

CORPORATE ADVISOR WINTER EDITION 2019

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11 Crucial Topics to Think About

In this issue of Corporate Advisor, we explain 11 financial-reporting, regulatory, and corporate-governance topics of crucial importance to CFOs and directors.

We're focusing mainly on regulatory issues that affect the preparation of 30 June reports – ASIC targets and lessons from reviews.

The end of June marked for the first time the application of AASB 15 Revenue from Contracts with Customers for for-profit entities. Also, both profit and not-for-profit entities need to apply AASB 9 Financial Instruments and related AASB 7 Financial Instruments: Disclosure amendments.

AASB 16 Leases and AASB Interpretation 23 Uncertainty over Income Tax Treatments apply from 1 January and to 30 June interim financial reports. Preparers should never underestimate the complexity of AASB 16 and the tax sensitivity of interpretation 23. Be well advanced with plans to implement them.

Four horizon issues need to be planned for: whistle-blowing, changes to special purpose financial reporting, the new code of ethics, and corporate-governance principles.

The Hall Chadwick team looks forward to working with you on the challenges ahead





ASIC's 30 June pep talk

Contributed by: **Graham Webb, Partner at Hall Chadwick, Sydney**

ASIC has called on companies to focus on new requirements that can materially affect reported assets, liabilities and profits.

Full-year reports at 30 June must comply with new accounting standards on revenue recognition and financial-instrument values (including hedge accounting and loan-loss provisioning).

Reports must also disclose the expected impact of the new lease-accounting requirements, accounting by insurers, and new framework demands on, among other things, definition and recognition criteria for assets, liabilities, income and expenses.

• ASIC has also revealed the following areas of continued interest:

- Impairment testing and asset values
- Revenue recognition
- Expense deferral
- Off-balance-sheet arrangements
- Tax accounting
- Operating and financial review
- Non-IFRS financial information, and
- Estimates and accounting-policy judgements.

ASIC commissioner John Price said: 'It is important that directors and management ensure that companies inform investors and other financial-report users of the impact on reported results. Required disclosure on the effect of the new standards is more extensive than that made by many companies for the 31 December 2018 half year.'

Directors are primarily responsible for the quality of financial reports, the commission stresses. They should ensure that management produces quality financial information on a timely basis. Companies must have appropriate processes, records and analysis to support information in the financial report.

Companies should apply appropriate experience and expertise, particularly in more difficult and complex areas such as accounting estimates (including impairment of non-financial assets), accounting policies (such as revenue recognition) and taxation.

Further details may be found in our appendix ASIC focuses for 30 June financial reports and information sheets 183 Directors and financial reporting and 203 Impairment of non-financial assets: Materials for directors.

ASIC will be reviewing more than 200 full-year financial reports at 30 June to promote quality and useful information for investors.



AASB 16 Leases is Live – Act Now

Contributed by: **Sandeep Kumar, Partner at Hall Chadwick, Sydney**

AASB 16 Leases became operative on the first of January. If you haven't thought about it it's time you did. Implementing Leases isn't easy.

More than 340 pages of authoritative material replace the 30-year-old AASB 117 forerunner and four related interpretations. Ninety pages cover the standard itself, and 57 give examples. There are 90 pages of bases of conclusions and 103 of effects analyses.

To say the least, the new Leases presents a significant challenge for CFOs.

Simply put, AASB 16 eliminates the classification of leases as either 'operating' or 'finance' for lessees. There is now a single lessee model, which requires a lessee to recognise on the statement of financial position a right-of-use asset and a liability for leases with terms of more than 12 months unless the underlying asset is of low value.

Simple in theory but not in practice.

Some basic questions will get you thinking. What is a lease under AASB 16? Where is my lease documentation? Is it complete? What other agreements are there that could be a lease? What data do I need to capture? What do you mean there may also be a 'make good' liability? What practical expedients are there? What is the lease term? How are separate components identified and accounted for? Which transitional method should I use? What discount rates should be used? Do I have to account for my sub-lease as a lessor? Do 'peppercorn' leases for not-for-profits have transitional relief? What software options are available?

The questions abound.

