GAAP ALERT

GAAP Consulting

advice • training • risk management • information

Authored by Colin Parker and edited by Stephen Downes

#6/2023

NOVEMBER/DECEMBER 2023

COLIN'S CORNER

Reflections on 2023

Having authored six GAAP newsletters containing more than 100 news items (about 40,000 words), I've shared a lot with readers.

I've hoped that my words have helped accountants, auditors, and those responsible for governance to discern relevant developments and identify and respond to risks.

Sustainability and climate change are the hot issues.

New standards have been issued internationally and Australian versions should arrive by mid-year. Federal government legislation is coming.

ASIC and the ACCC are tackling greenwashing. Several organisations have provided guidance to assist preparers and auditors in understanding developments and how to respond to them. Take the time to read and apply them.

Cyber-attacks and security were a constant theme. I hope that we learn from them. Professional bodies released several publications that should be read by directors, management, and auditors to build our understanding of risks and how to address them.

It would be remiss of me not to mention that recently revised auditing standard ASA 315 *Identifying and Assessing the Risk of Material Misstatement* has a heavy emphasis on IT and related risks. Some auditors will be challenged by what is required.

While on the topic of risk, from my audit-file inspections and litigation work have shown that some auditors have failed to understand and document how their clients assess risk and its effect on audit risk. They need to review ASA 315's demands and the risk-management standards that their clients should be using as a benchmark.

The fresh paint audit-quality management standards have a profound effect on the conduct of audit and assurance engagements. Some firms continue to be challenged by their requirements, in particular the annual assessment of compliance and monitoring and remediation requirements.

Some still think of quality management primarily in terms of financial statements audits and forget about assurance. These are early days of implementation, and we shouldn't be tempted to rest.

Quality auditing of financial statements is essential to capital markets, accountability, and decision-making by users of all financial statements. ASIC has a focus on audit quality under its integrated approach to financial reporting and audit inspections. All of us need to heed ASIC's findings and recommendations.

The Financial Reporting Council has been critical of ASIC's surveillance program as well as those of the CA ANZ and CPA Australia. The findings of UK FRC, IOSCO and PCAOB, provide further insights to common audit shortcomings. They should not be ignored.

INSIDE THIS ISSUE

This edition continues my coverage of these and other important issues. I trust that you have found our *GAAP Alert* newsletters and *GAAPinars* helpful in addressing contemporary issues and enhancing your core competencies.

I have enjoyed writing them.

FINANCIAL REPORTING

ASIC highlights focus areas for 31 December 2023 reporting

The Australian Securities & Investments Commission has urged directors, preparers of financial reports and auditors to assess the impact of uncertain market and economic conditions.

Financial-report disclosures about uncertainties are vital for investors, the commission stressed.

The focus areas highlight elements of financial reports and audits where ASIC has identified the most significant and common instances of non-compliance with Australian Accounting Standards or issues with the audit in the past and areas that are emerging as more significant challenges for preparers.

Key findings in ASIC's Report 774 *Annual financial reporting and audit surveillance report 2022–23* form the basis for identifying areas for particular consideration included:

- Impairment and asset values
- Provisions
- Events occurring after year-end and before completing a financial report
- Disclosures in the financial report and operating and financial review, and
- The effect of a new accounting standard for insurers.

Disclosures in the financial report about uncertainties, key assumptions, and sensitivity analysis were important to investors, the commission said.

Uncertainties may lead to a wider range of valid judgements on asset values and other estimates. They might change from time to time, and documenting and updating information supporting judgements was expected.

Directors and management should assess how an entity's current and future performance, the value of its assets and provisions, and business strategies might be affected by changing circumstances, uncertainties and risks.

ASIC commissioner Kate O'Rourke said, 'Directors should ensure that company financial reports provide investors with useful and meaningful information on the impact of changing and uncertain economic and market conditions and other developments on their company's financial position and future performance.

'Directors should ensure there are adequate resources, skills and expertise applied to promote quality in the reporting process so that assumptions underlying estimates and assessments for financial reporting purposes are reasonable and supportable.

'Finally, auditors should focus their professional judgement and scepticism on those areas of the financial report preparation process that are most reliant on estimates and are uncertain. Auditors occupy a privileged position in the financial reporting cycle and are essential to maintaining market integrity.'

High-quality financial reports supported by robust auditing were essential for market integrity and investor confidence.

ASIC will review the full-year financial reports of selected listed entities and other public-interest entities for each reporting period.

See *Appendix – ASIC focus areas for 31 December 2023 reporters and their auditors* for the detail.

