

A QUARTERLY PUBLICATION ON ACCOUNTING & AUDITING MATTERS

CLARITY

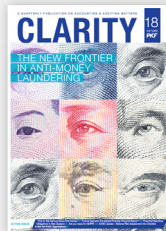
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PKF

THE NEW FRONTIER IN ANTI-MONEY LAUNDERING

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WELCOME TO THE AUTUMN EDITION OF CLARITY



Welcome to our Autumn 2018 edition of Clarity. Our aim is to deliver greater clarity and understanding to our clients on the current and emerging accounting and audit issues. We also look to provide thought leadership, and share our knowledge and expertise, in areas that will solve problems and create solutions for clients. We hope you find this edition of value and please feel free to contact your local Audit Partners for any further assistance.



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“ Adopting the Anti-Money Laundering and Counter-Terrorism Financing regulations should not be seen as a compliance headache, but as a chance to mitigate the risk of doing business with inappropriate parties, and to protect your organisation’s reputation. ”



TIME TO GET SERIOUS ABOUT DIRTY MONEY

The Australian Government is turning the screw on criminals and the movement of dirty money by stepping up its level of regulation over Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF).

Australia has fallen behind the rest of the world in terms of the level of regulation around AML/CTF, becoming an easy target for global criminals.

Locally we have seen significant shortfalls, such as CBA and Tabcorp, which have brought heavy publicity and tarnishing of reputations.

The regulator of AML/CTF, AUSTRAC, has received significant additional funding to not only scrutinise more closely those organisations that are currently regulated by AML/CTF, such as financial services and gambling businesses, but to also encompass an additional Tranche of entities.

Tranche 2 is expected to be implemented later in the year, and suddenly whole new sectors will have obligations under the AML/CTF Act 2006, including lawyers, accountants and the real estate industry – seen as the “gate keepers” to Australian business and high value assets.

PKF Recommendations:

Current Reporting Entities

As can be seen recently in the media, not only are AUSTRAC raising their level of surveillance, but the repercussions for failings are becoming greater, not only in monetary terms but also the adverse impact on brand. There is also the time and cost associated with the investigations and remediation processes.

Therefore, we recommend that Reporting Entities are on the front foot and are being proactive. Those in scope need to internally assess their compliance with all aspects of the AML/CTF Act and regulations, and ensure they have sufficient systems and appropriately qualified resources, and ongoing education and training. A robust independent review or use of external experts would also challenge and improve standards.

Tranche 2 Entities

The rolling out of AML/CTF regulations to Designated Non-Financial Businesses and Professions (DNFBPs) will impact an estimated 100,000 plus entities in the accounting, law, trust service and real estate professions.

We recommend initially gaining an understanding of the potential impact of the AML/CTF rules and regulations on your business, and the proposed compliance and reporting procedures under this legislation. Consideration should then be made around how an AML/CTF program would be established and maintained.

The key areas to consider and focus on are your customer due diligence processes, also known as Know Your Customer (KYC), and transaction monitoring and reporting.

By planning earlier, this will ensure that implementation is smooth and effective.

Adopting the AML/CTF regulations should not be seen as a compliance headache, but as a chance to mitigate the risk of doing business with inappropriate parties, and to protect your organisation’s reputation.

We can help

In response to the escalation of AML/CTF obligations, PKF has developed a “one stop shop” service offering for its network, called PKF AML. This covers all potential AML/CTF requirements of Current Reporting and Tranche 2 Entities – from setting up of new systems, provision of templates and training, through to Independent Reviews, Risk Assessments and Remediation work.

Please contact your PKF office if we can assist. ■

IS IT TIME TO DECLUTTER THE GENERAL PURPOSE FINANCIAL REPORT?

The decluttering of general purpose financial reports (GPFR) has started to gain momentum in the accounting profession as the question of whether these reports are producing relevant information is being asked. The International Accounting Standards Board (IASB) has specifically stated that financial reports contain too much irrelevant information and have excessive disclosure of immaterial information. Therefore, the challenge is to agree on a way to declutter GPFR and make them more relevant to users.