The CFO to-do list includes:

- Get your operating lease commitment disclosure right under existing AASB 117 Leases
- Acquire the AASB 16 knowledge
- Conduct an initial assessment of AASB 16's effect (for example, size threshold, bank covenants, bonus structures, earn-out, tax, strategic business decisions), seek audit input, and prepare governance papers and seek the board's approval
- Educate other affected individuals within the organisation
- Perform a 'stocktake' of your lease portfolio – obtain original lease documents and understand leasing arrangements
- Consider software solutions for lease management
- Field test the impact of AASB 16 on a few contracts



- Evaluate sufficiency of accounting processes and controls
- Develop a detailed accounting policy that, inter alia, addresses the decisions made
- Update the financial-reporting template for AASB 16 presentation and disclosures
- Quality-assure your decisions and continue the dialogue with your Hall Chadwick audit team, and
- Communicate to stakeholders what is coming.

AASB 16 is the last of three big new standards. None of them is easy nor are they set and forget. They will pose ongoing challenges at reporting dates.





New Framework Issued

Contributed by: **Drew Townsend, Partner at Hall Chadwick, Sydney**

A new 61-page Conceptual Framework for Financial Reporting has been issued for for-profit private-sector entities that have public accountability and are required by legislation to comply with Australian accounting standards. Other for-profit entities may voluntarily elect to apply the new framework.

It supersedes The Framework for the Preparation and Presentation of Financial Statements (July 2004) and statement of accounting concepts SAC 1 Definition of the Reporting Entity (August 1990). Given the life of its predecessors, the revised framework will be with us for the long-term.

The new framework incorporates the International Accounting Standards Board's meaning of 'reporting entity', which differs significantly from the reporting-entity concept in Australian pronouncements. It also revises definitions and recognition criteria for assets and liabilities and includes a new chapter on measurement.

The framework is important for entities that claim compliance with IFRS standards – they may continue to do so.

Consequential amendments to standards and interpretations through AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework support the framework. The amendments also retain Australia's reporting-entity concept for entities not applying the new framework.

The framework describes the objectives of, and the concepts for, general-purpose financial reporting. Its stated purpose is to assist:

- Preparers to develop consistent accounting policies when no standard applies to a particular transaction or other event, or when a standard allows a choice of accounting policy
- Parties to understand and interpret the standards, and
- The AASB to develop standards that are based on consistent concepts.

The objective of general-purpose financial reporting is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

The framework deals with:

- The objective of general-purpose financial reporting
- Qualitative characteristics of useful financial information
- Financial statements and the reporting entity
- The elements of financial statements
- Recognition and derecognition
- Measurement
- Presentation and disclosure, and
- Concepts of capital, and capital maintenance.

It applies to:

- For-profit private-sector entities that have public accountability and are required by legislation to comply with Australian standards, and
- Other for-profit entities that elect to apply it and consequential amendments to other pronouncements set out in standard AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework.

Understanding the framework needs to be considered in the context of standards and pronouncements such as the definition of materiality in AASB 101 Presentation of Financial Reports, the 'GAAP hierarchy' in AASB 101 Accounting Policies, Changes in Accounting Estimates and Errors, and practice statement 2 Making Materiality Judgements.

It's at the apex of financial reporting, and applies to periods beginning on or after 1 January next year. There is little time to understand it.





ASIC Acts on Financial-Reporting Concerns

Contributed by: **Geoff Stephens, Partner at Hall Chadwick, Brisbane**

As a result of Australian Securities & Investments Commission surveillance several companies have had their financial statements questioned and have subsequently restated them.

It is important that companies ensure that their statements are free of the errors that ASIC has previously identified and investigated.

The commission has noted a decision by Yellow Brick Road Holdings Limited to write-down goodwill and other intangible assets of a lending-cash-generating unit in its financial report for the half-year ended 31 December 2018.

ASIC had raised concerns about the reasonableness and supportability of revenue-growth forecasts used in testing the lending-CGU assets for impairment in Yellow Brick Road's financial report for the year ended 30 June last year bearing in mind performance, market conditions and industry risks.

In half-year results, Yellow Brick Road included asset write-downs of \$33.95 million – goodwill, customer relationships, brands, software, product development and other intangibles. The balance-sheet reset results in no goodwill being carried and only one remaining strategic intangible asset.