In December, in ***GAAPinar No.12*** Carmen Ridley and Colin Parker provided their insights into *Reporting and auditing considerations for December year-ends.*

Directors must shoulder responsibility, says ASIC

ASIC has emphasised that directors were primarily responsible for the quality of a financial report.

This included ensuring that management produced quality and timely financial information for audit that was supported by robust position papers with appropriate analysis and conclusions referencing relevant accounting standards.

Companies must have appropriate processes, records, and analysis to support information in a report, the commission stressed.

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

The circumstances in which judgements on accounting estimates and forward-looking information had been made and their bases should be properly documented at the time and disclosed as appropriate.

Operating and financial reviews should complement financial reports and tell the story of an entity's performance. Underlying drivers of results and financial positions should be explained as well as risks, management strategies and prospects. Forward-looking information should have a reasonable basis and the market should be updated through continuous disclosure if circumstances change.

Audit fees should be reasonable and have regard to increased auditors' costs and extra effort required in judgement areas.

ASIC outlines audit focus areas

The financial reporting focus areas outlined are also important focus areas for auditors. Auditors have an essential role in the production of high-quality financial reports. The commission has reminded auditors to be professionally sceptical when making judgements and estimations.

They should bring knowledge of a business and the risks and strategies obtained in the process of while auditing the financial report when they review the OFR.

While auditors are not required to form opinions on OFRs, they must assess them for material misstatements and inconsistencies with financial reports.

Auditors should document their views about disclosures on matters such as underlying drivers of results, material risks, strategies, and prospects.

They might need to report to ASIC a suspected contravention of the *Corporations Act 2001* where, for example, disclosures were materially inadequate or misleading, including where 'greenwashing' had possibly occurred.

Standards and amendments to consider

The following standards and amendments were effective from 1 January last year and applied to 31 December balance dates:

- AASB 17 *Insurance Contracts*
- *Disclosure of Accounting Policies* (amendments to AASB 101 and AASB practice statement 2)
- *Definition of Accounting Estimates* (amendments to AASB 108)
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (amendments to AASB 112), and
- *International Tax Reform – Pillar 2 Model Rules* (amendments to AASB 112).

Super standard becomes a legislative instrument

The Australian Accounting Standards Board has reissued AASB 1056 *Superannuation Entities* as a legislative instrument under section 334 of the *Corporations Act*.

The AASB first issued the standard without reference to its authority under the act. At the time, the act did not require superannuation entities to prepare and lodge financial statements with ASIC.

The move responds to amendments to the act that require registrable superannuation entities to prepare annual financial statements that comply with Australian accounting standards and lodge them publicly with ASIC.

Since the requirements of AASB 1056 differ slightly from other Australian standards, a legislative instrument had to take precedence over other standards.

In converting AASB 1056 into a legislative instrument, the board has not changed requirements. Some outdated mandates and material have been deleted.

AASB 1056 applies to annual reporting periods beginning on or after 1 July that end on or after 31 December 2023. Earlier application is permitted for periods beginning before 1 July last year.

Link Group restates 2023 results

Link Administration Holdings Ltd has restated its half-year and full-year 2023 financial reports after an ASIC review.

Concerns about material misstatements were identified in March.

ASIC said that Link Group's financial reports contained material misstatements in the carrying value of Funds Solutions business assets, provisions, and expenses in relation to settlement with the UK's Financial Conduct Authority.

Link Group then amended its accounting treatments about the financial impact of settlement with the FCA and impairment of the FS business.

The company said that the restatement would result in a $50 million increase in its 2023 half-year statutory loss and a $169 million decrease in its full-year statutory loss. Link Group also noted that its 2024 forecast for statutory profit and loss would be reduced by $169 million.

The corrections would be disclosed in Link Group's combined financial reports for the half-year ending 31 December 2023 and financial year ending 30 June.

ASIC has reminded preparers that consideration should be given to the adequacy of provisions for liabilities and asset valuations.

Standard setting reform underway

Three bodies that oversee financial reporting and set standards – the Australian Accounting Standards Board, the Auditing and Assurance Standards Board, and the Financial Reporting Council – will be combined into a single entity.

The new body would better support implementation of Australia's climate related financial-disclosure standards, it has been reported. Subject to legislation, the new body would be operational on or after 1 July 2026.

The federal government will finalise details of governance arrangements for the new entity and release draft legislation for public consultation, including appropriate transitional arrangements.

