



COLIN'S

CORNER

What's in store in 2024 – knowing the knowns

As we begin 2024, several confronting issues should be top-of-mind and new developments will soon affect us.

Data breaches, cyber-security, greenwashing, and wages underpayment need to be part of an entity's risk assessments. From an audit perspective, which of these will give rise to a risk of material misstatement? What auditing findings will need to be communicated to governance and regulators?

As to financial-reporting risks, there are many. We reviewed them in the previous *GAAP Alert* and ASIC has detailed them in *ASIC focus areas for 31 December 2023 reporters and their auditors*. These focus areas need to be considered by preparers and auditors in planning for 30-June reporting until ASIC updates them in June.

Lift the eyes a little and what do we see? Artificial intelligence is starting to be used by many. What do we know about how it's used and monitored within organisations? Good news comes with the release of guidance by governance organisations on AI's opportunities and risks. Let's ensure that governance gets a handle on it.

Is AI affecting financial reporting and auditing? At least ask the question then plan your responses. There are no specific auditing and ethical standards or guidance addressing AI, but they will come. The general principles apply.

Climate-change reporting (a subset of sustainability) will see significant developments with the release of standards by the AASB and over-arching legislation by the federal government. Time to prepare as staggered reporting starts soon.

Shortly, we are going to see a revised AASB 101/IAS 1 in the form of AASB 18/IFRS 18 *Presentation and Disclosure in Financial Statements*. Should it be early adopted?

On the audit front, a revised auditing standard on group audits is nearing its operative date. Coming a little later are significant revisions to the fraud standard.

The AUASB declines to issue an auditing standard for less-complex entities. Right decision. But more guidance is needed on *how* to apply the suite of auditing standards to smaller-sized entities.

On the enforcement front, I suspect that we will see a rejig of the ASIC inspection program and much more transparency and accountability by accounting bodies about their public-practitioner quality-assurance programs.

These are some of the known knowns – and there are unknown unknowns on the way.

We at *GAAP Consulting* are looking to take you on the journey via our training programs, newsletters, and consulting services.

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FINANCIAL REPORTING

Materiality well understood, says IFRS Foundation

International Financial Reporting Standards Foundation's recent research has shown that there is a 'good understanding of the concept of materiality'.

Companies must judge whether information is material – whether it might reasonably be expected to influence an investor's decisions – when determining recognition, measurement, presentation, and disclosure in financial statements. Judgements about materiality are essential to the application of IFRS standards.

In 2017 and 2018 the International Accounting Standards Board clarified its definition of 'material' and published guidance and a series of case studies to make it easier for companies to make materiality judgements.

National standard-setters have responded to the IASB's 2022 call for research to assess the effect of these initiatives on investors, companies, auditors, and regulators. Working in partnership with academics from their jurisdictions, Australia, Botswana, China, Malaysia, Mexico, and New Zealand researched the issue.

Results showed that there was a good understanding of the concept of materiality. Use of guidance published in 2017 and 2018 varied across jurisdictions. It was found to be helpful when used. Research also suggested that it would be beneficial to continue raising awareness among stakeholders about the guidance.

The IASB is considering how to provide further support to companies in applying materiality judgements in its projects, including in its *Climate-related and Other Uncertainties in the Financial Statements* project. The research will inform such discussions.

In the local context refer to:

- AASB 101 *Presentation of Financial Statements*
- AASB practice statement 2 *Making Materiality Judgements*
- AASB research report 22 MASB research report 2 *Making Materiality Judgements – Malaysian Preparers and Auditors' Perspectives A Joint AASB-MASB Project*, and
- AASB research report 21 *Auditors' Perspectives: The Impacts of IFRS Practice Statement 2 Making Materiality Judgements*.

In the GAAPinar library you will find in the audit section topic **No.3 Understanding materiality in the context of financial-statement audits** (November 2023).

Mixed reporting by UK's largest private companies

The UK Financial Reporting Council has published a review of reporting by the UK's biggest private companies. In absence of Australian specific findings for such companies by ASIC, the UK results provide a strong indication of matters that should be considered locally.