ASIC has noted the decisions by Mustera Property Group Limited to change its financial report for the half-year ended 31 December 2018. It:

- Reclassified its non-controlling interest in the Mustera Property Fund from an equity to a liability, reducing reported net assets by \$7.1 million as at 30 June 2018, and
- Made additional disclosures on transactions with a related party during the year ended 30 June 2018.

The commission had raised concerns about treating the non-controlling interest in the fund as equity rather than liability and a relationship and transactions with a related party.

ASIC has banned Wollongong Coal Limited from issuing reduced-content prospectuses until 11 March next year. The commission's notice under s713(6) of the Corporations Act 2001 means that Wollongong Coal will need to issue a full prospectus if it wishes to raise funds from retail investors.

The commission was concerned that Wollongong's Russell Vale and Wongawilli mines — major assets — were valued in the company's 31 March 2018 report at more than their recoverable amounts, contrary to the requirements of the accounting standards.

ASIC was concerned that the company's assessment of recoverable amounts used fair-value estimates that did not adequately allow for the assets' risks and uncertainties and current market conditions.

Pro-Pac Packaging Limited has written-down the goodwill of its industrial and flexibles cash-generating unit (Flexibles CGU) by \$149 million in its half-year report to 31 December.



The commission had raised concerns on the impairment assessment of Flexibles CGU in Pro-Pac's report for the year ended 30 June. The commission questioned the supportability of sales-growth forecasts used in testing goodwill for impairment bearing in mind historical performance and market conditions.

Prime Financial Group Ltd increased its reported liabilities at 30 June 2018 by \$4.5 million to \$20.7 million. The new figure appears in the group's financial report for the half-year ended 31 December.

ASIC had raised concerns about the accounting treatment of a Prime Financial put option in the company's report for the year ended 30 June 2018 and the need to recognise a liability.

Pioneer Credit Limited has changed how it classifies and measures purchased debt portfolios from fair value through profit or loss to amortised cost.

The change was made in its 30 June 2018 report, and the company continues to work through its impact.

The commission had raised concerns with Pioneer on the classification and measurement of PDPs at fair value through profit or loss rather than amortised cost under a new accounting standard in its financial report for the half-year ended 31 December 2018.





SPFSs to disclose new compliance measures

Contributed by: **Drew Townsend, Partner at Hall Chadwick, Sydney**

The Australian Accounting Standards Board has issued exposure draft 293 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements.

It proposes that entities preparing special-purpose financial statements disclose explicitly whether accounting policies they applied comply with all the recognition and measurement requirements of Australian Accounting Standards.

Draft 293 proposes to require for-profit entities lodging SPFSs with ASIC and NFPs lodging them with the Australian Charities and Not-for-profits Commission to disclose compliance in an explicit statement.

Information about whether entities have subsidiaries or investments in associates or joint ventures and how they have accounted for them would also be required.

AASB contends that although users of SPFSs should be able to demand any information they need; this does not always happen. The proposals in draft 293 are aimed at addressing concerns that the quality of disclosures in a significant number of SPFSs fails to enable users to determine what additional information they might need.

Exposure draft 293 proposes that entities lodging SPFSs with either ASIC or the ACNC (that is, entities required to comply with AASB 1054 Australian Additional Disclosures), disclose:

- The basis on which a decision to prepare an SPFS was made
- Where the entity has subsidiaries, investments in associates or joint ventures, whether or not they have been consolidated or equity-accounted in a manner consistent with the requirements set out in Australian Accounting Standards. If an entity has failed to consolidate its subsidiaries or equity-accounted its investments in associates or joint ventures consistently with requirements, it must disclose it, and the reasons why. If an NFP has failed to determine whether or not its interests in other entities give rise to interests in subsidiaries, associates or joint ventures, it must instead disclose it, and
- An explicit statement as to whether or not accounting policies applied in statements comply with recognition and measurements, and, if not, give an indication of where they do not comply.

Where an entity's accounting policies fail to comply with recognition and measurements, the AASB is not proposing and does not expect a quantification or reconciliation of the extent of non-compliance.

The proposed standard is an interim measure intended to provide greater transparency to users of publicly lodged SPFSs and to improve the comparability of SPFSs with other financial statements.