Establishing a framework for sustainability related financial disclosures is a key priority in the government's draft *Sustainable Finance Strategy*. Ahead of the body's formation, the AASB will continue to work on climate related financial-disclosure standards.

Goodwill accounting recommendations

The Board of the International Organisation of Securities Commissions published its report *Recommendations on Accounting for Goodwill* for issuers, audit committees, those charged with governance, and external auditors. The report is aimed at enhancing the reliability, faithful representation and transparency of goodwill recorded and disclosed in the financial statements.

The report results from work of IOSCO's Committee on Issuer Accounting, Audit and Disclosure in recognition that the risk of unrecognised impairment on accumulated goodwill and related disclosures, including 'close call' situations, is an area of concern, particularly in times of increasing economic uncertainty.

IOSCO has reminded issuers that their accounting and disclosures give a fair and transparent presentation of a company's financial position, performance, and cash flows.

Goodwill should not exceed its recoverable amount, impairment losses should be recognised in a timely manner, and disclosures of significant judgements and key assumptions on recoverability be transparent.

ASIC is a member of IOSCO.

Shaping hedges

Written by hedge-accounting specialist Kevin Mitchell, *Hedge Accounting Unlocked* provides straightforward ways to optimise the practice whether dealing with foreign exchange, interest rates, or commodity price risks.

With useful templates and practical insights, Mitchell shows how to streamline accounting for financial derivatives, protect key financial metrics, and elevate your finance team's effectiveness.

The book focuses on his 'hedgehog method', which outlines eight key areas to ensure compliance with accounting standards. Real-world case studies are provided.

Hedge Accounting Unlocked is available through Amazon.

SUSTAINABILITY REPORTING

New bill proposes obligatory climate risks

Treasury released in January an exposure draft legislation *Treasury Laws Amendment Bill 2024: Climate-related financial disclosure* that seeks to amend parts of the ASIC and Corporations acts.

The new act would introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities. Comments sought by 9 February.

The bill requires entities that lodge financial reports under Chapter 2M of the *Corporations Act* to meet certain minimum-size thresholds and/or have emissions-reporting obligations under the NGER scheme to make disclosures relating to climate in accordance with AASB sustainability standards.

The amendments would be phased in over four years.

Climate disclosures would be subject to assurance requirements like those in force for financial reports. They would require entities to obtain an assurance report from their financial auditor. The extent and level of assurance would be set out in standards developed by the AUASB.

First annual reporting periods starting on or after	Large entities and their controlled entities meeting at least two or three criteria:			National Greenhouse and Energy Reporting (NGER) Reporters	Asset owners
	Consolidated revenue	EOFY consolidated gross assets	EOFY employees		
1 July 2024 Group 1	$500 million or more	$1 billion or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	$200 million or more	$500 million or more	250 or more	All other NGER reporters	$5 billion assets under management or more
1 July 2027 Group 3	$50 million or more	$25 million or more	100 or more	N/A	N/A

Climate-related trends disclosed

The AASB and the AUASB have published updated research in *Trends in climate-related disclosures and assurance in the annual reports of ASX-listed entities*. It builds on the previously issued *Climate-related disclosures and assurance in the annual reports of ASX-listed companies* by extending the 2018-2021 sample period to 2022.

The report identifies several trends in climate-related reporting and assurance, including:

- Entities are increasingly disclosing climate-related information in their annual reports and governance statements
- Climate-sensitive industries continue to be more likely to disclose climate-related information with extant reporting standards and/or guidelines
- Most disclosures are outside financial statements and therefore not subject to audit
- An increase in the number of disclosers referencing Task Force on Climate-Related Financial Disclosures recommendations, including reporting against the 'four pillars'
- An increase in the amount of climate-related content in key audit matters, and
- Limited assurance remains the dominant level of assurance being provided about climate-related information. Only three instances where both limited and reasonable assurance were provided.

In November, Colin Parker in ***GAAPinar No.6*** addressed *Assurance beyond financial-statement audits.*

Sustainability standards amended

The International Sustainability Standards Board has issued amendments to its standards to enhance their international applicability. The amendments will be effective for annual reporting periods beginning on or after 1 January 2025.

They make the SASB standards more internationally applicable and GAAP-agnostic. The amendments remove and replace jurisdiction-specific references and definitions without substantially altering industries, topics, and metrics.

Sustainability and internal control assistance

The International Federation of Accountants has published *Building Trust in Sustainability Reporting: The Urgent Need for Integrated Internal Control* to address the demand for high-quality sustainability reporting and to prepare accountants for mandatory international and jurisdictional reporting and assurance requirements.

