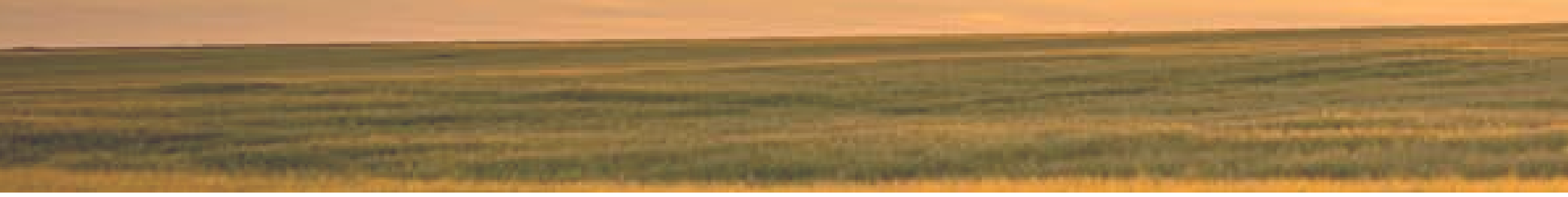
CORPORATE ADVISOR

February 2022

HALL CHADWICK

INSIDE:

22



INTRODUCTION

In this issue of *Corporate Advisor*, we explain 13 corporate-governance, financial-reporting, and regulatory topics of crucial importance to CFOs and directors.

Much has been happening of particular relevance to boards – director identification numbers, whistleblowing and breach reporting, fraud, wages underpayment, and climate change.

Good news – there are no substantial new standards for 31 December. We're focused on regulatory issues that affect the preparation of 31 December year ends, ASIC's targets, FAQs, and lessons from previous reviews. Details are in the appendices. Directors and preparers need to keep these front-of-mind and address them.

To conclude, we identify two not-for-profits issues: the requirement for DGRs to become registered charities and how to maximise an audit's value.

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

DIN DIN, all aboard!

By Drew Townsend, Partner, Hall Chadwick (NSW)

Australian directors have a year to apply for their unique director identification numbers before fines of more than $1.1 million kick in.

Company directors must apply for a DIN by 30 November 2022, and directors of Indigenous corporations that are governed by the *Corporations (Aboriginal and Torres Strait Islander)* Act 2006 must apply for the unique identifier by 30 November 2023.

The deadline was confirmed in *Corporations (Director Identification Numbers—Transitional Application Period) Instrument 2021* made by the Minister for Superannuation, Financial Services and the Digital Economy Jane Hume.

DIN applications are free and will open next month on the newly established Australian Business Registry Service, a single platform administered by the taxation commissioner that brings together ASIC's 31 business registers and the Australian Business Register.

Directors must personally apply for DINs and will be required to produce myGov IDs, and two identity documents from a list that includes bank-account details, super-account details, ATO notices of assessment, dividend statements, Centrelink payment summaries, and PAYG summaries.

Directors appointed between 1 November and 4 April have just 28 days after appointment to apply for DINs. Directors appointed from 5 April 2022 will be required to apply for DINs before being appointed.

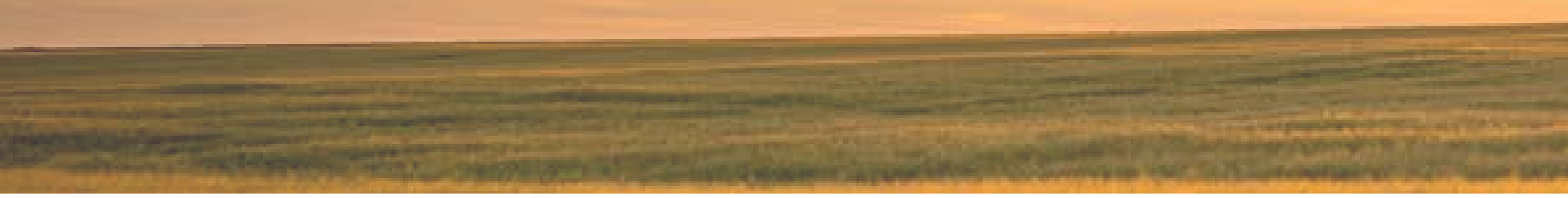
Directors who fail to apply for DINs within the stipulated deadlines can face criminal and civil penalties of 5000 units, which at the moment amounts to $1.11 million. Directors of a CATSI organisation can face penalties of up to $200,000.

Penalties will also apply for conduct that undermines the new requirements, including providing false identity information and intentionally applying for several DINs.

More than 2.5 million directors will need DINs. They will be permanent, even if holders cease to be directors, change their names, or move interstate or overseas.

Find out more at:

abrs.gov.au/director-identification-number.



ASIC highlights disclosures and assessments for 31 November 2021

By Mark Taylor, Partner, Hall Chadwick (QLD)

The Australian Securities & Investments Commission is highlighting asset values, provisions, solvency and going-concern assessments for reporting periods that ended 31 December 2021.

ASIC commissioner Sean Hughes said, 'COVID-19 conditions have continued through 2021 and companies will be affected differently depending on their industry, where they operate, how their suppliers and customers are affected, and a range of other factors.'