The broader project proposes to remove the ability of certain entities to prepare SPFSs when they should comply with Australian Accounting Standards and replace them with general-purpose financial statements.

The draft proposes that the disclosures apply to annual reporting periods ending on or after 30 June 2020. Entities are encouraged to adopt the proposed disclosures early.



ASIC Enforcement Update

Contributed by: **Nikki Shen, Partner at Hall Chadwick, Perth**

ASIC has released its twice-yearly overview of enforcement outcomes, priorities and cases for the period 1 July to 31 December 2018.

The report outlines key actions taken over the past six months to enforce the law and support the commission's objectives.

It covers areas for particular focus, including ASIC deputy chair Daniel Crennan QC's discussion of recent reforms enabling the commission to pursue harsher civil penalties and criminal sanctions against banks, their executives and others who have breached corporate and financial-services laws.

ASIC will continue to focus on gatekeeper conduct to ensure that people are meeting the standards required by law. 'Gatekeepers' can include company directors and officers, auditors, insolvency practitioners and business advisers.

ASIC is concentrating on:

- Companies with poor corporate governance
- Undisclosed associations and substantial holdings in shares in public companies (including beneficial-ownership tracing and corporate fraud)
- Related-party transactions involving public companies
- Poor financial reporting by listed companies and other public-interest entities
- The quality of audits of listed companies and other public-interest entities
- Insolvency practitioners and others who facilitate illegal phoenix activity and improper transactions in the face of insolvency
- Debenture issuers and other companies exposed to risk because of a declining property market, and
- Company directors and officers who fail to stop their companies making illegal payments to officials of overseas governments.



Fear of Regulators Tops Risks

Contributed by: **Clive Massingham, Partner at Hall Chadwick, Brisbane**

The Governance Institute of Australia has released its 2019 Risk Management Survey, which saw nearly 500 Australian risk managers and governance leaders provide insights into the challenges facing their organisations.

Almost unanimously across respondents regardless of industry, organisation size and job title, 'Regulatory reform/Legislative change' was chosen as the top risk over the next three to five years.

Megan Motto, GIA CEO, said: 'The banking royal commission, APRA and ASIC's ongoing investigations, and the new ASX Corporate Governance Council's Corporate Governance Principles and Recommendations have also forced organisations outside of the financial sector to look at their governance frameworks, including how they manage their culture, ethics and risk profile.'

'The survey shows there is still a lot of confusion and nervousness in the market, especially about reporting requirements, roles, and engaging the newly strengthened regulators. That correlates with what we have also been hearing anecdotally from our members and partners as well.'

Damage to brand and reputation, increased competition, talent attraction and retention, and cyber-crime were the next immediate risks in order.

In the context of recent federal and state elections, respondents ranked political instability (eighth-ranked), environmental risk and sustainability (eleventh), and economic shock (seventh) further down the list.

Organisations thought they were best prepared to counter the risks of, in order, regulatory and legislative change, professional liability, staff conduct, damage to brand and reputation and business continuity. It might be said that they have acted swiftly to manage these concerns.

Talent retention/attraction ranked last in preparedness (average of 5.8/10) and was followed closely by disruption/failure to innovate (6/10), highlighting the competitive pressures local companies are feeling from transnational giants, such as Amazon, Apple, Google and Facebook. Disruption jumps to number two in the three-to-five-year risk rankings.



Ms Motto said: ‘While talent management, namely keeping and retaining star performers, is a risk as old as business itself, the fear of the new, disruption, is obviously on the mind of Australian leaders. Technologies such as artificial intelligence, machine learning, blockchain, and data storage and privacy are increasingly turning up in the media, [and] in our conversations with members and partners.’

While respondents felt that risk management was highly valued by their organisations (70 percent agreed or strongly agreed), the need for ‘better tools and resources’ (29 percent) to manage risk and ‘clarity of purpose and strategy’ (23 percent) from senior leadership were key areas of concern





New Whistleblowing Laws Operative

Contributed by: **Colin Parker, Principal, GAAP Consulting and adviser to the whistle-blowing service www.reportfraud.org.au**

Earlier this year the Treasury Laws Amendment (Enhancing Whistleblower Protections) Act 2018 was passed. It came into effect on 1 July. The reforms significantly improve the protections of whistleblowers who report company misconduct.