The analysis highlights how companies can integrate sustainability information within their existing internal controls and governance frameworks.

COSO Internal Control – Integrated Framework has long provided a good foundation for delivering confidence in corporate reporting. In an integrated internal-control environment, it can provide the foundation for enhancing the quality of sustainability data used for measuring progress on key sustainability objectives and deliver confidence to investors.

To bring about sustainability and climate transitions, companies and investors need to make economic decisions based on information they can trust – related to risks and opportunities, performance and resilience.

An integrated internal-control approach would lead to higher quality and more integrated reporting, IFAC believes, and help companies avoid perceptions of greenwashing and regulatory and legal action.

'The professional accountant's skillset is instrumental in bringing about a step change in the quality of sustainability reporting through applying new reporting standards and integrated internal controls' said Kevin Dancey, IFAC CEO.

'Integrated internal control can put sustainability information on par with financial information, enhance its assurance readiness, and set the foundation for transitioning to a more sustainable business model.'

In November, Carmen Ridley and Colin Parker in ***GAAPinar No.5*** spoke on the topic of *Sustainability standards are here with an emerging regulatory framework.*

GOVERNANCE

Prioritise cyber security, says ASIC

The Australian Cyber Security Centre estimated that cyber-crime cost Australia $42 billion in 2021. ASIC has called on organisations to prioritise cyber security after its report into corporate Australia's cyber situation identified significant gaps.

Spotlight on cyber: Findings and insights from the cyber pulse survey 2023 summarises the commission's results.

The survey measured participants' ability to govern and manage organisational-wide cyber risks, identify and protect information assets that support critical services, and detect, respond to, and recover from cyber-security incidents.

The survey's results have exposed deficiencies in the risk management of critical cyber capabilities, indicating that organisations are reactive rather than proactive when it comes to managing cyber security.

Survey result highlights include:

- 44 per cent of participants did not manage third-party and supply chain risks
- 58 per cent had limited or no capability to protect confidential information adequately
- 33 per cent did not have a cyber incident response plan, and
- 20 per cent *did* have a cyber-security standard.

ASIC chair Joe Longo said, 'For all organisations, cyber security and cyber resilience must be a top priority. ASIC expects this to include oversight of cyber-security risk throughout the organisation's supply chain – it was alarming that 44 per cent of participants are not managing third-party or supply-chain risks. Third-party relationships provide threat actors with easy access to an organisation's systems and networks.'

Participating organisations indicated well-developed capabilities in identity and access management, governance and risk management, and information asset management, big organisations consistently self-reporting more mature cyber capabilities.

Due to competing demands for limited human and financial resources, small organisations lagged in third-party risk management, data security, consequence management, and adoption of industry standards than larger entities.

There is a need to go beyond security alone and build up the ability to respond to and recover from an incident. Plans are not enough. They must be tested regularly. Cyber risks need constant reassessing.

'An effective cyber-security strategy and governance and risk framework should help identify, manage, and mitigate cyber risks to a level that is within the risk tolerance of senior leadership and boards', said Mr Longo.

Governance Institute guides on greenwashing

The Governance Institute of Australia has released guidance on how to avoid greenwashing.

Greenwashing: a governance perspective responds to several recent, high-profile anti-greenwashing moves made by ASIC and the Australian Competition & Consumer Commission over allegedly misleading claims by businesses.

A European Commission review of corporate websites found that 42 per cent of environment-related claims were exaggerated, false, or deceptive, and an ACCC 2022 review of Australian corporate websites found that 57 per cent of businesses made concerning claims about their environmental credentials.

The guide examines the extent of greenwashing in Australia, the legal and regulatory environment, and the risks and guiding principles of how to manage environmental disclosures and statements.

CFOs lukewarm on emissions plans

Almost half of 1000 finance professionals from around the world had no plans for reducing their companies' carbon emissions. Seventy per cent of the 46 per cent without plans had no intention of developing one, new research has shown.

The alarming results are detailed in *The role of the CFO and finance function in the climate transition: driving value and sustainability*, produced by the Association of Chartered Accountants, the International Federation of Accountants, and professional services firm PwC.

The report says that involving CFOs and finance teams in emissions-reduction planning is likely to accelerate progress. They should embrace the move because, although they may not 'own' the sustainability agenda, CFOs can embed climate-transition priorities into business planning and resource allocation and enable high-quality sustainability reporting internally and externally.

The research recommends that finance teams need to develop the right skills and expertise to continue increasing their contribution to climate transition. For CFOs, balancing short-term operational priorities while upskilling their teams to support net-zero initiatives longer term should be a critical imperative.