The commission calls on directors, financial-report preparers and auditors to focus on several key areas, including events occurring after year-end and before completing reports, and disclosures in reports and in the *Operating and Financial Review.*

'The changing environment in which each company operates will affect its strategies and its assumptions about the future performance of its assets and businesses. It remains more important than ever that investors and markets are properly informed through a company's financial reports and related disclosures about

underlying drivers of results, key assumptions, strategies, future prospects and risks in both full-year and half-year reports' Mr Hughes said.

Entities may continue to face some uncertainties about future economic and market conditions and their impact on business. Assumptions underlying estimates and assessments should be reasonable and supportable.

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

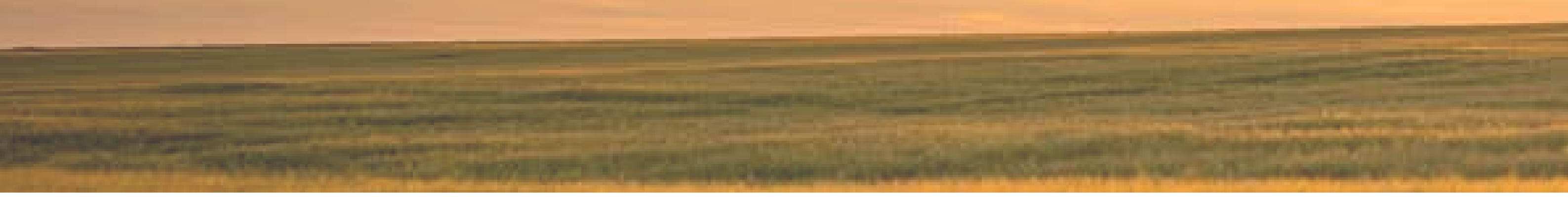
The *Operating and Financial Review* should complement the financial reports and tell the story of how an entity's businesses are affected by both the pandemic and non-COVID-19 factors. Underlying drivers of results and financial positions should be explained as well as risks, management strategies and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

ASIC's FAQs on the pandemic's effects inform on matters such as:

- Focus areas and factors to consider
- Disclosures in financial reports and OFRs
- The use of non-IFRS financial information
- Half-year report disclosures
- Loan and receivable provisioning
- Non-COVID-19 focus areas
- The extensions of time for financial reporting and AGMs, and
- Reporting by auditors.

ASIC will conduct its regular review of full-year reports of selected larger listed entities and other public-interest entities as at 31 December.

For more, see Appendix 1 *ASIC highlights focus areas for 31 December 2021 financial reports.*



ASIC investigates 29 entities

By Graham Webb, Partner, Hall Chadwick (NSW)

ASIC's latest review of the financial reports of 150 listed entities for the year ended 30 June has resulted in inquiries of 29 entities on 53 matters.

Most matters were about impairment of assets, non-disclosure of business risks in the *Operating and Financial Review*, and revenue recognition.

While acknowledging that many companies made useful and meaningful disclosures as COVID-19 conditions evolved, the commission identified entities that appeared not to give sufficient attention in OFRs to asset-values reporting and the disclosure of business risks.

Mr Hughes said, 'Many entities face uncertainties about the future economic and market conditions due to COVID-19. We continue to raise inquiries where the assumptions about future cash-flows appear unsupportable, and where the impacts of COVID-19 conditions on the business were not clearly disclosed.

'The findings of this review emphasise that directors and auditors should continue to focus on impairment of assets, particularly as some businesses may be adversely affected in a post-COVID environment or by continuing pandemic impacts in overseas markets.'

Following its 30 June 2021 reviews, ASIC made inquiries of 29 entities about the following matters:

Matter	Number of inquiries
Impairment and expected credit losses	14
Operating and Financial Review	10
Revenue recognition	6
Tax accounting	6
Expense deferral	6

Matter	Number of inquiries
Business combinations	2
Borrowings	2
Leases	2
Non-IFRS profits	2
Other matters	3
Total	**53**

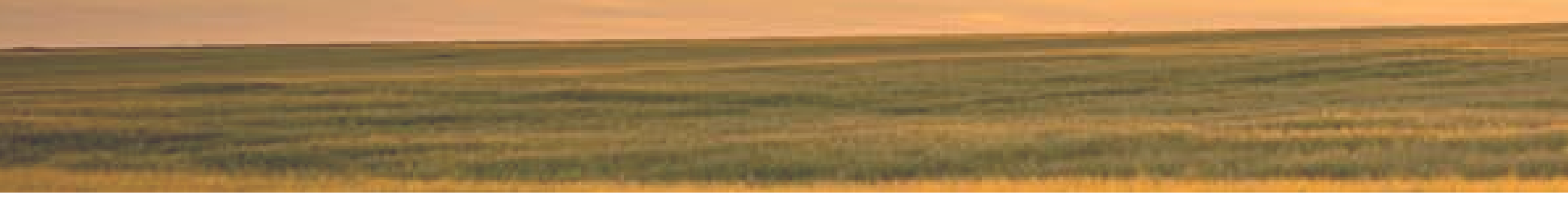
Matters involving six of the entities have been concluded without changes to their financial reporting. Inquiries about the others continue.

ASIC publicly announces enquires about a company's material changes to information previously provided to the market. The announcements intend to improve transparency and make directors and auditors of other companies aware of the commission's concerns.

The commission has announced that the total negative adjustments to profit were $1.93 million for Jayex Techology Ltd, $452,000 for Academies Australasia Group Ltd, and $2.7 million for Mosaic Brands Ltd. Earlypay Ltd incorrectly classified as non-current $19.9 million of debt.