They:

Broaden the whistleblower definition to include both current and former employees, officers, and contractors, as well as their spouses and dependants, and anonymous disclosures

Extend the protections to whistleblower reports that allege misconduct or an improper state of affairs or circumstances about any matter covered by the financial-sector law, as well as commonwealth offences punishable by imprisonment of 12 months or more

Create civil-penalty provisions in addition to existing criminal offences for causing detriment to (or victimising) a whistleblower and for breaches of confidentiality

Provide protections for disclosures to journalists and parliamentarians in certain circumstances

Provide whistleblowers with easier access to compensation and other remedies if they suffer loss, and

Require public companies, large proprietary companies, and corporate trustees of registrable superannuation entities to have a whistleblower policy.

'These reforms will help ASIC to perform our important regulatory role by encouraging people who have observed misconduct to come forward. They complement the measures we have put in place since 2014 to improve our processes for assessing whistleblower reports and communicating with whistleblowers during our inquiries,' said ASIC executive director Warren Day.

Whistleblowers who report misconduct about companies and company officers can access stronger rights and protections in the Corporations Act 2001.

The latter now better protects corporate whistleblowers and includes requirements to maintain their confidentiality and prevent their suffering or being threatened.

Whistleblowers can also seek compensation if they suffer loss, damage, or injury for making their disclosures. These protections are important to ensure and encourage whistleblowers to come forward to the company or to ASIC to raise their concerns.

To provide guidance to whistleblowers on their rights and protections and how ASIC handles their reports, the commission has updated information by issuing Whistleblower rights and protections and How ASIC handles whistleblower reports, information sheets 238 and 239.



The protections now apply to a larger group of people who may observe or be affected by corporate misconduct and face reprisals for reporting it. They cover both current and former company employees, officers, and contractors, as well as their spouses and dependants, even when people wish to remain anonymous.

The protections will apply to whistleblower reports covering misconduct or an improper state of affairs or circumstances, not just breaches of the law.

Whistleblowers can lodge a report with ASIC at <https://asic.gov.au/report-misconduct>.

‘We value the people from inside companies and organisations who come to ASIC with reports of potential misconduct or breaches of the law. Whistleblowers provide ASIC with important information and help us enforce the laws we administer to address and prevent harm to consumers,’ said ASIC Commissioner John Price.

‘ASIC considers a strong and effective arrangement for handling reports from whistleblowers is a key component of corporate governance. We encourage companies to implement a strategy for dealing with whistleblower reports they may receive in line with the legislative requirements.’

The changes to the whistleblower protections will also require public companies, large proprietary companies, and corporate trustees of registrable superannuation entities, to have a whistleblower policy from 1 January next year. ASIC will consult on regulatory guidance on such policies.

The Australian Institute of Company Directors supports the implementation of enhanced whistleblower protections.

‘Whistleblowers play a critical role in identifying corporate wrongdoing and they should not suffer as a result of making a disclosure,’ said Angus Armour, the AICD’s managing director and CEO.

‘A strong corporate culture is one where people feel empowered to speak up. Whistleblowing policies can strengthen governance practices, help identify serious misconduct, and serve to protect businesses, individuals and the broader community.’





ASX Releases Corporate-Governance Principles

Contributed by: **David Lissauer, Partner at Hall Chadwick, Melbourne**

The Australian Securities Exchange's Corporate Governance Council, an independent body comprising 19 business, shareholder and industry groups, has released the fourth edition of its Corporate Governance Principles and Recommendations.

The new edition maintains the same flexible, non-mandatory 'if not, why not' approach to disclosure – as in earlier editions. It also has the same structure – eight core principles, supporting recommendations, and commentary with guidance on implementing the recommendations.

The eight principles are:

Topic	Core Principle
Lay solid foundations for management and oversight	A listed entity should clearly delineate the respective roles and responsibilities of its board and management and regularly review their performance.
Structure the board to be effective and add value	The board of a listed entity should be of an appropriate size and collectively have the skills, commitment and knowledge of the entity and the industry in which it operates, to enable it to discharge its duties effectively and to add value.
Instil a culture of acting lawfully, ethically and responsibly	A listed entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and responsibly.
Safeguard the integrity of corporate reports	A listed entity should have appropriate processes to verify the integrity of its corporate reports.
Make timely and balanced disclosure	A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.
Respect the rights of security holders	A listed entity should provide its security holders with appropriate information and facilities to allow them to exercise their rights effectively.