Sustainability checklist for small businesses released

The International Federation of Accountants has released a *Small Business Sustainability Checklist* to help small- and medium-sized enterprises maximise the benefits of incorporating sustainability into their operations.

The checklist is a diagnostic tool designed to be tailored according to a business's own circumstances, including its industry sector, life cycle, and products and services it provides. It lists a comprehensive range of initiatives and actions to be considered in terms of environmental, social, and governance factors.

Whistleblowing guidance released

IFAC and Chartered Professional Accountants of Canada has released *Understanding Whistleblowers Protection: Laws, Practices, Trends and Key Implementation Considerations.*

It aims to provide professional accountancy bodies, relevant authorities, and policymakers globally with insights on current issues in adopting and implementing whistleblower-protection legislation and key policy considerations to help ensure that they work.

It includes a *Compendium of 14 Best Practice Principles.*

In November, Stephen Newman in ***GAAPinar No.8*** addressed *The legalities of contemporary business risks affecting directors, accountants, and auditors.*

REGULATORS & LEGISLATORS

ASIC announces 2024 enforcement priorities

ASIC has announced its enforcement priorities for 2024, including putting the superannuation industry under the microscope.

ASIC will examine the industry's member-services failures and misconduct relating to the erosion of superannuation balances.

New priorities relating to insurance-claims handling, compliance with financial hardship obligations and the reportable-situation regime have also been added. ASIC will also be acting against misconduct around used-car financing for vulnerable consumers.

Gatekeepers such as auditors, registered liquidators, and financial services and credit licensees who do not comply with legal obligations will also be examined.

'We are taking matters to court and pursuing higher penalties than ever before', said ASIC deputy chair Sarah Court.

'In delivering […] our priorities this year, we took action against some of Australia's biggest corporations. And we are not deterred from taking challenging cases where legal outcomes are not guaranteed.

'We must test the scope of the laws that parliament has enacted to protect market integrity, consumers, and investors, [and] to ensure those laws have a wide protective application. Where the law is complex, new, or open to interpretation, we are not doing our job if we do not fully explore its reach.'

Greenwashing remains under the commission's spotlight, as are distribution obligations and failures of governance and by directors.

ASIC's red light for greenwashing

ASIC's enforcement actions in response to concerns about greenwashing range from warning letters and infringement notices to Federal Court action.

Greenwashing matters that ASIC is currently pursuing broadly allege misleading and deceptive conduct.

Future enquiries may move to examining licence obligations, directors' and officers' duties, and a range of other obligations. New focus areas include:

- Net-zero statements and targets
- Use of terms such as 'carbon neutral', 'clean' and 'green', and
- The scope and application of investment exclusions and screens.

Where public statements are made that assert aspirational environmental positions with a sound basis and supported by business plans and investments, ASIC is unlikely to have concerns.

When statements are made in marketing campaigns designed to encourage investment and promote products with little substance to back up assertions or substantiate how the transition will be achieved, ASIC is likely to request more information.

ASIC has published information sheet 271 *How to avoid greenwashing when offering or promoting sustainability-related products.*

ACCC guidance on environmental claims

The ACCC has published eight principles to help businesses ensure that any of their environmental marketing and advertising claims are clear, accurate, and do not mislead consumers.

Making environmental claims: A guide for business sets out the ACCC's view of good practice when making environmental claims. It also details obligations under Australian Consumer Law.

The eight principles are:

- Make accurate and truthful claims
- Have evidence to back up your claims
- Don't hide or omit important information
- Explain any conditions or qualifications on claims
- Avoid broad and unqualified claims
- Use clear and easy-to-understand language
- Visual elements should not give the wrong impression, and
- Be direct and open about your sustainability transitions.

'Misleading environmental and sustainability claims continue to be an enforcement and compliance priority for the ACCC', said ACCC acting chair Catriona Lowe.

'[We] have several active investigations underway.

'Our final guidance is intended to improve compliance by helping businesses make meaningful and truthful claims that meet their obligations under the Australian Consumer Law.

'Environmental claims are often technical and can be difficult for businesses to communicate clearly. By following the principles in our guidance, businesses can more confidently make meaningful claims that consumers can understand and trust.

'It is important for businesses to consider whether they are exaggerating the environmental benefits of their product or services and whether they have a reasonable basis to make the claims, otherwise they risk breaching the [law].'