Recently I reviewed a number of annual reports (which are GPFR) produced by companies to comply with their year-end reporting obligations. Most of them were in excess of a staggering 150 pages and lacking relevance to many readers. For example, most of these reports had tax notes over two pages long which only a tax expert would understand. Others required a one page note to display the movements in their hedge accounting reserve which again only a financial expert would understand. I also noticed that these reports had accounting policies in excess of 10 pages long but they were all generic in nature, as the regulator has already prescribed the accounting policies companies must have.

One of the biggest challenges when reading a GPFR is understanding the difference between profit or loss and other comprehensive income. Whilst a trained accountant understands the difference the everyday user of the GPFR will not. To overcome this problem, many Australian Banks now report net cash earnings as their preferred measure of performance. Again, another example of the irrelevance of information in the GPFR.

In this forever changing world where we are constantly being challenged to act promptly, virtually on demand – I am not sure who has the time to analyse a 150-page GPFR. A person would need the time to read the detail and be highly skilled and trained in accounting and finance – certainly the everyday shareholder would find it a challenge to extract meaningful information from such a report.

In many respects, the year-end GPFR has become a very expensive compliance exercise for the benefit of the regulators and policy makers who are regularly reviewing these reports for disclosure errors or oversights. Accordingly, significant time and effort is invested in ensuring that any GPFR can pass

the exhaustive testing of the regulators. Passing the testing of regulators does not necessarily mean that a particular GPFR has relevant information.

When companies are looking at acquiring businesses or companies from each other their first request is to be provided with detailed information on the target via a secure data room. So, the GPFR is never used to make investment decisions, which of course highlights the potential irrelevance of information in such a report.

I believe there are two reasons why the GPFR lacks relevance. The first is that it is human nature to over analyse and complicate. Unfortunately this behaviour is not something we can resolve. The second reason is the question of who the GPFR is being prepared for, which we understand is for all stakeholders. So how is it possible to produce a GPFR which purports to be all things to all stakeholders, this is simply not possible.

One solution is to prepare a GPFR that focuses on the needs of the everyday shareholder and therefore eliminating the requirement to produce a document for all stakeholders. By focusing the report on the needs of one group it will be possible to understand their requirements and tailor a GPFR to them. The type of information shareholders may be interested in could include growth trends in financial performance, ratio analysis of financial performance and future financial goals and challenges.

Finding a solution will not be easy as it will require the collective agreement of government and industry regulators, stakeholders, policy makers, preparers and of course auditors who have to check the final product and ensure its compliance.

For more information, get in touch with your local PKF office today. ■



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FINANCIAL REPORTING OBLIGATIONS IN NEW ZEALAND

Australian companies are increasingly establishing subsidiaries or branches in New Zealand, however, there are financial reporting and filing requirements that need to be considered. These vary according to type, size and ownership. There is no “one size fits all”.

The New Zealand financial reporting framework consists of two parts:

- The statutory financial reporting framework, which sets out the statutory preparation, audit and filing requirements for various types of entities; and
- The accounting standards framework, which establishes the accounting standards to be applied by entities with statutory reporting obligations.

Statutory Financial Reporting Framework

The statutory financial reporting framework is applicable to New Zealand registered companies with 25% or more foreign ownership or overseas

companies operating in New Zealand as a branch. This covers most of the investments in New Zealand by foreign entities. There are different requirements, inter alia, for companies with 10 or more shareholders, partnerships, retirement villages and public benefit entities and you should seek specific advice regarding these.

The following table sets out the reporting framework applicable to many of the entities operating in New Zealand with foreign ownership.

Audited financial statements must be filed with the Companies Office within four months of balance date for FMC reporting entities and five months for other companies.

Entity	General Purpose Financial Reporting	Audit requirement	Companies Office filing requirement
FMC reporting entities e.g. listed or an issuer.	✓	✓	✓
Large NZ companies (“large” is total assets greater than \$60m or revenue exceeding \$30m) with less than 25% overseas ownership.	✓	✓ (can opt out)	✗
Large NZ companies (“large” is assets greater than \$60m or revenue exceeding \$30m), with 25% or more overseas ownership but not a subsidiary of an overseas company.	✓	✓	✓
Large NZ companies (“large” is total assets greater than \$20m or revenue exceeding \$10m) that are subsidiaries of an overseas company.	✓	✓	✓
Large overseas companies that carry on business in New Zealand – a branch (“large” is assets greater than \$20m or revenue exceeding \$10m of the branch).	✓	✓	✓ Must also file financial statements of the overseas company if “large”

The Accounting Standards Framework

Having decided whether or not the entity must prepare General Purpose Financial Reports (GPFR) in accordance with New Zealand generally accepted accounting practice (NZ GAAP) the next decision is which standards to apply.

