

A QUARTERLY PUBLICATION ON ACCOUNTING & AUDITING MATTERS

# CLARITY

20  
WINTER  
PKF

WHAT IS THE  
NEW NORMAL?

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# WELCOME TO THE WINTER EDITION OF CLARITY

Welcome to our Winter 2020 edition of Clarity. Our aim is to deliver greater clarity and understanding to our clients on the current 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 and Assurance Partners for any further assistance.



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## COVID-19 IMPACT ON ASSET IMPAIRMENTS

Forecasting the future is often not straight forward, and even more so given the heightened present uncertainty, with the COVID-19 pandemic, and the measures taken to combat (e.g. business closures, travel restrictions) having a substantial impact on businesses across the world.

Asset values continue to be a key focus area for financial reporting regulators – and the negative impact of COVID-19 will mean that previously unaffected businesses will need to consider their asset values for the first time.

As always, goodwill or other indefinite-lived assets will need to be tested for impairment on at least an annual basis. AASB 136: *Impairment of Assets* also requires that other non-financial assets (e.g. property, plant & equipment, investment properties, biological assets) be tested for impairment when there is an indication of impairment at the reporting date.

Indicators of impairment include significant changes which have an adverse effect on the company, either during the reporting period or that will take place in the near future, in the market or economic environment in which the company operates. Accordingly, if a company has been negatively impacted by the COVID-19 pandemic – for example, temporarily scaling down operations, seeing declines in demand, or reduced prices/margins – then this likely qualifies as an indication of impairment.

If an indication of impairment exists, companies will need to estimate the recoverable amount of the asset, being the higher of its fair value less costs of disposal and its value in use.

Value in use is the future cash flows expected to be derived from an asset (or a group of assets called a cash-generating unit), discounted to present value. The discounted cash flows need to reflect expectations about possible variations in the amount or timing of those future cash flows (i.e. the assumptions and cash flow forecasts used to test for

impairment should be updated to reflect the potential impact of COVID-19 – noting that past results may not be an accurate predictor of future outcomes in this environment).

**AASB 136 prescribes two approaches to project cash flows:**

### 1 The traditional approach

- Uses a single cash flow projection, or most likely cash flow
- Cash flows are not adjusted for risk
- Risk, including any risk associated with the impact of COVID-19, is reflected in determining the discount rate (i.e. the discount rate may be significantly higher than in prior years, even though interest rates have fallen)

### 2 The expected cash flow approach

- Uses multiple, probability-weighted cash flow projections
- Uncertainty about the future cash flows, including any uncertainty arising from the impact of COVID-19, is reflected in the different probability-weighted cash flow projections used, not in the discount rate

Whichever approach is adopted, it's important to note that the rate used to discount cash flows should not reflect risks for which the future cash flow estimates have already been adjusted, and vice versa. Otherwise, the effect of some assumptions will be double counted.

Please reach out to your local PKF office if you require any support, guidance or additional insights.

# DON'T BE THE NEXT RUBY PRINCESS! GET WORK READY

With all of the uncertainty that COVID-19 has thrown upon us, life must move on, businesses need to adapt, children need to go back to school, office environments need to be restored. While the Australian government was aiming for majority of businesses to be back on their feet by July 2020, even with numbers on the rise again, are you, as an organisation, back to work ready?

As lockdown restrictions slowly ease, all of us must adjust to a 'new-normal'. Here are a number of considerations for businesses if they wish to stay open:

- 1 Wellbeing of employees and customers.
- 2 Physical space – how do you maintain physical distancing of 4m2 per person at any given time?
- 3 Hygiene and cleaning – how much cleaning is enough and what is 'deep-cleaning'?
- 4 Contact tracing – how do you control traffic and maintain visitor information?
- 5 Staggering of work schedules.
- 6 Use of hand sanitisers and personal protective equipment.

Whilst it's great to have plans around these practical elements, the most important questions comes when you're faced with an outbreak. What do you do when you are exposed to COVID-19? Let's take a look at the Ruby Princess incident, to date, the most famous poorly managed Australian incident of the pandemic.