The ACCC will release further guidance for businesses and consumers on emissions and offset claims as well as the use of trust marks. The commission will also develop guidance to help consumers assess and rely on environmental claims.

AUDIT

FRC's audit-quality review released

Australia's Financial Reporting Council has released *Oversight of Audit Quality in Australia – A Review*.

The review focused on how regulators and accounting bodies monitored and supported audit quality. It also identified non-compliance with auditing and ethical standards and evaluated whether breaches and escalation to disciplinary action might be improved.

The review includes 15 recommendations for ASIC, accounting bodies, and the government on improvements to audit-quality reviews, how compliance with ethical standards are monitored and enforced and possible legislative changes.

The recommendations included:

- 'ASIC's program of reviewing audit files only when financial reports are known or suspected to be misstated, should be augmented with a program that selects audit files on a risk and rotational basis for review, with the overall objective to review all auditors over an established time period.'
- 'Including greater emphasis on oversight of the adequacy of audit firms' compliance with the QMS and monitoring of compliance with ethical standards routinely in its surveillance program', and
- 'In relation to their quality review programs, the PABs should consider: The objectives of their programs and co-ordination with ASIC. Preparing public reports to provide detail of their monitoring and quality review programs including key performance indicators and results. This reporting should also confirm their compliance with IFAC's SMO 1, and their conclusions on the audit quality of their members. More comprehensive reporting on the scope and results of their programs to the FRC'.

The report also examines progress on recommendations from a 2019 disciplinary review.

In December, Colin Parker and Chanelle Pienaar addressed audit quality in ***GAAPinar No.9*** *Audit quality lessons for the audit team.*

UK's FRC says smaller-firm audits need to improve

The UK's Financial Reporting Council has published its annual inspection findings for tier 2 and 3 audit firms as well as what these firms must prioritise to deliver high-quality audits and contribute to a more resilient market.

The FRC inspected 13 audit files at 11 firms that audit public-interest entities:

- 38 per cent of audits reviewed required no more than limited improvements
- 24 per cent required more than limited improvements, and
- 38 per cent required significant improvements.

'While these results represent only a small risk-based sample, the number of audits requiring significant improvement is unacceptable', said Sarah Rapson, FRC executive director of supervision.

The FRC continues to identify deficiencies in the audit of judgements, estimates, and going concern, all of which require audit teams to demonstrate robust professional scepticism.

Tier 2 and 3 firms must prioritise audit-quality improvements and respond swiftly, the FRC advised.

This included investing in methodology, human resources, and audit-quality functions, learning from things that went wrong or went well, and seeking to embed a culture that recognises and prioritises quality.

Quality-management toolkit released

IFAC and Chartered Accountants Australia and New Zealand has released a quality-management toolkit to help small- and medium-sized practices implement the International Auditing and Assurance Standards Board's suite of related standards.

The Quality Management Toolkit for Small and Medium Sized Firms and its companion Illustrative Risk Matrix include a suite of illustrative documents, policies, checklists, sample letters, and forms to help SMPs establish their quality objectives, identify and assess quality risks, and design and implement responses to address risks.

The toolkit is designed to require each SMP to adapt the content to its nature, circumstances, and engagements.

No to local standard on LCE

At a December meeting, the Auditing and Assurance Standards Board reflected on prior consultations and public-interest considerations and decided not to adopt the *International Standard on Auditing of Financial Statements of Less Complex Entities.* The AUASB has issued a statement summarising its position.

For jurisdictions that adopt or permit its use, the standard is effective for audits beginning on or after 15 December 2025.

PIEs expanded

Accounting Professional & Ethical Standards Board Limited has issued amending standard revisions to definitions of listed entity and public-interest entity in APES *110 Code of Ethics for Professional Accountants (including Independence Standards).*

The amending standard incorporates changes made by the International Ethics Standards Board for Accountants to its code to expand the PIE definition and provide guidance on the factors to consider when determining whether an entity should be subject to independence requirements applicable to PIEs.

Key revisions include an expanded definition of PIE, replacing the term 'listed entity' with 'publicly-traded entity' and requiring firms to disclose if an audit client has been treated as a PIE.

Guidance has also been updated, including new factors to consider when determining the level of public interest in an entity's financial condition.

As Australia has maintained since 2013 higher requirements for determining PIEs than the IESBA code, Australian provisions have been maintained. However, to clarify the link to IESBA provisions, an Australian guidance paragraph on determining whether additional entities should be considered PIEs has been elevated to a requirement to be consistent with the IESBA provisions.

The amendments will be effective for audits of financial statements for periods beginning on or after 1 January 2025, earlier adoption permitted.