ASIC's financial-reporting surveillance aims to ensure that reports have been prepared in accordance with the law. This supports investor confidence and the integrity of Australia's capital markets.

For more see Appendix 2 *ASIC review of 30 June 2021 financial reports.*



ASIC calls on CEO's to review whistleblower policies

By Colin Parker, Principal, *GAAP Consulting* and advisor to the whistleblower service *ReportFraud*

Whistleblowers are an essential part of an organisation's ability to detect and address misconduct.

ASIC has written to CEOs of public and large proprietary companies as well as trustees of registrable superannuation entities, urging them to review their whistleblower policies to ensure that they comply with the law.

The commission reviewed a sample of whistleblower policies and is concerned that most failed to address fully relevant requirements.

As a result, whistleblowers might not know how they are protected, or feel unsure about how to speak up. This could lead to entities missing early opportunities to identify and address potential misconduct.

ASIC's letter to CEOs:

- Reminds entities of their obligation to have a whistleblower policy that reflects the strengthened protection regime that was introduced on 1 July 2019
- Identifies where policies fell short, and
- Highlights what entities can do to improve their policies.

ASIC commissioner Sean Hughes said, 'Whistleblowers help companies and RSEs identify problems and issues that they need to address to comply with the law and improve their performance. [They] are essential for encouraging potential whistleblowers to speak up. Policies must clearly set out the legislated protections and the process for reporting misconduct.

'We call on CEOs and RSE trustees to discuss this letter within your organisation and to think about the culture of speaking up in your workplace. If the issues we observed from our review are present in your policy, we expect you to address and correct them without delay.'

ASIC will continue to monitor compliance with whistleblower law and the handling of disclosures. It plans to conduct a further review of policies.

ASIC says it will consider using the full range of regulatory tools, including enforcement action, if non-compliance is identified.

ASIC publishes guidance on breach reporting

By Nikki Shen, Partner, Hall Chadwick (WA)

ASIC has released guidance to help credit and Australian Financial Services licensees to meet new breach-reporting obligations.

From 1 October, reforms addressed long-standing concerns about breach reporting by obliging reporting to be consistent, clearer, and timely.

ASIC deputy chair Karen Chester said, 'The new reporting obligations address long held concerns on the quality and timeliness of breach reporting. ASIC analysis in 2018 revealed [that] it took more than four years on average for large financial institutions to identify incidents that proved to be significant breaches. Today's remediation tally reveals how much consumer harm these delays caused, and ultimately at great cost to those firms.'

Compliance breaches happen in all businesses. Breach reporting is integral for board monitoring and risk-management by licensees. It is also needed for the commission's regulatory surveillance.

'The Government's new reporting obligations put strong guard-rails in place that will benefit firms and consumers alike,' said Ms Chester.

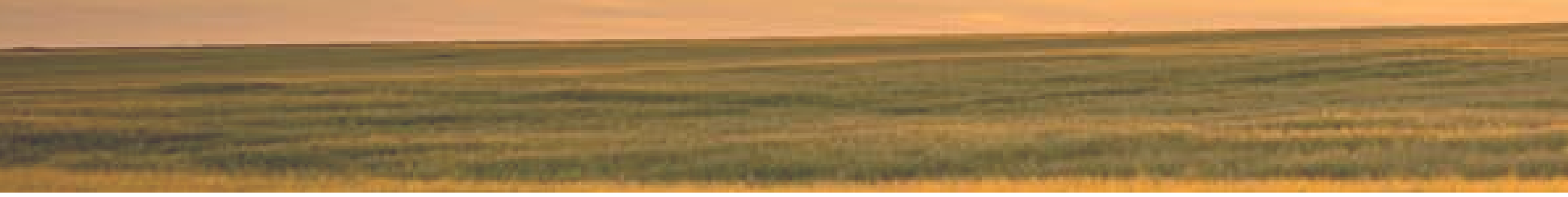
'The new obligations will help firms identify and act swiftly on the breaches that matter, making sure they get the attention they deserve. Licensees and boards will have greater confidence [that] they are doing the right thing by consumers, and ultimately their firm and shareholders.

'The new obligations also benefit consumers by allowing ASIC to better identify and swiftly address systemic problems. There will be greater transparency for consumers and firms with the publication of breach-reporting data by ASIC from late 2022.'

AFS licensees will have to report breaches that they discover after 1 October 2021, even if the breach occurred before that date. However, credit licensees do not have to report breaches that occurred before 1 October even when identified after 1 October last year. As a result, credit licensees will have a relatively gradual implementation.

The commission has published INFO 259 *Complying with the notify, investigate and remediate obligations,* which sets out actions that must be taken by licensees to notify affected customers of a breach of the law, investigate the breach and remediate affected customers. The move implements a new obligation that applies in certain situations to licensees of financial advisers and mortgage brokers.

The commission will take a reasonable approach in the early stages of the new obligations provided industry participants are using their best efforts to comply.



Insight into revised fraud-control standard

By Chris Nicoloff, Partner, Hall Chadwick (WA)

Standards Australia has updated its fraud-and-corruption-control standard to provide conforming guidance for organisations' governing bodies.

AS 8001:2021 *Fraud and corruption control* now provides minimum requirements for organisations wishing to develop, implement, and maintain an effective fraud-and-corruption-control system.