Reporting quality was mixed, particularly in terms of how clearly companies explained material matters that were complex or judgemental.

Large private companies are economically significant in the UK, providing a substantial number of jobs and supporting extensive supply chains. High-quality reporting of key matters is important for users of their annual reports and accounts.

Key findings that companies and their auditors should take into account for future annual reports were:

- The best strategic-report disclosures focused on matters that were key to understanding a company. These were explained in a clear, concise and understandable way consistent with financial-statements disclosures. Good-quality reporting did not necessarily require more words.
- Better examples of judgement and estimates disclosures included detail of the specific judgement involved and clearly explained the rationale for conclusions. The significance of estimation uncertainty was much more apparent when sensitivities were quantified.
- Accounting policies for complex transactions and balances were often untailored, providing boilerplate wording.

Entity-specific policies were particularly critical for revenue, where better examples explained the nature of each significant revenue stream, the timing of recognition, and how the value of revenue was determined.



SUSTAINABILITY REPORTING

More companies disclosing climate risks

Thirty-five per cent of entities canvassed in new research said they disclosed climate-related risks in financial-statement notes.

The figure is almost double the proportion (18 per cent) disclosing climate risks two years ago.

The research is done jointly by CA ANZ, the University of Melbourne, and the University of Queensland.

The main area in financial statements affected by climate-related risks is impairment of non-current assets. Climate-risk reporting is most prevalent among energy and utilities companies.

'Climate risks are impacting companies' disclosures concerning asset valuations, impairment testing, financial risks, and provisions', said Chartered Accountants ANZ's reporting and assurance leader, Amir Ghandar.

'As you would expect, emissions-intensive industry sectors such as energy and utilities have a larger proportion of companies [affected], but we're also seeing sectors such as consumer staples and financials calling out climate risks as a key financial consideration', Mr Ghandar said.

Climate-risk reporting is least prevalent in information technology and communications.

'Interestingly, none of the 10 largest global tech companies mentioned climate-related risks in their financial statements', said Mr Ghandar.

The report follows the release last month of commonwealth Treasury's final policy statement on mandatory climate-related disclosures and draft legislation for consultation. Disclosure requirements over and above existing financial-reporting requirements might be added.

Carmen Ridley continues the journey on sustainability in **GAAPinar No. 3**, Thursday 13 June *The latest on climate-change reporting – it's here.*

Sustainability reporting and assurance are improving

The biggest global firms are reporting on sustainability in finer detail and getting better assurance on these disclosures, according to a report by three accounting bodies.

The International Federation of Accountants, the Chartered Institute of Management Accountants, and the American Institute of Certified Public Accountants gathered environmental, social, and governance information from 1400 companies in 22 jurisdictions. One hundred were from the six biggest economies.

The State of Play: Sustainability Disclosure and Assurance 2019-2022, Trends and Analysis found that:

- 98 per cent of companies reported some level of detail on sustainability
- 69 per cent obtained assurance on at least some of their sustainability disclosures, and

- The mix of reporting standards used by companies was fragmented.

The study, an annual benchmark, found that varying sustainability standards and frameworks continued to make it difficult for investors, lenders, and other stakeholders to find consistent and comparable information.

While progress is being made, the report highlights the need for companies worldwide to move towards a global system of sustainability-disclosure requirements.

The study found that more than half of the companies used Sustainability Accounting Standards Board standards and the Task Force on Climate-related Financial Disclosures framework, which should ease a transition to International Sustainability Standards Board standards released last year.

'While we're moving toward commonly accepted global standards, some 87 per cent of companies continued to use a mix of standards and frameworks for reporting', said David Madon, IFAC's director of sustainability, policy and regulatory affairs.

'That leaves investors and lenders in a bind when it comes to having consistent, comparable and high-quality sustainability information at hand.'

Among the study's highlights were:

- 98 per cent of companies reported some information on sustainability, an increase from 91 per cent in 2019 when IFAC, AICPA, and CIMA first began researching sustainability

- Use of standalone sustainability reports had declined by 27 per cent in the past three years, only 30 per cent of companies using them in 2022, reflecting the growing inclusion of that information in companies' annual and integrated reports
- 69 per cent of companies obtained assurance on at least some of their sustainability disclosures, up 5 per cent from last year and 18 per cent from 2019, and
- The scope of assurance areas also expanded, yet still remains limited assurance in general.