If the entity has no statutory financial reporting obligation, you may still choose to prepare financial statements in accordance with NZ GAAP. Alternatively, your entity may report on another basis and comply, as a minimum, with the requirements specified by the Inland Revenue. Such statements are “Special Purpose”.

Those entities preparing GPFR must apply the applicable Tier reporting. (See table)

The New Zealand financial reporting requirements can be complex. For those operating a branch or subsidiary in New Zealand we recommend checking on your reporting requirement with your nearest PKF adviser. ■

Criteria of the tier		Applicable accounting standards
Tier 1	“Publicly accountable” entities – generally FMC reporting entities.	NZ IFRS in full
Tier 2	Not “publicly accountable”.	NZ IFRS with Reduced Disclosure Regime

Examples of the application of the reporting and accounting frameworks:

Example 1:

A New Zealand registered company, 100% owned by an Australian company, has assets of \$5m and annual revenue of \$25m. This would be regarded as “large” and must file audited financial statements with the Companies Office which comply with the New Zealand International Financial Reporting Standards Reduced Disclosure Requirements (NZ IFRS RDR) as a minimum.

Example 2:

A New Zealand registered company, 51% owned by an Australian company has assets of \$1m and annual revenue of \$8m. This would not be regarded as “large” but must prepare special purpose financial statements that comply with Inland Revenue requirements as a minimum. There are no audit or Companies Office filing requirements.





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ARE YOU READY FOR GDPR?

The General Data Protection Regulation (GDPR) law will be enforced from 25 May 2018. Failure to comply with any of the GDPR requirements may result in significant financial loss, disruption or reputational damage to an organisation.

What's the big deal?

If you think data protection and data breaches only affect smaller organisations as their infrastructure is not sophisticated to withstand hackers, think again! For example, Facebook's privacy practices have come under fire after Cambridge Analytica, a political consulting firm affiliated with President Donald Trump's 2016 election campaign, got data inappropriately. Closer to home, Svizter Australia breached the notifiable data breach scheme which was introduced on 22 February 2018.

These are only a couple of examples that have been in the media as recent as March 2018. Organisations, big or small need to start thinking of Data Breach Response Plans that clearly sets out the procedure to be followed by the organisation in the event that a data breach has, or is suspected to have occurred.

So, what is it?

The GDPR is a law introduced by the European Union (EU). The purpose of this new law is to prevent misuse of an individual's personal information, as well as to better protect a person's freedoms and rights about how their information is used by an organisation. Failure to comply can result in penalties as much as 4% of the organisation's annual worldwide turnover or €20 million (over \$30 million AUD), which is enough to put most growing companies out of business!

Who does this affect?

The GDPR will affect every business regardless of size. As long as your organisation collects and stores personal information you will be bound by the rules.

Does it affect companies in Australia?

Yes! As the GDPR states, any company that has access to personal data related to citizens of the EU, **irrespective** of the fact it is domiciled in EU countries or not, **must** comply with this new system. Therefore, organisations in Australia, which offer goods or services to residents of the EU will be affected by GDPR. These organisations may include businesses exporting goods to the EU, providing financial services, have direct clients in the EU or are subsidiaries of their EU counterparts.



Are you ready?

One of the first tasks in preparing for GDPR is to identify all of your organisation's personal data. Do you know all the locations where your data resides? It might be embedded in supplier records, websites, excel files, emails and HR records. But are there more? Missing one location can prove fatal!

Identifying all the relevant data is only part of the solution. Organisations must have a risk-based methodology in place to manage their privacy and should implement effective policies and strategies surrounding data privacy. They also need to identify the channels through which they are accumulating and sharing the data. Additionally, does your organisation have a dedicated data protection officer who is responsible for overlooking data protection strategies? This individual can be vital in the process and ensure that your business is GDPR ready.