The disembarking of passengers from the Ruby Princess on 19 March 2020 after the global COVID-19 pandemic announcement by the World Health Organisation, is linked to 21 deaths, more than 200 cases, and has now led to a Special Commission of Inquiry.

Early submission of evidence includes how disembarkation was allowed because the ship had been assessed as low risk. In hindsight the re-assessment of the ship would have been medium risk, if the draft risk assessment procedures had reflected the update by the Communicable Diseases Network Australia released on 10 March 2020.

What can we learn from this?

Though plans and risk assessments are available, are they actionable? Have they become irrelevant and no longer serve the purpose for which they have been created? Do the right people know about the plans and assessments in order to be able to implement them? After all, you don't know what you don't know.

COVID-19 has impacted all of our lives. As much as businesses are eager to get back to work, can we answer the following:

- Do you know how to keep your employees safe?
- What are the processes and systems in place to keep your employees safe? How is this communicated?
- Do you have the capacity and controls to monitor that people are doing the right thing?
- How do you know what is working in practice vs written on paper?
- How do you keep on top of changing guidelines?
- How do you and your customers know you are doing what you say you are?

COVID-19 is a risk that will stay with us for some time. To address it, we have to control the controllable and minimise, as much as possible, any direct hits to our reputation and brand. When the inevitable occurs, can you confidently say that you have done everything possible? Or will you be the next Ruby Princess?

*Don't know where to start?*

*Call PKF.*

*Be COVID-safe not COVID-sorry.*



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# RISK AND CRISIS PLANNING IN THE CURRENT STORM

At the beginning of March 2020, PKF partnered with the Governance Institute of Australia to carry out a survey of governance and risk professionals operating in the Australian market at that time, to identify the key pressure points for them both now and into the future. The survey received close to 400 responses and identified areas that respondents felt they were prepared for and those they felt exposed to.

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Offering valuable insights into the risk landscape, the survey has revealed that almost 40 per cent of businesses are not regularly testing their risk and crisis plans — leaving them exposed and under-prepared for major crisis. The survey was conducted just as the enormity of COVID-19 was becoming apparent, but even then, some respondents were beginning to manage this risk.

### COVID-19 is the 'current storm'

COVID-19 was described by one respondent as 'the current storm' they were managing at the time the survey was carried out.

- The COVID-19 pandemic has exposed gaps in the crisis management and business continuity capabilities of both businesses and governments.
- 39 per cent of respondents do not run scenarios around risk events to test how the organisation and its people will respond, and only 11 per cent do this frequently.
- 28 per cent said they felt their business was well prepared for the impact of COVID-19 and an equal 28 per cent said they felt their business was not well prepared.
- A key factor in these responses was the capacity, capability and willingness to work from home. As lockdown conditions slowly ease it will be interesting to reassess going forward what flexibility in this space will become the new norm.

disruption or failure to innovate, the environment, cyber and economic shock as the risks their companies were the least well prepared for.

The same results were recorded in last year's survey. This suggests that, while respondents are aware that their organisations are lacking in these areas, they have not yet been able to make significant steps to address this over the last year.

### Insufficient focus on environmental risk

The lack of focus on environmental risk is perhaps of particular concern as shareholders and society as a whole continue to prioritise this issue. Remembering 2020 started with a disastrous bush fire season it would be unwise for companies to overlook this risk in future.

Respondents cited damage to brand and reputation as their top risk over the next three years. It is worth considering that one of the most likely reputational risk factors over the coming years could come from a failure to address environmental concerns.

### Exposure to modern slavery reporting risk

37 per cent of respondents said they do not include modern slavery obligations in their risk management framework and only 22 per cent said they do include it. A mandatory reporting requirement on modern slavery risk has been introduced, which is applicable to a large grouping of Australian companies.