Accountancy firms (as opposed to consultants and other service providers) handled 58 per cent of assurance engagements related to sustainability in 2022, 1 per cent better than the previous year. In some markets, notably the United States, the figure was well below 50 per cent.

'When companies use accounting firms for sustainability assurance, they're more likely to choose the same firm they use to audit their financial statements', said Sue Coffey, AICPA & CIMA's CEO, public accounting.

'Because the level of confidence with and reliability on sustainability disclosure should be the same as financial information, we expect more companies will recognise that accounting firms are best suited for this critical work,' she added.

'We think this is a likely driver behind the increase from 16 per cent to 23 per cent for US accounting firms performing this work.'



GOVERNANCE

How to respond to cyber-attacks

New guidance on cyber security aims to help company directors respond to cyber-attacks.

Governing Through a Cyber Crisis – Cyber Incident Response and Recovery for Australian Directors has been developed by the Australian Institute of Company Directors in partnership with the Cyber Security Cooperative Research Centre and law firm Ashurst.

Based around the 'four Rs' – readiness, response, recovery, and remediation – the guidance covers the most vexing issues directors face in cyber crises, from the development of a cyber-incident readiness plan, execution of an effective crisis communications strategy, whether or not to

make a ransom payment, and the road to rebuilding reputation.

Federal Minister for Cyber Security Clare O'Neil said business leaders, boards, and directors have important obligations to protect their organisations and customers from cyber risks.

'Australians rightly expect businesses to take cyber security seriously. The explosion of cyber incidents over the past two years has shown that we cannot be complacent on cyber. All Australian organisations need to embrace better cyber governance from the board down', she said.

'This guidebook [provides] detailed guidance to corporate leaders on cyber preparation, response and recovery. I commend this

guidance to Australian organisations of all sizes and encourage leaders to embed these principles into how they do business.'

AICD managing director and CEO Mark Rigotti said cyber security was at the forefront of contemporary Australian governance.

'Boards have a key governance role to play in dealing with increasing cyber threat. Cyber security is consistently the number one thing keeping directors awake at night and this resource will put them in a stronger position to navigate the challenges posed by cyber risks.'

The guidance builds on the joint 2022 AICD and Cyber Security Cooperative Research Centre's *Cyber Security Governance Principles*.

An accompanying *Snapshot of Governing Through a Cyber Crisis – Cyber Incident Response and Recovery For Australian Directors* includes a checklist of practical steps for SME and NFP directors to respond to a critical cyber incident.

Be wary about who handles personal information

The risk of outsourcing personal-information handling to third parties is highlighted in *Notifiable data breaches report July to December 2023* by the Office of the Australian Information Commissioner.

Information commissioner Angelene Falk said the OAIC continued to be notified of a high number of multi-party breaches, most resulting from a breach by a cloud or software provider.

‘Organisations need to proactively address privacy risks in contractual agreements with third-party service providers’, said Commissioner Falk.

‘This includes having clear processes and policies in place for handling personal information and a data-breach response plan that assigns roles and responsibilities for managing an incident and meeting regulatory reporting obligations.’

From July to December 2023, 483 data breaches were reported to the OAIC, up 19 per cent from the first half of the year. There were an additional 121 secondary notifications, a significant increase from 29 in January to June.

Malicious and criminal attacks remained the leading source of data breaches, accounting for 322 notifications. Most (211) were cyber-security incidents. The health and finance sectors remained top reporters of data breaches, 104 and 49 notifications respectively.

Commissioner Falk said the notifiable data breaches scheme was well established and the OAIC expected organisations to comply with their obligations.

‘The OAIC is escalating its regulatory actions into data breaches, and we have commenced civil penalty proceedings in the Federal Court’, she said.

‘We are prioritising regulatory action where there appears to be serious failures to comply with the scheme’s reporting requirements and to take reasonable steps to protect personal information and where organisations are holding onto data much longer than is necessary.’