What can you do?

Preparing for GDPR is likely to be a major challenge for businesses. It's similar to the new mandatory breach notification scheme which mandates Australian Government agencies and various organisations with obligations to secure personal information under the Privacy Act 1988.

Let PKF get closer to your GDPR requirements and assist you on this journey. We can assess how well your data security and usage controls compare to the GDPR requirements and identify areas for improvement. Our experts can provide guidance on gap analysis, updating policies and procedures, and staff training.

For further information please contact Ken Weldin on +61 3 9679 2310 or Milind Sheth +61 3 9679 2331 or get in touch with your local PKF office today. ■

ACNC UPDATE - NATIONAL RISK ASSESSMENT INTO CHARITIES AND NOT-FOR-PROFIT ORGANISATIONS

The Australian Charities and Not-For-Profits Commission (ACNC) is doing its part to keep Australia safe from money laundering and terrorism. During the year the ACNC undertook a national risk assessment into Australia's not-for-profit (NFP) sector in conjunction with Australian Transaction Reports and Analysis Centre (AUSTRAC). The findings were released in their report titled *Australia's non-profit organisation sector: money laundering and terrorism financing risk assessment*.

What was the aim of the national risk assessment into charities and NFP organisations?

This risk assessment aimed to identify:

- The risk of money laundering and terrorism financing in the NFP sector
- Vulnerabilities and risk indicators of high-risk organisations
- Groups of high-risk organisations that will benefit from targeted outreach and support
- Vulnerabilities that could be exploited to support terrorism, and a strategy to counter these vulnerabilities.

A copy of the report by ACNC and AUSTRAC can be found on the ACNC website. As a result of the risk assessment, a risk rating of medium was given to the risk of terrorism financing and money laundering by the Australian NFP sector.

In addition to the local risk assessment, in November, Assistant Commissioner David Locke represented the ACNC at the third Counter Terrorism Financing Summit (CTF Summit) in Kuala Lumpur. The conference provided a valuable opportunity to share knowledge to combat money laundering and terrorism financing, particularly in NFP organisations.

The conference also marked the launch of the *Regional Not-For-Profit Sector Risk Assessment 2017*, which examines the level and nature of terrorism financing risks in NFP organisations from eight countries, including Australia, New Zealand, Malaysia, Indonesia and more.

Like the Australian national risk assessment launched by the ACNC and AUSTRAC in August, the regional risk assessment found that the region of Australia, New Zealand

and South-East Asia has a medium risk of terrorism financing in NFP organisations.

The assessment identifies the main threats currently facing charities and NFPs and highlights key vulnerabilities that could be exploited to promote terrorism. The regional risk assessment is available on the AUSTRAC website.

Outcomes of the risk assessment

Both the national and regional NFP sector risk assessments will be used by the Government to strengthen the reporting and surveillance in the NFP sector.

In addition to the now familiar governance standards that all charities registered with the ACNC must meet, the ACNC will introduce further compliance standards in the form of "External Conduct Standards".

The External Conduct Standards will be a set of requirements that registered organisations must meet if they send funds outside Australia or engage in activities outside Australia. The ACNC Act states that the aim of the external conduct standards will be to give the public confidence that funds sent outside Australia by registered organisations are reaching legitimate beneficiaries and being used for legitimate purposes; and that both funds sent, and activities engaged in outside Australia will not contribute to terrorist or other criminal activities.

To date there has yet to be any further details released by the ACNC as to the scope or level of the reporting required under the external conduct standards.

Contact your local PKF office if you need guidance on any ACNC requirements. ■



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About PKF

PKF brings clarity to business problems with simple, effective and seamless solutions that break down barriers for sustainable growth.

PKF Australia firms are members of the PKF International Limited (PKFI) network of legally independent firms in 440 offices, operating in 150 countries across five regions. PKFI is the 10th largest global accountancy network.

In Australia, PKF offers clients the expertise of more than 80 Partners and 750 staff, across audit, taxation and specialist advisory services.

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Our values

- Passion
- Teamwork
- Clarity
- Quality
- Integrity



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