It addresses internal and external fraud and corruption in organisations and businesses, not individuals.

Fraud and corruption are significant issues for Australian businesses, governments, and not-for-profit organisations, often resulting in financial and reputational damage.

The revised standard includes a requirement for information-security management consistent with ISO/IEC 27001 *Information technology – Security techniques – Information Security Management Systems – Requirements.*

The updates also include guidance on the roles of governing bodies and top management, and whistleblower protection.

The standard outlines initiatives that aim to prevent and detect fraud and corruption, as well as guidance on how to respond to frauds that have already occurred. Organisations wishing to develop and implement fraud-and-corruption controls are provided guidance on early detection and effective responses for optimal outcomes.

Dean Newlan, director of the Australian Institute of Professional Investigators, said, 'AS 8001 has had a significant impact on fraud-and-corruption control in Australian organisations since 2003. It is widely regarded as a benchmark for preventing and detecting fraud and corruption and for responding to fraud-and-corruption events when they occur.

'It not only considers fraud-and corruption-risks where the organisation itself is the target, but also where the organisation, or someone believing they are acting in the organisation's best interest, is the perpetrator.

'This third edition of the standard recognises and responds to an alarming increase in cyber-attack and technology-enabled fraud and provides upgraded guidance on the accountabilities of boards and senior management in controlling organisational fraud and corruption.'

The following ISO standards were particularly relevant to the AS 8001:2021 update:

- ISO 37001 *Anti-bribery management systems*
- ISO 37002 *Whistleblowing management systems*
- ISO 37301 *Compliance management systems, and*
- ISO 37007 *Corporate governance – guidelines for efficiency measurement.*

Standards Australia's head of standards development Roland Terry-Lloyd said, 'Australian organisations and businesses will benefit from this standard. The updates and revisions are comprehensive, and the committee has done a thorough job of allocating guidance that is inclusive of the technology updates we've experienced over the past 10 years.'

Wages underpayments continue

By Doug Bell, Partner, Hall Chadwick (WA)

Recruitment company Hudson Global Resources (Aust) Pty Limited will back-pay more than $4.5 million to underpaid workers and has signed an enforceable undertaking with the Fair Work Ombudsman.

The company self-reported underpayment affecting 'on-hire' employees to the Fair Work Ombudsman in September 2020 after an internal review found that it had applied the wrong awards to some workers and incorrectly failed to apply any award to others.

A subsequent broader review covering most on-hire employees found that award-classification problems had led to failures to pay required minimum rates, casual loading, overtime and public-holiday penalty rates, shift-work penalties, and certain allowances. There had also been a failure to provide required meal breaks and minimum-shift engagements.

Hudson has admitted that 5,325 current and former on-hire employees were underpaid $3,456,152.06, plus $345,617.12 in superannuation, between 2014 and 2020. The undertaking requires Hudson to back-pay all known underpayments and superannuation plus interest of $754,663.35.

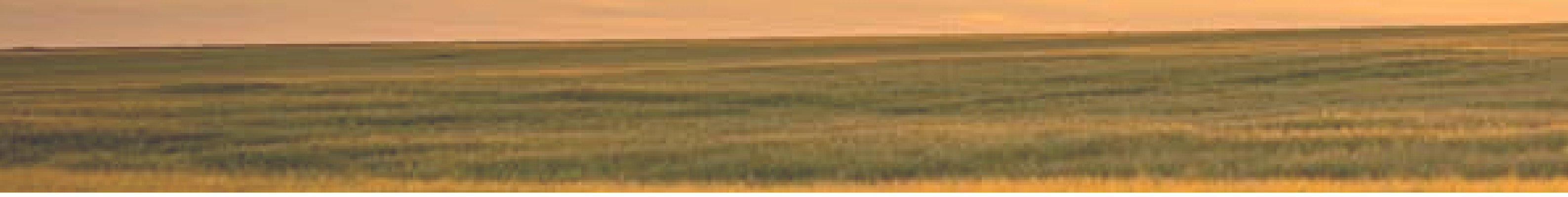
'Under the enforceable undertaking, Hudson has committed to implementing stringent measures to improve compliance and protect the rights of its workforce. These measures include engaging, at the company's own cost, an independent auditing firm to check its compliance with workplace laws during the next two years,' Fair Work Ombudsman Sandra Parker said.

'This matter highlights how important it is for employers to classify all staff correctly from day one. Businesses who fail to invest the time and resources to ensure they are meeting all award entitlements quickly risk facing large-scale back-payment bills. Employers who need help meeting their legal obligations should contact the FWO for free advice and assistance.'

Hudson must make a $172,000 contrition payment to the Commonwealth's Consolidated Revenue Fund. Relevant factors in determining it included the company's co-operation to rectify the breaches and its steps to ensure future compliance, which have included establishing a specialist on-hire support team to approve award coverage and pay-rates for each new placement of an employee.

The company is also required to display website notices and pay for a Facebook notice that will publicise details of its workplace law breaches, apologise to workers, commission workplace-relations training for managerial staff, and implement a central hotline for employees to raise any back-payment queries.

Also, the Australian Red Cross Society has entered into enforceable undertakings with the ombudsman that will back-pay employees more than an estimated $25 million.



DGRs must become registered charities

By Michael Hillgrove, Partner, Hall Chadwick (WA)

Legislation amended in September requires non-government deductible-gift recipients to be registered charities from 14 December.