‘As the guardians of Australians’ personal information, organisations must have security measures in place to minimise the risk of a data breach.’

‘If a data breach does occur, organisations should put the individual at the front and centre of their response, ensuring they are promptly told so their risk of harm can be minimised.’

Twenty greenwashing questions directors should ask

The Institute of Internal Auditors Australia has released *What Directors should ask about Greenwashing* in its 20-critical-questions series.

Greenwashing is deliberately false or careless claims about environmental performance that represent an organisation as environmentally friendly. They are often characterised by spending more on marketing than on minimising environmental impact – they over-represent the extent to which organisation practices are sustainable or ethical.

An important question is whether a board and audit committee know if environmental-performance statements are meaningful and accurate.

Has an organisation released statements about its commitment to the environment? What has it done or not done to tackle climate change?

Has it issued an ESG statement? Has it considered the matter and noted what competitors are doing? What is the mood of its shareholders towards the environmental and social and governance issues?

Has the organisation established internal processes to verify accuracy and completeness of ESG data and outcomes as part of its overall assurance arrangements.

These are just some of the questions the IIAA is posing.



REGULATORS & LEGISLATORS

OAIC investigates HWL Ebsworth over data breach

The information commissioner has begun investigating the personal-information-handling practices of HWL Ebsworth Lawyers.

The move follows a data breach notified to the Office of the Australian Information Commissioner on 8 May last year.

The OAIC’s investigation is into HWLE’s practices in relation to the security and protection of personal information it holds and how affected individuals were told about the data breach.

The commissioner has a range of options available if she is satisfied that an interference with the privacy of one or more individuals has occurred.

They include a determination, which can include declarations that HWLE take specified steps to ensure that the relevant act or practice that led to the breach is not repeated or continued and redress any loss or damage.

If the investigation finds serious or repeated interference with the privacy of individuals, then the commissioner has the power to seek civil penalties against HWLE in the Federal Court.

New Commonwealth Fraud and Corruption Control Framework

The federal government has released an amended *Commonwealth Fraud and Corruption Control Framework*, which will come into effect on 1 July.

Fraud and corruption in government bodies can divert resources from the Australian community, weaken efforts to create a fairer Australia, and undermine services and programs, a government statement says.

The amended framework has provisions to mitigate corruption risk and will require accountable commonwealth authorities to take steps to prevent, detect, and respond to corruption and fraud.

The new measures, which build on existing counter-fraud obligations, will complement the work of the National Anti-Corruption Commission and the Commonwealth Fraud Prevention Centre.

The framework was set up in 2014 under the *Public Governance, Performance and Accountability Act 2013*.

It has three elements:

- The fraud rule, which is section 10 of the *Public Governance, Performance and Accountability Rule 2014*, a legislative instrument binding commonwealth entities setting out key requirements of fraud control
- The Commonwealth Fraud Control Policy – a Government Policy binding non-corporate Commonwealth entities setting out procedural requirements for specific areas of fraud control such as investigations and reporting, and
- Resource Management Guide No. 201, which sets out the government's expectations in detail for fraud-control arrangements within commonwealth entities.



COMPLIANCE

FWO secures record \$10.34 million penalty against CBA

The Fair Work Ombudsman has secured a record \$10.34 million in penalties against the Commonwealth Bank of Australia and its subsidiary CommSec in response to the companies' underpaying employees more than \$16 million over a six-year period.

The penalties were imposed after CBA and CommSec admitted breaches of the *Fair Work Act*, including some 'serious contraventions' committed knowingly and systematically that attract a ten-fold increase in applicable maximum penalties.

CBA and CommSec failed to put adequate checks and safeguards in place to ensure that enterprise agreements and individual flexibility arrangements used for their employees were implemented in a lawful manner. The companies failed to implement the required system of regular reconciliations and top-up payments necessary for ensuring that their employees were receiving their basic lawful minimum entitlements.

Justice Robert Bromwich found that senior staff at CBA and CommSec had been put on notice of potential non-compliance issues and 'knew facts that should have sounded a warning' but took years to address non-compliance issues. Responsible HR managers had disregarded or been indifferent to the risk of failing to meet employees' entitlements.

