between ISA 240 *The Auditor's Responsibilities Relating to Fraud in Audit of Financial Statements* and other ISAs concerning planning and performing an audit engagement.

The IAASB is working to revise ISA 240 to enhance or clarify an auditor's fraud responsibilities. In the interim, this non-authoritative guidance illustrates how extant ISA 240 is to be applied in conjunction with the full suite of ISAs.

Climate-change assurance research issued

The AUASB has issued research report 7 *A Literature Review on the Reporting and Assurance of Climate Related and Other Non-Financial Information,* which summarises and discusses studies on climate-related and non-financial-information disclosures and whether the information is subject to assurance, and by whom.

The report presents findings from studies that examine the extent and quality of disclosures, both internationally and in Australia, as well as the impact of reporting on market values. It provides an important 'snapshot' of current reporting and assurance, and points to the need to consider regulation to drive consistency.

TRAINING

GAAPinar recordings available

Our April-June *GAAPinar* program has come to an end.

In 14 sessions we covered the very latest in financial reporting, auditing, ethics, SMSFs, and business risks.

If you missed the broadcasts, recordings are available. Download them at www.gaaptraining.com.au or contact Andrew Parker for further information (0401 858 889 or andrew@gaaptraining.com.au).

Let's summarise the sessions and for whom they should be of most interest.

Topics	Audit team members	Other public practitioners and their team members	Accountants in commerce, industry and NFPs
Financial reporting			
The end of SPSFs for many (extended session)	●	●	●
Delving into troublesome revenue and leasing standards	●	●	●
Recap on the fundamentals of accounting for investments	●	●	●
Revisiting the accounting, disclosure, and audit of changes in foreign exchange rates	●	●	●
Time to address common financial-statement shortcomings	●	●	●
Auditing			
Planning the 2022 audit	●		
Key lessons in applying the audit risk standard	●		
Revised standard on fraud-and-corruption control	●	●	●
Auditing trust accounts, AFSL and other compliance engagements	●		
Self-managed superannuation funds			
SMSF audit update for 30 June	●	●	
Business risks			
What's new with accounting, auditing, ethical standards and the regulators?	●	●	●
Updating employment law and its risks for directors, accountants and auditors	●	●	●
A legal view of contemporary business risks affecting directors, accountants, and auditors	●	●	●
Reporting and auditing considerations for 30 June	●	●	●

Feedback from the sessions included:

- 'Thank you for a wonderful GAAPinar series. As usual the sessions were informative and on point.'
- 'I have attended the last two GAAPinar series … Both were excellent, thank you.'

We're back in November for our spring series of 12 sessions. Information on content will be released in September. Feel free to let us know the topics you would like to see addressed.

Examples provided on functional-currency changes

In **GAAPinar #11 *Revisiting the accounting, disclosure, and audit of changes in foreign exchange rates*** (2 June), despite searching, Colin Parker failed to find examples of changes in functional currency to share with participants. Such changes are relatively rare.

Enter Blayney Morgan, audit partner, SW. He took up the challenge, dug deep, and provided four historical examples: BHP (2002), Oxiana (2006) FMG (2009), Woodside (2010), and Mineral Deposits (2010). Thanks Blayney.

Please contact Colin if you have other examples you would like to share or if you would like a link to Blayney's examples.

A recording of this GAAPinar is available from www.gaaptraining.com.au.

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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).

Colin Parker
GAAP Consulting

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APPENDICES

Appendix: ASIC focus areas for 30 June

Topic	Focus area
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. The appropriateness of key assumptions supporting the recoverable amount of non-financial assets. Disclosure of estimation uncertainties, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios.
Values of property assets	Factors that could adversely affect commercial and residential property values should be considered such as changes in office space requirements of tenants, on-line shopping trends, future economic or industry impacts on tenants, the financial condition of tenants and restructured lease agreements. The lease accounting requirements, the treatment of rental concessions by lessors and lessees, and the impairment of lessee right-of-use assets.
ECLs credit losses on loans and receivables	Whether key assumptions used in determining expected credit losses are reasonable and supportable. Any need for more reliable and up-to-date information about the circumstances of borrowers and debtors. Short-term liquidity issues, financial condition and earning capacity of borrowers and debtors. The extent to which past history of credit losses remains relevant in assessing expected credit losses. Disclosure of estimation uncertainties and key assumptions.
Value of other assets	The net realisable value of inventories, including whether all estimated costs of completion and necessary to make the sale have been taken into account in determining net realisable value. Whether it is probable that deferred tax assets will be realised. The value of investments in unlisted entities.
Provisions	Consideration should be given to the need for and adequacy of provisions for matters such as onerous contracts, leased property make-good, mine-site restoration, 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.
Disclosure – general	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 and its businesses, assets, financial position, and performance. Changes from the previous period should be considered and disclosed.
Financial report disclosures	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. Explain where uncertainties have 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.
OFR disclosures	The OFR should complement the financial report and tell the story of how the entity's businesses are impacted by the COVID-19 pandemic and changing circumstances. The overall picture should be clear, 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 future prospects. All significant factors should be included and given appropriate prominence. The most significant business risks at whole-of-entity level that could affect the achievement of the disclosed financial performance or outcomes should be provided, including a discussion of environmental, social and governance risks. Risks should be described in context – for example, why the risk is important or significant and its potential impact and, where relevant, factors within the control of management. Climate-change risk could have a material impact on the future 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.

Topic	Focus area
Disclosure in half-year reports	Disclosure will also be important for half-year financial reports and directors' reports as at 30 June 2022. Half-year reports should disclose information on significant developments and changes in circumstances since 31 December 2021.
Assistance and support from others	Entities should appropriately account for each type of support and assistance from government, lenders, landlords and others during the reporting period. Material amounts should be disclosed with the duration of the support or assistance, and any impact from its discontinuation.
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.
Other	Consideration of whether off-balance sheet exposures should be recognised on-balance sheet, such as interests in non-consolidated entities. In relation to aged-care providers, review of the treatment of aged-care bed licences following the announcement in May 2021 that the licences will be discontinued on 1 July 2024 and subsequent information from the Department of Health. Disclosure of material penalties for non-compliance with sanctions imposed in Australia or elsewhere in relation to Russia. Ensuring the recognition of assets, liabilities, income and expenses in registered scheme balance sheets and income statements where individual scheme members have pooled interests in assets and returns with some or all other members in substance.