Charity registration is an existing requirement for most general DGR categories. The amendment extends the requirement to remaining DGR categories except for ancillary funds and DGRs specifically listed in tax law.

To obtain DGR endorsement, funds, authorities, and institutions must be one of the following: a registered charity, an Australian-government agency, be operated by a registered charity, or be an Australian government agency.

Registered charities need do nothing.

Updated general DGR categories that need to be registered as charities are:

- Public funds for hospitals
- Public funds for public ambulance services
- Public funds for religious instruction in government schools
- Roman Catholic public funds for religious instruction in government schools
- School building funds
- Public funds for rural-school hostel buildings
- Approved research institutes
- Public funds for persons in necessitous circumstances
- Fire and emergency services funds
- Public funds on the Register of Environmental Organisations, and
- Public funds on the Register of Cultural Organisations.

Transitional arrangements provide more time to meet the new requirements. An automatic 12-month general transition period give entities until the 14 December next year to become a registered charity. In limited circumstances, there is a three-year extension.

Applications require copies of governing documents.

DGRs failing to register as charities within the transition period will have endorsements revoked, resulting in:

- Loss of tax-deductible donations and gifts
- Removal of tax-deductible status from websites and other materials, and
- Distribution of surplus gifts and donations to an eligible DGR.

Disclose material business risks

By Sandeep Kumar, Partner, Hall Chadwick (NSW)

Several listed entities failed to disclose material business risks in their 30 June reports, ASIC found.

ASIC has reminded company directors about the importance of a high-quality *Operating and Financial Review* after ASIC's recent review of financial reports for the year ending 30 June 2021 identified some listed entities that did not disclose material business risks.

The OFR which accompany financial reports, help inform the investors' decision-making by disclosing material risks that might affect a listed entity's strategies and prospects.

The commission reminds directors that OFRs provide an important complement to financial reports by telling stories about the drivers of companies' results, their strategies and prospects. This includes material non-generic risks to those achieving the financial prospects described.

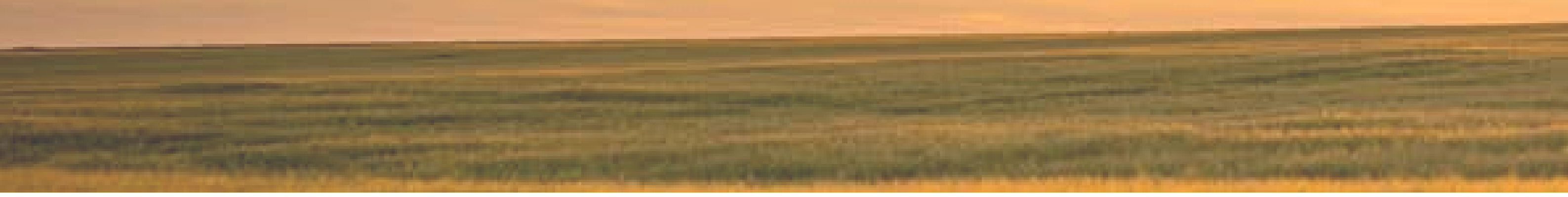
Entities that have made recent announcements about material business risks after ASIC made inquiries are Betmakers Technology Group Limited (as part of its investor presentation on 22 November), Ashley Services Group Limited (on 2 December), and IQ3Corp Limited (on 15 December).

The commission will continue to review closely financial reports to ensure that entities are correctly disclosing material risks.

A listed entity's financial report must contain information that shareholders would reasonably need to make an informed assessment of an entity's operations, financial position, business strategies and prospects. This information is the heart and soul of an OFR.

ASIC's regulatory guide 247 *Effective disclosure in an operating and financial review* provides excellent information. In particular, RG 247 notes, 'It is important that a discussion about future prospects is balanced. It is likely to be misleading to discuss prospects for future financial years without referring to the material business risks that could adversely affect the achievement of the financial prospects described for those years.'

An OFR should include only a discussion of the risks that could affect an entity's achievement of the financial prospects disclosed, considering the nature and business of the entity and its business strategy. It should not contain an exhaustive list of generic risks that might potentially affect a broader range of entities.



Maximising an audit's value

By Graham Webb, Partner, Hall Chadwick (NSW)

A new guide published by Chartered Accountants ANZ aims to help not-for-profits and charities get the most out of an audit.

Maximising the value of audit for not-for-profits addresses:

- How audits contribute tangible benefits to NFPs and charities, and
- Getting the most out of an audit. How to look for a good fit, think beyond the cost, and build a partnership. Minding the over-expectation gap, preparing, being proactive, and ensuring that you do not set and forget.

Key messages are:

- An audit doesn't just help the organisation be accountable. It also allows it to be seen to be accountable
- An NFP and its auditor can build a mutually beneficial relationship that can add value to the effective governance of an organisation and the achievement of its objectives, and
- Ensure you make the most of all the skills, abilities and experience on offer. The guide is designed to help maximise the value of an audit and to recognise that the process can be much more than a perfunctory compliance exercise

An audit can help strengthen an organisation's credentials, offering stakeholders the opinion of a qualified, independent professional on the quality of an organisation's financial statements.

CEOs to feel more accountable

By Mark Delaurentis, Partner, Hall Chadwick (WA)

CEOs, directors and boards feel they will need to be more accountable and responsible in the years ahead, a major Governance Institute survey has revealed.