CBA also breached workplace laws by misrepresenting to some workers that they were better off under the IFAs.

Fair Work Ombudsman Anna Booth said that 'it was completely unacceptable for such a large, well-resourced corporate employer to have such a poor attitude towards ensuring it paid its staff their basic lawful entitlements for the work they performed'.

Senior managers at CBA and CommSec failed to put 'basic safeguards in place to ensure their approach to remunerating staff did not lead to underpayments and they were far too slow to take action once clear risks of non-compliance were brought to their attention'.

Ms Booth said, 'It is extremely disappointing that companies with such extensively resourced internal human resources and legal functions could have such a poor approach to ensuring they paid their staff their basic lawful entitlements.'

She emphasised that many other large corporate employers in Australia still had plenty of work to do in improving their cultural attitude towards compliance.

'For years now, the Fair Work Ombudsman has been highlighting that large corporate employers need to place a much higher priority on putting systems and processes in place to ensure they pay their employees' full lawful entitlements.

'The case highlights that having a poor corporate culture towards compliance can result in serious consequences, including facing enforcement action and suffering reputational damage.'

La La Bar Group companies and accounting firm fined

The Fair Work Ombudsman has secured a total of \$137,435 in penalties against a former director and a general manager of Melbourne-based La La Bar Group companies and the companies' former accounting firm for deliberately breaching workplace laws.

The Federal Circuit and Family Court's fines were:

- \$41,368 against Keri Taiaroa, a former director and shareholder of six La La Bar Group companies
- \$26,893 against Matthew Sanger, former general manager of six La La Bar Group companies
- \$34,020 against Nicholas Accounting Management Services Pty Ltd, a Melbourne-based firm that provided services to the eight La La Bar Group companies, and
- \$35,154 against Nicholas Accounting Management Services Pty Ltd director Nicholas Nicolaou.

The penalties were imposed after Mr Taiaroa and Mr Sanger admitted that they were involved in the record-keeping breaches by six La La Bar Group companies and Nicholas Accounting Management Services admitted failing to comply with a notice to produce records. Mr Nicolaou was involved in the failure to comply with notices to produce, which were issued to Nicholas Accounting Management Services and eight La La Bar Group companies.

FWO Anna Booth said the agency was prepared to take enforcement action against individuals, senior managers, and professional-services firms where we believe they have been significantly involved in breaches of workplace laws.

'Employers need to be aware that breaching record-keeping laws and failing to comply with lawful requests like notices to produce, which were found to be deliberate in this matter, will not be tolerated and risk significant penalties', Ms Booth said.

'The La La Bar Group was audited in response to intelligence and allegations about non-compliance. We also urge workers with concerns about their wages and entitlements to reach out to us, including via an anonymous report if they prefer.'

The 2019 audits found that each of the companies in the La La Bar Group breached the *Fair Work Act* by failing to make and keep proper records and that Mr Taiaroa and Mr Sanger were involved in the record-keeping breaches.

Judge Heather Riley described the breaches as 'deliberate' and the record-keeping as 'grossly inadequate', noting that the four respondents did not show any 'genuine contrition'. She accepted the FWO's submission that Nicholas Accounting Management Services 'had ample authority to comply with the notice to produce served on it' and rejected the accounting firm's argument that 'the required documents did not exist and that it was not authorised to provide the documents'.

The Fair Work Ombudsman conducted an unannounced visit to Nicholas Accounting Management Services' office in January 2020 and seized records that the accounting firm had been required to provide under the notices to produce.

Judge Riley said that the site visit found 'documents that did answer the notice to produce' and that Mr Nicolaou was 'totally involved in the breach'.

She added, 'There was loss or damage in that Mr Nicolaou's involvement in the failures to comply with the notices to produce impacted on the FWO's ability to fulfil its function of investigating workplace conduct'.

Optus Retailco back-pays \$7.8m

Optus Retailco Pty Ltd is back-paying more than \$7.8 million including interest and superannuation to underpaid employees nationally. The company has signed an enforceable undertaking with the Fair Work Ombudsman that includes contrition payments.