Recognise and manage risk	A listed entity should establish a sound risk-management framework and periodically review its effectiveness.
Remunerate fairly and responsibly	A listed entity should pay director remuneration sufficient to attract and retain high-quality directors and design its executive remuneration to attract, retain and motivate high-quality senior executives and to align their interests with the creation of value for security holders and with the entity's values and risk appetite.

The new edition includes all but one of the nine new recommendations proposed in its consultation draft.

Importantly, the final version includes all of the key changes around culture and values proposed in the draft. The council considers it imperative that listed entities align their culture and values with community expectations to help arrest the loss of trust in business.

The council has also replaced references in the commentary to 'social licence to operate' – for which there was considerable support from many stakeholders but opposition from others – with references to 'reputation' and 'standing in the community'. It regards the concepts as synonymous.

ASX listed entities are required to respond annually to the recommendations under listing rules.

The fourth edition will take effect for an entity's first full financial year commencing on or after 1 January 2020.

Entities with a 31 December balance date will be required to report according to the fourth edition, starting with the financial year beginning 1 January next year.

Entities with a 30 June balance date will be required to report starting with the financial year beginning 1 July 2020.

Council encourages listed entities to adopt the fourth edition earlier.



Understanding Your Ethical Responsibilities

Contributed by: **Graham Webb, Partner at Hall Chadwick, Sydney**

The restructured Code of Ethics for Professional Accountants (including Independence Standards) is operative from 1 January next year. The revision is substantial. Sixty requirements apply to members in business.

The code sets out fundamental ethical principles, reflecting the profession's recognition of its public-interest responsibility. The principles establish the standards of behaviour expected of accounting-bodies members whether in business or public practice.

Parts 1 and 2 apply to members in business.

- Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, which includes the fundamental principles and the conceptual framework and is applicable to all members, and
- Part 2 – Members in Business (including employment relationships of Members in Public Practice), which sets out additional material that applies to members in business when performing professional activities.

Members in business include members employed, engaged or contracted in an executive or non-executive capacity in, for example, commerce, industry or service, the public sector, education, the not-for-profit sector, regulatory and professional bodies.

The code requires that:

- Members comply with the fundamental principles of ethics, and
- That they apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles. (Applying the conceptual framework requires exercising professional judgement, remaining alert for new information and to changes in facts and circumstances, and using the reasonable and informed third-party test).

Five fundamental principles underpin the code. While they sound familiar there are subtle changes and more explicit identification of a member's responsibilities.

A member must comply with each of the fundamental principles. They are:





Principle	Explanation	Member's Responsibilities
Integrity	Be straightforward and honest in all professional and business relationships	<p>Not knowingly be associated with reports, returns, communications or other information where the member believes that the information contains a materially false or misleading statement, contains statements or information provided recklessly or omits or obscures required information where such omission or obscurity would be misleading.</p> <p>When becoming aware of having been associated with information take steps to be disassociated from it.</p>
Objectivity	Not to compromise professional or business judgements because of bias, conflict of interest or undue influence of others	Not undertake a professional activity if a circumstance or relationship unduly influences a member's professional judgement about it.
Professional competence and due care	<p>Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional activities, based on current technical and professional standards and relevant legislation</p> <p>Act diligently and in accordance with applicable technical and professional standards</p>	<p>Take reasonable steps to ensure that those working in a professional capacity under a member's authority have appropriate training and supervision.</p> <p>Where appropriate, make clients, the employing organisation and other users of a member's professional services and activities aware of their inherent limitations.</p>