The institute's *Future of the board report* is based on responses from 550 executives and non-executive directors. Accountability and responsibility is set to soar towards 2025, 92 per cent of the respondents believed. Sixty-six per cent of them agreed strongly with the idea.

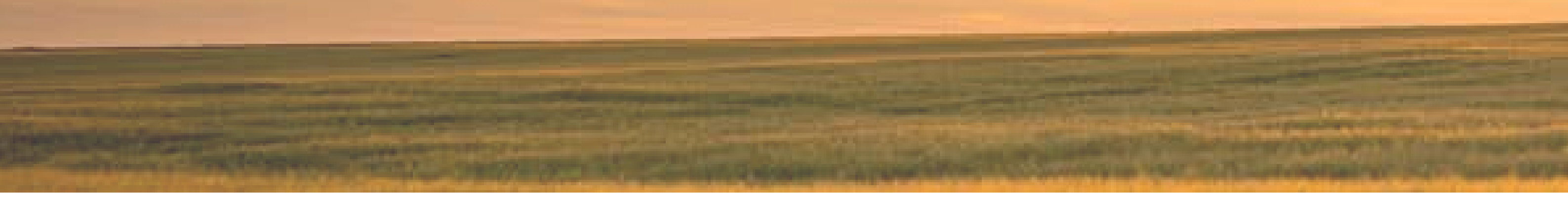
Environmental, social, and corporate governance (ESG) issues will also be in the spotlight, 89 per cent of respondents saying that boards will need to align their purpose with community values.

'This report shows that social licence to operate will be the number one ethical challenge for board directors in 2025,' said Pauline Vamos, the institute's chair.

'The ESG agenda is building, and boards need to ensure they are engaging, reporting – and acting on or adapting to – the non-financial risks that are and will impact their organisations.'

Top challenges for boards in 2025 will be:

- Internal – sustainability of business number one
- External – climate change, fallout from COVID-19, economic instability, technology disruption, and cybersecurity risk
- Top three skills required – expertise in strategy, leadership and management skills, and technological know-how
- Top three attributes required – strategic thinking, critical thinking, values and ethics
- Key ethical challenges – social licence to operate, workplace conduct, and culture
- To prevent corporate failure, focus will need to be on ethics and values, culture, and financial management
- Top factor determining dynamic between boards and management – a culture of transparency, trust and respect between board and management, and
- Major technological disruptors will be – cyber security and data privacy, understanding risk of new technology, governance, and compliance.



Climate change concerns most directors

By Steven Nguyen, Partner, Hall Chadwick (VIC)

The Australian Institute of Company Directors has released a first-of-its-kind study into how climate governance is evolving as an issue facing directors and their boards.

The *Climate Governance Study: Risk and Opportunity Insights from Australian Directors* was undertaken to explore directors' views on climate governance. It involved a survey of more than 2000 respondents and targeted interviews with senior non-executive directors.

The research revealed that most directors (77 per cent) are concerned about the risk climate change poses to their organisation.

Both the survey and interviews showed that many boards were taking significant steps to address climate-governance issues. Half (51 per cent) of directors also saw the opportunities from proactive responses to climate change.

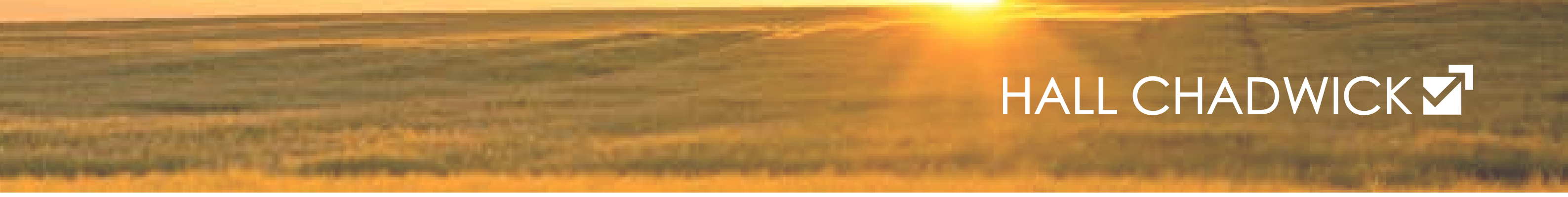
Almost half of respondents (46 per cent) see the lack of a settled national climate-change policy as a barrier to effective climate governance. Other barriers included a focus on near-term business issues/demands from stakeholders and the complexity of the topic, making risk/operation assessment difficult.

Other key findings from the study are:

- 73 per cent of those concerned about climate risk also see opportunity in climate change
- 41 per cent pick regulatory/political uncertainty and operational impacts as the main climate risks
- 28 per cent do not believe their board has the knowledge and experience to adequately address climate-affected governance issues
- 45 per cent have embedded climate change into their risk-management frameworks
- 46 per cent believe their boards should increase the attention they pay to climate governance but 'don't know where to start', and
- 18 per cent have undertaken some form of climate training.

Early this year, the AICD launched an Australian chapter of the Climate Governance Initiative, which champions the World Economic Forum's principles for effective climate governance. Its study is the first publication to be released by the initiative in collaboration with the AICD.

The AICD has published a *Climate risk governance guide for directors* and will roll out further resources in 2022.