Optus Retailco operates Optus's retail stores across Australia and is a subsidiary of Singtel Optus Pty Ltd.

In April 2021, Singtel Optus self-reported underpayments of Optus Retailco to the FWO following an internal review. The underpaid employees were engaged as retail consultants and store managers around Australia between January 2014 and March 2020.

Poor payroll and time and attendance systems and poor human resources and governance practices led to employees not receiving their full lawful entitlements under the Optus Retail Agreement 2013, the General Retail Industry Award 2010 and the General Retail Industry Award 2020.

Errors included failing to:

- Undertake annual reconciliations to ensure that employees were not paid less under the enterprise agreement overall compared with the award's minimum entitlements
- Pay retail consultants for work performed before or after their rostered start and finish times
- Pay part-time and casual employees for a minimum of three hours per shift, as required by minimum engagement rules, even if they worked fewer hours, and
- Apply a higher classification and pay rate for retail consultants who engaged in higher duties such as opening and closing stores and regularly managing stores in absence of a manager.

Employees were underpaid various entitlements, including base rates of pay, weekend loadings, public-holiday loadings, meal allowances, overtime rates, no-break penalty rates, and annual and personal leave entitlements.

Optus Retailco also failed to calculate correctly the mandated six-monthly reconciliations for employees who worked in stores that operated with extended trading hours.

The company will initially back-pay 3744 current and former employees more than \$7.8 million, including more than \$5.4 million in wages and entitlements and more than \$2.4 million in superannuation and interest.

The company is also required to undertake an assessment of wage payments for retail consultants and store managers as well as six-monthly and annual reconciliations between January 2020 and July 2023 and must back-pay any affected staff where underpayments are identified.

FWO Anna Booth said, 'Under the enforceable undertaking, Optus Retailco has committed to putting in place stringent measures to ensure all its workers are paid correctly. These measures include [...] commissioning independent audits of its future compliance with workplace laws over the next two years.'

'Employers with enterprise agreements need to put in place proper systems and regular checks to ensure ongoing compliance with all their obligations rather than taking a set-and-forget approach.'

'Optus Retailco's lack of investment in human resources and poor governance led to long-term breaches and underpayments of its staff, and large rectification costs. Boards must treat the lawful payment of their employees as a core governance requirement.'

Under the EU, Optus Retailco must:

- Make an initial contrition payment of \$450,000 to the commonwealth
- Make an additional contrition payment equal to 4 per cent of the total underpayments found in the next review
- Provide the FWO with evidence of systems and processes it has put in place to ensure future compliance, including workplace-relations training for payroll and human-resources staff and mechanisms for regular reporting on compliance to its parent company Singtel Optus's board of directors

- Establish a telephone helpline for current and former employees who worked during the relevant period
- Send an apology letter to underpaid employees identified in the March 2020 to July 2023 review period, and
- Provide a signed letter of assurance to the FWO from its chief financial officer confirming that it is compliant.

APRA mandates remediation program for Auto & General

The Australian Prudential Regulation Authority has mandated Auto & General Insurance Company Ltd to undertake a risk-remediation program and has increased its capital requirements in response to concerns about its risk governance.

APRA's decision follows a prudential review that identified significant weaknesses in Auto & General's risk governance, risk management, and compliance practices. They included:

- Capability and capacity weaknesses in the risk function
- Ineffectiveness of the 'three lines of defence' model (The first line of defence comprises business management who have ownership of risks. The second line are specialist risk-management functions that are independent of the first line. The third line is responsible for providing independent assurance to the board on the effectiveness of the first and second lines, including internal and external audits)
- Weak risk reporting, and
- Unclear accountabilities and responsibilities across the business, and overall, an immature risk culture.

In addressing APRA's concerns, Auto & General is required to undertake a root-cause analysis to identify what has contributed to the weaknesses and to develop and implement an APRA-approved risk-remediation program. Execution of the program is to be subject to assurance by an independent third party.

Given the heightened prudential risk arising from the identified weaknesses, APRA has also imposed an additional \$50 million capital requirement in the form of an operational-risk charge. The capital requirement took effect on 1 February and remains in place until APRA is satisfied that the concerns have been remediated.