Group standards revised

The AUASB has revised 18 standards because of amendments arising from ASA 600 *Audits of a Group Financial Report (Including the Work of Component Auditors).*

ASA 600 is operative for financial reporting periods commencing on or after 15 December. Early adoption is permitted.

Ethics Q&A on independence in group audits

The staff of the International Ethics Standards Board for Accountants has released a Q&A on *Revisions to the Code Relating to Definition of the Engagement Team and Group Audits.*

The revisions address holistically various independence considerations in an audit of group financial statements. The revisions also deal with the independence and other implications of the changes to the code's definition of an engagement team to align with changes to the definition of the same term in the IAASB's *International Standards on Auditing and International Standards on Quality Management.*

Publication will assist firms, national standards-setters, and professional accountancy organisations in adopting and/or implementing the revisions. The Q&As will also assist regulators and audit oversight bodies, the corporate-governance community, investors, preparers, educational bodies and institutions and other stakeholders to understand the code's revisions.

AAT upholds disqualification of SMSF auditor

The Administrative Appeals Tribunal has upheld ASIC's decision to disqualify Janette Townshend from being an approved self-managed superannuation fund auditor for breaching independence requirements.

Ms Townshend, of Templestowe, Victoria, was originally disqualified from being an approved SMSF auditor in August 2022. She appealed to the AAT.

The AAT found that there was no doubt that Ms Townshend breached auditor-independence requirements when she audited her spouse's SMSF for six income years.

The tribunal said that 'the integrity of the taxation system and the protection of consumers will be compromised if auditors of SMSFs cannot be trusted to perform their role with skill, independence, and integrity'.

Suspending or disqualifying Ms Townshend would send a clear message to the rest of the audit profession that independence was crucially important.

In December, Shelley Banton in ***GAAPinar No.10*** addressed *Contemporary SMSF compliance and audit issues*

INSIDE GAAP CONSULTING

November-December *GAAPinar* recordings available

GAAP Training's 12-session 2023 *GAAPinar* series covered the very latest in financial reporting, auditing, ethics, SMSFs, and business risks, with a particular focus on the 31-December reporting season.

It can be challenging to identify the training topics you need. Let's summarise the sessions and who might benefit most from them.

Recordings are available at www.gaaptraining.com.au.

Require face-to-face tailored training? We can deliver it.

Contact andrew@gaaptraining.com.au or 0401 858 889.

Our next 14-session GAAPinar series start on 11 April. Brochure out soon.

	Audit team members	Other public practitioners and their team members	Accountants in commerce, industry and NFPs
Auditing			
Assurance beyond financial-statement audits	●		
Understanding materiality in the context of financial-statements audits	●		
Understanding a client's risk-management process	●	●	●
Audit quality lessons for the audit team	●		
Financial reporting			
Getting fair values right for financial and non-financial assets	●	●	●
The many dimensions of the revised standards on accounting-policies changes	●	●	●
Sustainability standards are here with an emerging regulatory framework	●	●	●
Self-managed superannuation funds			
Contemporary SMSF compliance and audit issues	●	●	
Business risks			
What's new with accounting, auditing, ethical standards, and the regulators? – a FREE session	●	●	●
The legalities of contemporary business risks affecting directors, accountants, and auditors	●	●	●
Latest NFP and ACNC developments and insights	●	●	●
Reporting and auditing considerations for 31 December	●	●	●

Training riches on demand

Looking for contemporary training in financial reporting, business risks, ethics, and auditing? Want to hear from the experts – Carmen Ridley, Chanelle Pienaar, Stephen Newman, Shelley Banton, and Colin Parker?

Check out the on-demand sessions in *GAAP Training's* extensive library of more than 100 topics grouped under the following headings:

- Revised ASA 315 *Identifying and Assessing the Risks of Material Misstatement*
- Audit
- General and special-purpose financial statements
- Financial reporting
- AASB 15 *Revenue from Contracts with Customers*
- AASB 16 *Leases*
- Business risks
- Ethics, and
- Self-managed superannuation funds.

Use the *GAAPinars* as a refresher for existing team members and to bring new members up to speed.

More than 150 CPD hours are just a mouse-click away at www.gaaptraining.com.au.

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), EQR services, 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 the brand awareness and expertise of 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).

Contact Colin 0421-088-611 or colin@gaap.com.au.