ASIC advice on using TCFD climate guidance

By Clive Massingham, Partner, Hall Chadwick (QLD)

ASIC encourages listed companies to use guidance by the Task Force on Climate-related Financial Disclosures as a primary source for voluntary climate-change-related disclosures. It includes the TCFD's recent *Guidance on Metrics, Targets, and Transition Plans.*

Report 593 *Climate risk disclosure by Australia's listed companies (2018)* sets out ASIC's recommendations on considering and disclosing climate risks.

The commission advises listed companies and their advisors to:

- Consider climate risk – directors and management of listed companies should understand and continually reassess existing and emerging risks, including climate risk
- Develop and maintain strong and effective corporate governance – strong corporate governance facilitates identifying and managing material risks
- Comply with the law – directors should consider disclosure of material business risks affecting future prospects in an OFR, and
- Disclose useful information to investors – directors of listed companies with material exposure to climate risk should consider reporting voluntarily under the TCFD framework.

Appendix 1 *ASIC highlights focus areas for 31 December 2021 financial reports*

Topic	Focus
Factors affecting asset values, provisions and assessments of solvency and going concern	Factors to consider in relation to asset values, liabilities and assessments on solvency and going concern continue to include: • Business and domestic/international economic factors • Industry-specific factors • Impact on supply chains, customers, borrowers and lessees • Exposures to overseas operations, transactions and currencies • Short-term versus long-term conditions • Vaccination levels, responses to COVID-19 and duration of containment measures in different countries • Extent and duration of assistance and support by governments and others • Impact on short-term operating cash flows • Debt refinancing, borrowing covenants, lender forbearances, lease modifications and liquidity support • Capital raising, and • Management plans and response to the pandemic impacts. These factors may also be relevant in assessing the ability of an entity's borrowers and debtors to meet their obligations to the entity, and the ability of key suppliers to continue to provide good and services to the entity.
Asset values – Impairment of non-financial assets	Goodwill, indefinite useful life intangible assets and intangible assets not yet available for use must be tested for impairment annually. Entities adversely impacted in the current environment may have new or continuing indicators of impairment that require impairment testing for other non-financial assets. The appropriateness of key assumptions supporting the recoverable amount of non-financial assets. Disclosure of estimation uncertainties, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios. Key assumptions may include assumptions relating to the factors listed at the start of this attachment.
Asset values – Values of property assets	Factors that could adversely affect commercial and residential property values should be considered such as changes in office space requirements of tenants, shifts to on-line shopping, future economic or industry impacts on tenants, the financial condition of tenants and restructured lease agreements. The lease accounting requirements, the treatment of rental concessions by lessors and lessees, and the impairment of lessee right-of-use assets.
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. The extent to which past history of credit losses remains relevant in assessing expected credit losses. Disclosure of estimation uncertainties and key assumptions.

Topic	Focus
Values 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	Consideration should be given to the need for provisions for matters such as onerous contracts, financial guarantees given and restructuring.
Subsequent events	Events occurring after year-end and before completing the financial report should be reviewed as to whether they affect assets, liabilities, income or expenses at year-end or relate to new conditions requiring disclosure.
Disclosures – 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 operating and financial review (listed)	The OFR should complement the financial report and tell the story of how the entity's businesses are impacted by the COVID-19 pandemic and changing circumstances. The overall picture should be clear, understandable, and be supported by information that will enable investors to understand the significant factors affecting the entity, its businesses and the value of its assets. The OFR should explain the underlying drivers of the results and financial position, as well as risks, management strategies and future prospects. Significant factors not attributable to the COVID-19 pandemic should be included and given appropriate prominence, such as changes in consumer preferences or new competitors. Climate-change risk could have a material impact on the future prospects of entities. Directors may also consider whether to disclose information that would be relevant under the recommendations of the Task Force on Climate-related Financial Disclosures.
Disclosure in half-year reports (listed)	Disclosure will also be key for half-year financial reports and directors' reports as at 31 December 2021. These half-year reports may need to include significant disclosure about developments and continuing impacts since 30 June 2021 of COVID-19 conditions and other significant factors.
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 between entities. Entities should also explain where uncertainties have narrowed or changed since the previous full-year and half-year financial reports. The appropriate classification of assets and liabilities between current and non-current categories on the statement of financial position should be considered. That may have regard to matters such as maturity dates, payment terms and compliance with debt covenants.
Disclosure of assistance and support by governments and others	Entities should appropriately account for each type of support and assistance from government, lenders, landlords and others. Both the financial report and OFR should prominently disclose material amounts, as well as the commencement date and either the end date or expected duration of support or assistance. Examples include JobKeeper, land-tax relief, loan deferrals and restructuring, and rent deferrals and waivers. Entities should also disclose the amount of any material voluntary returns of JobKeeper or other support or assistance. The financial report and OFR must disclose relevant information about JobKeeper even though listed entities must also include information in a JobKeeper notice provided to a market operator.

Topic	Focus
Non-IFRS financial information	Any non-IFRS profit measures in the OFR or market announcements should not be presented in a potentially misleading manner. Where asset impairment losses were excluded from a non-IFRS profit measure in a prior period, any impairment reversal should also be excluded from that measure. Where a lessee presents a net tangible asset figure, there should be a prominent footnote on the same page explaining whether some, all or no lease right-of-use assets have been included.
Other matters	Cloud computing customers that did not derecognise capitalised costs of configuring or customising a supplier's application software in a Software as a Service arrangement at 30 June 2021 should do so at 31 December 2021. Whether off-balance sheet exposures should be recognised on-balance sheet, such as interests in non-consolidated entities. Aged care providers should review the treatment of aged care bed licenses following the Government's announcement in May 2021 that the licences will be discontinued on 1 July 2024. The treatment of future services to be provided by a vendor in accounting for a business combination. The treatment of written put options over non-controlling interests in a subsidiary.