APRA member Suzanne Smith said, 'APRA continues to engage with the industry on appropriate risk governance and will take suitable action if companies do not meet these expectations.'



ETHICS

APESB amends code

The Accounting Professional & Ethical Standards Board has issued a newly compiled code for APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This compiled code incorporates the following amending standards:

- Amendments to Part 4B of APES 110 (effective 1 July 2021)
- Amendments to APES 110 to promote the role and mindset expected of professional accountants (effective 1 January 2022)
- Amendments to APES 110 about addressing the objectivity of an engagement quality reviewer (effective 1 January 2023)
- Amendments to fee-related provisions of APES 110 (effective 1 January 2023)
- Quality management-related conforming amendments to APES 110 (effective 1 January 2023)
- Amendments to the non-assurance services provisions of APES 110 (effective 1 July 2023), and
- Revisions to APES 110 about the definition of an engagement team and group audits.

In the *GAAPinar* library in the ethics section you will find session topics **No.1 Ethics for members of accounting bodies** (April 2023) and **No.2 Code amendments to promote the right mindset now operative** (November 2021).

Global standards on sustainability ethics coming

Two new exposure drafts set forth the first comprehensive suite of global standards on ethical considerations in sustainability reporting and assurance.

The proposed standards aim to foster greater trust in publicly-communicated sustainability information through the application of a consistent ethical approach.

The exposure draft on *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* proposes a clear framework of expected behaviours and ethics provisions for use by sustainability assurance practitioners regardless of their professional backgrounds as well as professional accountants involved in sustainability reporting.

The standards' goal is to lessen greenwashing and elevate the quality of sustainability information, thereby fostering greater public and institutional trust in sustainability reporting and assurance.

The exposure draft on *Using the Work of an External Expert* proposes an ethical framework to guide professional accountants and sustainability-assurance practitioners to work out whether an external expert has the necessary competence, capabilities, and objectivity to use his or her work for the intended purposes. The proposals also include provisions to help apply the code's conceptual framework when using the work of an external expert.

These proposed ethics (including independence) standards are especially relevant in a context where sustainability information is increasingly important for capital markets, consumers, corporations and their employees, governments, and society at large, and when new providers outside accounting profession play a prominent role in sustainability assurance.

To coincide with the launch of public consultation, the International Accreditation Forum has announced its intention to stipulate to national accreditation bodies around the world that the International Ethics Standards Board for Accountants proposed ethics standards for sustainability assurance are to be used when accrediting and authorising conformity assessment bodies to carry out assurance work on corporate sustainability disclosures.

The creation of effective sustainability standards requires not only high-quality sustainability reporting and assurance standards but also a global baseline of ethics (including independence) standards to ensure the integrity and objectivity of sustainability information. The IESBA's proposed standards are aimed at completing and supporting its effectiveness.

The IESBA seeks comment on *Using the Work of an External Expert* by 30 April and on the sustainability exposure draft by 10 May.



AUDIT

ASIC sanctions nine SMSF auditors

In the quarter ending 31 December last year the Australian Securities & Investments Commission acted against nine self-managed superannuation fund auditors who failed to comply with auditing and assurance standards. No details about the breaches were provided, hampering lessons to be learned.

The commission questioned the auditors' independence, registration conditions, and whether they were fit and proper to remain SMSF auditors.

ASIC deputy chair Sarah Court said, 'SMSF auditors are responsible for auditing over

611,000 SMSFs with total estimated assets of almost \$900 billion. In this privileged position, they play a key role in upholding the integrity and confidence of the SMSF sector. ASIC will continue to take action where conduct falls short'.

Between 1 October 2023 and 31 December, the commission disqualified five SMSF auditors, imposed additional conditions on two, and cancelled the registration of two.

Conditions were specific to each auditor and might require undertaking professional development, passing the SMSF auditor-competency exam, having independent reviews of their SMSF audit files and/or tools, templates, and methodology, and notifying

their professional accounting association of the additional conditions.

Five of the nine sanctioned were referred to ASIC by the Australian Taxation Office.