Confidentiality	Respect the confidentiality of information acquired as a result of professional and business relationships	<p>Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member.</p> <p>Maintain confidentiality of information within the firm and employing organisation.</p> <p>Maintain confidentiality of information disclosed by a prospective client or employing organisation.</p> <p>Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organisation without proper and specific authority unless there is a legal or professional duty or right to disclose.</p> <p>Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the member or for the advantage of a third party.</p> <p>Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship after the relationship has ended.</p> <p>Take reasonable steps to ensure that personnel under the member's control and individuals from whom advice and assistance are obtained respect the member's duty of confidentiality.</p> <p>Continue to comply with the principle of confidentiality even after the end of a member-client and member-employing-organisation relationship.</p> <p>When changing employment or acquiring a new client, a member is entitled to use prior experience but must not use or disclose any confidential information acquired or received as a result of a professional or business relationship.</p>
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Professional behaviour	Comply with relevant laws and regulations and avoid any conduct that a member knows or should know might discredit the profession	<p>not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity and good reputation of the profession and as a result would be incompatible with the fundamental principles.</p> <p>When undertaking marketing or promotional activities, a member must not bring the profession into disrepute.</p> <p>Be honest and truthful and do not make exaggerated claims for services offered and qualifications and experience or refer disparagingly to or make unsubstantiated comparisons with others' work.</p>
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The conceptual framework specifies how a member should:

- Identify threats (self-interest, self-review, advocacy, familiarity, intimidation) to compliance and with the fundamental principles
- Evaluate the threats, and
- Address them by eliminating or reducing them to an acceptable level (a level at which a member using the reasonable and informed third-party test would probably conclude that the member complies with the fundamental principles).

The code also contains sections on specific topics for members in business.

- Conflicts of interest (Section 210)
- Preparation and presentation of information (Section 220)
- Acting with sufficient expertise (Section 230)
- Financial interests, compensation and incentives linked to financial reporting and decision-making (Section 240)
- Inducements, including gifts and hospitality (Section 250)
- Responding to non-compliance with laws and regulations (Section 260), and
- Pressure to breach fundamental principles (Section 270).

Uncertainty Over Income Tax Treatments

Contributed by: **Geoff Stephens, Partner at Hall Chadwick, Brisbane**

How tax law applies to a particular transaction or circumstance might not be known until the relevant authority or a court makes a decision.

Consequently, a dispute or examination of a particular tax treatment might affect an entity's accounting for a current or deferred tax asset or liability.

AASB interpretation 23 Uncertainty over Income Tax Treatments clarifies how to apply the recognition and measurement requirements in AASB 112 Income Taxes when there is uncertainty over income-tax treatments.

An entity must recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined in applying the interpretation.

Importantly, a business should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information.

An entity should consider whether it is probable that a taxation authority would accept an uncertain tax treatment. If it concludes that the authority might not accept the uncertain treatment it must reflect the uncertainty's effect in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates.

In each case this will need to be determined by using either the most likely amount or the expected value, depending on which method the entity expects to predict better the resolution of the uncertainty.

When there is uncertainty over income-tax treatments disclosures about assumptions and estimates must be made.

Interpretation 23 is operative for reporting periods commencing 1 January this year.



Appendix: ASIC focuses for 30 June reports

In detail, ASIC's focus areas are:

Focus	Explanation
Effect of the new standards	<p>They are:</p> <ul style="list-style-type: none"> • AASB 9 Financial Instruments (applied from years commencing 1 January 2018) • AASB 15 Revenue from Contracts with Customers (applied from years commencing 1 January 2018) • AASB 16 Leases (applied from years commencing 1 January 2019) • AASB 17 Insurance Contracts (applies from years commencing 1 January 2021), and • Amendments to standards to apply the new definition and recognition criteria in the Conceptual Framework for Financial Reporting (applies from years commencing 1 January 2020).
New lease accounting and other requirements	<p>Directors and auditors should ensure that the notes to financial statements disclose the impact on future financial positions and results of new requirements for accounting for leases, accounting for insurance businesses, and new definition and recognition criteria for assets, liabilities, income and expenses.</p> <p>ASIC said: 'It is reasonable for the market to expect that companies will be able to quantify the impact of the new standards, particularly for the lease standard.'</p> <p>Companies with 30 June year-ends will be reporting to the market part-way into the 2019-20 year for which the new lease standard will first apply. Any results forecast for that year disclosed to the market should be consistent with the accounting basis required by the new standards for that year.</p> <p>The new leases standard will bring all leases onto the balance sheet and apply a new measurement basis. Where companies choose to apply the new requirements in comparative information in their 30 June 2020 financial report, new lease balances were needed as at 30 June 2018.</p>
Impairment testing and asset values	<p>It is important for directors and auditors to ensure that:</p> <ul style="list-style-type: none"> • Cash flows and assumptions are reasonable having regard to historical cash flows, economic and market conditions, and funding costs. Particularly where prior-period cash-flow projections have not been met, careful consideration should be given to whether current assumptions are reasonable and supportable • Discounted cash flows are not used to determine fair value less costs of disposal where forecasts and assumptions are not reasonable and supportable • Cash flows used are matched to carrying values of assets that generate the cash flows, including inventories, receivables and tax balances • Discount rates and other key assumptions are reasonable and supportable