Appendix 2 *ASIC review of 30 June 2021 financial reports*

Topic	Findings
Impairment	ASIC's inquiries on assessments of the recoverability of the carrying values of assets, including goodwill, other intangibles, and property, plant and equipment include: Reasonableness of cash flows and assumptions: There continue to be cases where the cash flows and assumptions used by entities in determining recoverable amounts are not reasonable or supportable having regard to matters such as historical trading results and the impact of and uncertainties due to COVID-19 conditions. Disclosures: ASIC still finds some entities that are not making the necessary disclosure of: • Key assumptions, including discount rates and growth rates • For fair value less costs to dispose, the valuation techniques and inputs used, and • The events and circumstances leading to a reversal of previous impairment losses, including key assumptions. These disclosures are important to investors and other users of financial reports given the subjectivity of these calculations/assessments. They enable users to make their own assessments about the carrying values of the entity's assets and risk of impairment given the estimation uncertainty associated with many asset valuations.
Expected credit losses on loans and receivables	Three inquiries were made in relation to expected credit losses on loans and receivables. In one case, inquiries into the entity's approach to estimating ECL on its portfolio of invoice finance receivables. This included the treatment of reassignment arrangements, and how forward-looking assumptions address the impacts of COVID-19.
Operating and financial review	Several inquiries were made about the adequacy of disclosure of risks to a company's strategy and future financial prospects outlined in their operating and financial review.

Topic	Findings
Revenue recognition	Inquiries of six entities about revenue recognition. In one instance, ASIC inquired about the timing of revenue recognition for the online sale of goods and whether control had passed to the customer at the time of dispatch. In another case, questions were asked about the nature and recognition of various fees for providing finance. ASIC also inquired of an entity about whether labour hire services were provided as principal or agent. This matter was resolved with no changes to the financial report following further information and explanations from the entity.
Tax accounting	Inquired of six entities on their accounting for income tax, including whether it is probable that future taxable income will be sufficient to recover deferred tax assets for tax losses. In one case, it appears that the use of tax losses relies on longer-term forecasts. In another case, there is a deferred tax asset for tax losses, despite a history of losses and a small current year profit supported by COVID-19 government assistance.
Expense deferral	An inquiry was made about an entity's treatment of prepaid costs under an agreement for certain expenditure over a five-year period. The amount of prepaid costs increased significantly from the prior year and there was minimal disclosure about the arrangement. The company has committed to improving its disclosure of the arrangement in future financial reports. ASIC also made inquiries of three entities on their response to the March 2021 IFRS Interpretations Committee agenda decision related to cloud computing costs for customers under Software as a Service arrangements. In one matter, the entity had increased software intangible assets but did not disclose whether the agenda decision could result in a material amount of capital costs being derecognised.
Business combinations	Inquiries were made into two matters related to acquisition accounting. In one instance, most of the consideration paid was attributed to goodwill and questions were asked about the nature of the business that has been acquired. The other instance was resolved with no changes to the financial report following further information and explanations from the company.
Borrowings	ASIC made inquiries of two entities about their borrowing arrangements. Earlypay had erroneously classified unsecured debt maturing within 12 months of year end as non-current. Earlypay has addressed ASIC's concerns by disclosing to the market the error, which will be changed in its next financial report. The other inquiry relates to the classification of a convertible note as a liability, despite terms of the instrument indicating that there may be an equity component.
Provisions	Inquiries were made of two entities on the adequacy of make-good provisions for leased properties in their 30 June 2020 financial reports. Both entities made adjustments in their June 2021 financial reports.

HALL CHADWICK

Find out how we can help, contact your local audit team:

DREW TOWNSEND
Partner
+61 2 9263 2600
dtownsend@hallchadwick.com.au

MICHAEL HILLGROVE
Partner
+61 8 9426 0666
mhillgrove@hallchadwickwa.com.au

CLIVE MASSINGHAM
Partner
+61 7 3212 2500
clive.massingham@hallchadwickqld.com.au

GRAHAM WEBB
Partner
+61 2 9263 2600
gwebb@hallchadwick.com.au

NIKKI SHEN
Partner
+61 8 9426 0666
nshen@hallchadwickwa.com.au

SANDEEP KUMAR
Partner
+61 2 9263 2600
skumar@hallchadwick.com.au

DOUG BELL
Partner
+61 8 9426 0666
dbell@hallchadwickwa.com.au

STEVEN NGUYEN
Partner
+61 3 9820 6400
snguyen@hallchadwickmelb.com.au

CHRIS NICOLOFF
Partner
+61 8 9426 0666
cnicoloff@hallchadwickwa.com.au

MARK TAYLOR
Partner
+61 7 3212 2500
mark.taylor@hallchadwickqld.com.au

MARK DELAURENTIS
Partner
+61 8 9426 0666
mdelaurentis@hallchadwickwa.com.au

PrimeGlobal | An Association of Independent Accounting Firms