AUASB seeks feedback on fraud revisions

The Auditing and Assurance Standards Board has released a consultation paper seeking comment on its international counterpart's exposure draft *Proposed ISA 240 (Revised) The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements; and Proposed Conforming and Consequential Amendments to Other ISAs*.

Objectives of the proposed revisions to ISA 240 (and in turn ASA 240) include:

- Clarifying the role and responsibilities of an auditor for fraud in the audit of financial statements
- Promoting consistent behaviour and effective responses to identified risks of material misstatement due to fraud through enhanced requirements and application material
- Reinforcing the importance of the appropriate exercise of professional scepticism in fraud-related audit procedures, and
- Enhancing transparency on fraud-related procedures and strengthening communications with those charged with governance.

Proposed enhancements include:

- Applying a fraud lens during the auditor’s risk assessment
- Assessing risk and audit procedures when fraud or suspected fraud is identified
- Transparency in key audit matters concerning fraud in the auditor’s report

- Enhanced requirements on audit documentation
- Considering the use of technology by audited entities and in the audit, and
- That fraud represents a non-compliance with laws and regulations.

The AUASB seeks comment on the paper by 21 May.

AUASB seeks comments on PIEs

The AUASB has also released a consultation paper seeking comment on the IAASB’s exposure draft on proposed narrow-scope amendments for audits of public-interest entities.

The proposed revisions have two key objectives:

- To align definitions and requirements in IAASB standards with new definitions for publicly traded and public-interest entities in the IESBA code, and
- To extend the applicability of existing differential requirements for listed entities to meet heightened stakeholder expectations on PIE audits.

Key proposed revisions include extending the scope of PIE audits so that they will be subject to:

- Engagement-quality reviews
- Transparency in the auditor’s report on specific aspects of an audit, including auditor independence and communicating key audit matters, and
- Communicating with those charged with governance to help them fulfill their responsibility for overseeing the financial-reporting process (for example, communicating about quality management and auditor independence).

The consultation paper also considers the Accounting Professional & Ethical Standards Board Limited *Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* where those revisions differ from the IESBA code.

The AUASB seeks comment by 25 March.



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Topics	Audit team members	Other public practitioners and their team members	Accountants in commerce, industry and NFPs
Auditing			
<i>Planning the 2024 audit</i>	●		
<i>Deep dive into ASA 315 – business model, governance, accounting framework – and implementation issues</i>	●		
<i>The fundamentals of ASA 540 Auditing Accounting Estimates and Related Disclosures</i>	●		
<i>Group audit standard – starting the journey of revised ASA 600 – Part 1</i>	●		
Financial and sustainability			
<i>Contemporary financial-reporting issues that require your attention now</i>	●	●	●
<i>Understanding the basics of corporate income tax</i>	●	●	●
<i>Fundamentals of AASB 112 Income Taxes and related Interpretations</i>	●	●	●
<i>Focus on goodwill accounting and impairment</i>	●	●	●
<i>The latest on climate change reporting – it’s here</i>	●	●	●
Self-managed superannuation funds			
<i>SMSF audit update for 30 June</i>	●	●	

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GAAP Consulting's December-quarter edition of its *NFP Risks and Compliance* newsletter has been released. It contains more than 20 news items dealing with governance, cyber-security, compliance, ACNC activities, the aged-care sector, the NDIS, fundraising, and deductible-gift-recipients. You may find edition 39 at www.gaaptraining.com.au and register for further editions.

A white-label version has been circulated to accounting-firm subscribers. Would you like to get *GAAP Consulting* newsletters or enquire about white-label versions? Please let us know.

Topics	Audit team members	Other public practitioners and their team members	Accountants in commerce, industry and NFPs
Business risks			
<i>What's new with accounting, auditing, ethical standards, and the regulators?</i>	●	●	●
<i>AI 101 – risks and opportunities posed to governance, accountants and auditors in financial reporting</i>	●	●	●
<i>The legalities of contemporary business risks affecting directors, accountants, and auditors</i>	●	●	●
<i>Reporting and auditing considerations for 30 June</i>	●	●	●

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:

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