	<ul style="list-style-type: none"> • Cash-generating units are not identified at too high a level, including where cash inflows for individual assets are not largely independent, and • For testing goodwill, CGUs are not grouped at a higher level than the operating segments or the level at which results are monitored for internal management purposes. <p>(See ASIC information sheet 203 Impairment of non-financial assets: Materials for directors)</p> <p>Other focus areas on asset values include:</p> <ul style="list-style-type: none"> • Companies affected by climate change, market changes, digital disruption, technological change and Brexit, and • The valuation of financial instruments, particularly where values are not based on quoted prices or observable market data. Fair values should be based on appropriate models, assumptions and inputs.
Revenue recognition	<p>In applying AASB 15, directors and auditors should review an entity's revenue-recognition policies to ensure that revenue is recognised in accordance with the substance of underlying transactions.</p> <p>AASB 15 is considerably more detailed than the previous standard and focuses on performance obligations.</p>
Expense deferral	<p>Directors and auditors should ensure that expenses are deferred only when:</p> <ul style="list-style-type: none"> • There is an asset as defined in the accounting standards • It is probable that future economic benefits will arise, and • The requirements of the AASB 1138 intangibles accounting standard are met, including expensing start-up, training, relocation and research costs, ensuring that any amounts deferred meet the requirements concerning reliable measurement, and development costs meet the six strict tests for deferral.
Off-balance sheet arrangements	<p>Directors and auditors should carefully review the treatment of off-balance sheet arrangements, whether other entities are controlled and should be consolidated, and the accounting for joint arrangements and disclosures relating to structured entities.</p>
Tax accounting	<p>Preparers of financial reports should ensure that:</p> <ul style="list-style-type: none"> • There is a proper understanding of both the tax and accounting treatments and how differences between the two affect tax assets, liabilities and expenses • The effect of any recent changes in legislation are considered, and • The recoverability of any deferred tax asset is appropriately reviewed.



<p>Operating and financial review (OFR)</p>	<p>Listed companies should provide useful and meaningful information in the OFR about underlying drivers of the results and financial position, as well as business strategies and prospects for future financial years.</p> <p>Risks and other matters that may have a material impact on the future financial position or performance of the entity should be disclosed. This could include, matters relating to climate change, market changes, digital disruption, new technologies, Brexit and cyber-security. (See ASIC regulatory guide 247 Effective disclosure in an operating and financial review).</p> <p>Directors may also consider whether it would be worthwhile to disclose additional information that would be relevant under integrated reporting, sustainability reporting and the recommendations of the task force on climate-related financial disclosures where that information is not already required for the OFR.</p>
<p>Non-IFRS financial information</p>	<p>Directors should consider whether any non-IFRS financial information in the OFR and documents other than the financial report is potentially misleading and is presented in accordance with ASIC regulatory guide RG 230 Disclosing non-IFRS financial information. RG 230 also covers limitations on the use of non-IFRS measures in a financial report.</p>
<p>Estimates and accounting-policy judgements</p>	<p>Disclosures about sources of estimation uncertainty and significant judgements in applying accounting policies are important to allow users to assess reported financial position and performance. Directors and auditors should ensure that disclosures are made and are specific to assets, liabilities, income and expenses.</p> <p>Disclosure of key assumptions and a sensitivity analysis are important. These enable users of a report to make their own assessments about carrying values of assets and risk of impairment given the estimation uncertainty associated with many asset valuations.</p>

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