- Under the new reporting obligations, a modern slavery statement must be submitted within nine months after the end of the entity's first full financial year that commences after 1 January 2019 (this was increased from six months due to COVID-19).
- The six-month deadline for reporting periods ending after 30 June 2020 remains unchanged.

Ken Weldin, PKF Partner noted:

"The message is loud and clear from this research: there is a long way to go and there is a lot to learn around improving the number of organisations who actually do scenario planning, never mind its effectiveness. Within that one scenario which may be forgotten is how to maximise business as usual.

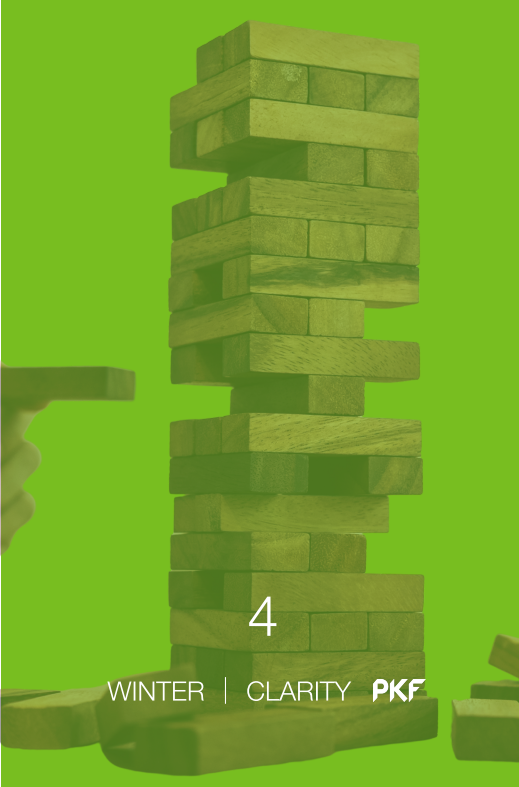
The key risks that were keeping you busy in January and February are most likely still there so it is worth reflecting on what you may be forgetting about or de-prioritising with the understandable focus on COVID-19."

### Companies remain unprepared for the same risks

Respondents cited talent, the threat of

PKF Partner, Baidy Laffan comments,

"It is easy to be distracted from our modern slavery obligations by the challenges arising from COVID-19. Unfortunately, these conditions put those most vulnerable within our supply chains at more risk than ever and businesses need to be ensuring they are actively monitoring this within their supply chains. Now more than ever we need to be leaning into our social responsibility to protect these people."





### Whistleblower protections

51 per cent of respondents incorporate whistleblower protection into their risk management framework and a further 26 per cent include it elsewhere. Only 15 per cent do not include whistleblower protection.

This shows that organisations are committed to facilitating whistleblowing, which has been found to be an effective way to manage the risk of staff misconduct. As the report states, this may relate to recent legislative change – from 1 July 2019 the whistleblower protections contained in the Corporations Act 2001 were expanded.

PKF Principal, Wayne Gilbert comments:

“Whistleblowing, including the use of independent third-party hotlines continue to deliver positive results for organisations. Giving employees, and other eligible disclosers multiple channels for reporting is a sound method which can be utilised by organisations of any size.”

### Structures need to be backed up with culture

It is easy to say you value risk management, as 84 per cent of respondents did, but in order for risk management to be effective it must be backed up with a strong risk culture.

At times the voice of risk is not being heard. This is reflected in the survey findings: 43 per cent of respondents agree slightly that risk management is widely understood in their organisation, but 19 per cent disagree slightly and 7 per cent disagree strongly.

All parties, boards, C-suite and risk professionals need to promote how establishing a risk function pays off across the organisation.

As with most risk areas flagged in this report, the ability to translate words in a risk policy or statement into a set of meaningful actions and controls remains the secret to effective risk management in practice and having it come to life across the organisation.

In conclusion, Ken comments,

“At the heart of risk management as a discipline is the ability and capacity to manage change, and from that uncertainty. For many Australian businesses, the recent six months have seen many challenges coming from changed circumstances and high levels of uncertainty.