Colin Parker
GAAP Consulting

Contact Us

Should you require any further information about the services provided or our team, please contact:

Colin Parker
Principal, *GAAP Consulting*
Head of the GAAP Consulting Network
Email colin@gaap.com.au
Mobile 0421 088 611
Postal GPO Box 1497, Melbourne, Victoria 3001
Website www.gaap.com.au

GAAP Consulting GAAP Consulting Colin Parker

APPENDICES

Appendix: ASIC focus areas for 31 December 2023 reporters and their auditors

Area	Consideration
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 testing for other non-financial assets. The appropriateness of key assumptions supporting the recoverable amount of non-financial assets. The valuation method used for impairment testing should be appropriate, use reasonable and supportable assumptions, and be cross-checked for reliability using other relevant methods. An entity's market capitalisation will generally not represent an appropriate fair-value estimate for its underlying business but may be useful as an impairment indicator or in a valuation cross-check. • Share prices may reflect transactions of relatively small proportionate interests as part of an investor's strategy for a share portfolio. • Business may be sold in illiquid markets with few potential participants. • A business acquirer may seek synergistic benefits or make significant changes to a business. Values from applying the ratio of market capitalisation to revenue for other entities to the entity's own revenue will generally be more appropriately used in valuation cross-checks. • Information may be dated and the limitations in using an entity's own market capitalisation may apply. • The other entities must have closely comparable businesses, products, markets, cost structures, funding, and so on. Disclosure of estimation uncertainties, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios.
Asset values – property assets	Factors that could adversely affect commercial and retail 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, and the financial condition of tenants. The lease-accounting requirements and the impairment of lessee right-of-use assets.
Asset values – expected 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. Ensuring the accuracy of ageing of receivables. Using forward-looking assumptions and not assuming recent debts will all be collectible. The extent to which history of credit losses remains relevant in assessing ECLs. Whether possible future losses have been adequately factored in, using probability-weighted scenarios as necessary. Disclosure of estimation uncertainties and key assumptions. ECLs should be a focus for companies in the financial sector and other sectors. Financial institutions should have particular regard to the impact on ECLs of current uncertainties and economic and market conditions. This includes assessing whether there are significant increases in credit risk for particular groups of lenders. Adequacy of data, modelling, controls and governance in determining ECLs. Disclosing uncertainties and assumptions.
Asset values – financial asset classification	Financial assets are appropriately measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss. Criteria for using amortised cost include whether both: • Assets are held in a business model whose objective is to hold the assets to collect contractual cash flows, and • Contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.
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 considered in determining net realisable value. Whether it is probable that deferred tax assets will be realised. The value of investments in unlisted entities.
Provisions	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 and expenses at year-end or relate to new conditions requiring disclosure.

Area	Consideration
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 and its businesses, assets, financial position, and performance. Changes from the previous period should be considered and disclosed.
Disclosures in the financial report	Uncertainties may lead to a wider range of valid judgements on asset values and estimates. The financial report should disclose uncertainties, changing key assumptions, and sensitivities. This will assist investors in understanding the approach taken, understanding potential future impacts, and making comparisons among entities. Entities should also 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.
Disclosures in the OFR	The OFR should complement the financial report and tell the story of how the entity's businesses, results and prospects are affected by economic and market conditions 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 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. • The risks will vary depending upon the nature and businesses of the entity and its business strategies. An exhaustive list of generic risks that might potentially affect many entities would not be helpful. • 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 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. Following the TCFD recommendations will help position entities for any future reporting under standards being developed by the International Sustainability Standards Board. Cyber-security risks could have a material impact for particular entities and require disclosure. Considerations include the impacts of a loss of personal data or a denial-of-service attack, such as the extent and nature of personal data held and possible impacts on revenue.
Non-IFRS financial information	Any non-IFRS profit measures (that is, measures not in accordance with all relevant accounting standards) in the OFR or market announcements should not be presented in a potentially misleading manner (see RG 230 *Disclosing non-IFRS financial information*).
Disclosure in half-year reports	Reports should disclose information on significant developments and changes in circumstances since 30 June 2023.
New insurance accounting standard	Insurers with full years or half-years ending 31 December 2023 will need to follow the recognition and measurement requirements of the new standard and make disclosures on changes in accounting policies on the adoption of that standard. Insurers should refer to ASIC media release 20-286MR *Insurers urged to respond to new accounting standard* (17 November 2020) for more information.
Other matters	Consideration of whether off-balance-sheet exposures should be recognised on the statement of financial position, such as interests in non-consolidated entities. 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. Large proprietary companies that were previously 'grandfathered' are required to lodge financial reports for years ending on or after 10 August 2022.