Disruption from bush fires and, of course, now COVID-19 have seen many of our leaders open their communications with one word: unprecedented.

Is there still hope for the risk management profession? Absolutely. A helpful starting point in re-pivoting risk functions across the country whether they be large or small can come from studying the themes and the lessons from the Governance Institute's Risk Management Survey 2020.”

*The team at PKF is passionate about bringing out the best in every business by helping to navigate the broad range of governance, risk and compliance issues specific to you. PKF deliver the clarity that will get you closer to your goals.*

“ It is easy to be distracted from our modern slavery obligations by the challenges arising from COVID-19 ... Now more than ever we need to be leaning into our social responsibility to protect these people. ”





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“ If ever there was a time for the sports industry to revisit its risk performance, governance, culture, leadership and operational structures it is now, and the virus outbreak presents a unique opportunity. ”

# TIME FOR SPORT TO RISE TO THE CHALLENGE

Recently we have seen the return of both the National Rugby League (NRL) and the Australian Football League (AFL) after months of stand-down in order to protect players and the public from infection of COVID-19. In what has proven to be a welcome distraction, sporting enthusiasts in Australia are once again discussing player positions and debatable referee decisions, with the added conversational bonus of whether we appreciate the fake crowd noise or not!

As a British expatriate new to these shores, Australia's love for sport is immediately apparent. Inevitably, this deeply ingrained passion makes sport big business and results in a greater level of focus and scrutiny, particularly on how its leading organisations are run.

The recent headlines regarding financial difficulties currently being experienced by some of Australian sport's most high-profile institutions has done little to dispel the public's sense of scepticism surrounding the industry's financial planning and governance foresight. COVID-19 has served to accentuate these underlying flaws.

If ever there was a time for the sports industry to revisit its risk performance, governance, culture, leadership and operational structures it is now, and the virus outbreak presents a unique opportunity.

Firstly, management should be asking themselves and the Board what lessons can be learnt. How can we better plan for such a scenario? Was such an apocalyptic event included on our risk register? Do we even have a risk register? If not, how do we document our policies and procedures in place to mitigate financial, integrity and other risks?

Stuart Coventry, COO at Basketball Australia, agrees:

“The onset of the COVID-19 crisis has certainly highlighted to us the importance of our departmental business continuity plans to ensure all considerations are actioned to meet all challenges and potential scenarios as part of good governance.”

Invariably this will lead to a greater focus on financial planning and sustainability. Outside of government funding, national-sports organisations in particular are heavily reliant on in-game commercial sponsorship, television rights, and wagering fees. COVID-19 has highlighted the problems that can arise when games and events cannot be held, the importance of having significant cash reserves available as well as the need to develop new innovative revenue streams in order to become more self-sufficient.

Such innovative schemes could include increased focus on online merchandise sales and hosting virtual events.

This is not solely an elite-level requirement either. The grass roots level also has a part to play, and this is where collaboration and governance education, from Sport Australia to state sporting organisations to local community leagues, is imperative. Children are the future of sport in Australia and the need to divert them away from Netflix to well-run community sports initiatives is paramount.

As we all work towards a new-normal of social-distancing, and where communities are disparate and in desperate need of feeling re-connected, the sports industry has a unique opportunity to be the driving force behind this. Strong leadership and governance will place it in pole position as this test of endurance henceforth continues.

*PKF can deliver the clarity that will get you closer to your goals.*



# Are you back to work ready?

All workers have the right to a safe and healthy working environment.



**RETURN TO WORK AND COVID-SAFE PLANS**



**BUSINESS CONTINUITY PLANS**



**AGREED UPON PROCEDURES REVIEW  
INTO COVID-SAFE PRACTICES**

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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.

In Australia, PKF offers clients the expertise of more than 90 partners and 750 staff across audit, taxation and specialist advisory services.

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## Our values

- Passion
- Teamwork
- Clarity
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