

CLARITY

20
SUMMER
PKF

MOUNTAIN TO CLIMB FOR AUSTRALIA ON AML/CTF TRANCHE 2



IN THIS ISSUE

Lessons To Be Learnt From NZ On Tackling Money Laundering And Terrorism Financing [02](#) | New Changes To ASX Listing Rules [04](#) | Wage Theft Isn't About Good VS Evil: It's About A Fair Go [05](#) | Not-For-Profit's Time To Shine [06](#)

WELCOME TO THE SUMMER EDITION OF CLARITY



Welcome to our Summer 2020 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 and Assurance Partners for any further assistance.



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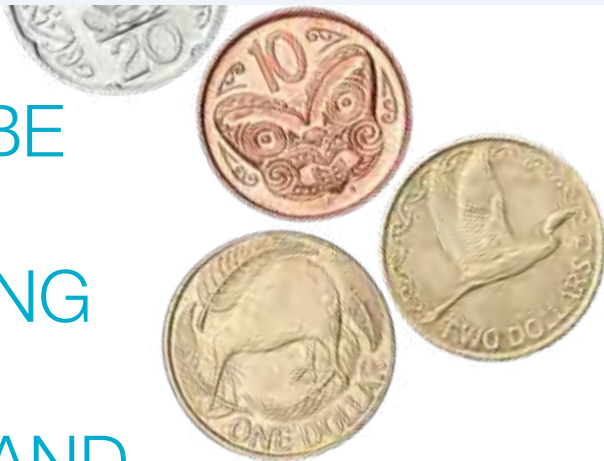
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“ It has been estimated that around \$1.35 billion NZD from the proceeds of fraud offending and illegal drugs are laundered through New Zealand businesses each year... ”

Joint article between Dawn Alexander PKF Goldsmith Fox (NZ) and Paul Pearman PKF Sydney & Newcastle

LESSONS TO BE LEARNT FROM NZ ON TACKLING MONEY LAUNDERING AND TERRORISM FINANCING



With the Australian Transaction Reports and Analysis Centre (AUSTRAC) launching legal action in November against Westpac accusing them of breaching Australia’s anti-money laundering and counter-terrorism finance laws over 23 million times, stating, “These contraventions are the result of systemic failures in its control environment, indifference by senior management and inadequate oversight by the board,” this has once again brought the Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Act into the spotlight.

It has been estimated that around \$1.35 billion NZD from the proceeds of fraud offending and illegal drugs are laundered through New Zealand businesses each year, with the true cost being much higher due to the social harm that is caused. In Australia, the estimate is significantly higher, yet New Zealand is ahead of Australia with how they are trying to tackle the issue.

The table below summarises the current status and the expected impact of AML/CTF legislation in both countries:

	New Zealand	Australia
<p>Tranche 1</p> <p>Monitoring the financial sector. This tranche included banks, casinos and a range of financial services providers.</p>	<p>Introduced 2013</p> <p>Impacting 1,200 entities</p>	<p>Introduced 2006</p> <p>Impacting 14,000 entities</p>
<p>Tranche 2</p> <p>Monitoring designated non-financial businesses and professions (DNFBPs), being accountants, real estate agents, conveyancers, lawyers and high-value dealers (such as jewellers and vehicle dealers).</p>	<p>Introduced in waves:</p> <p>Lawyers</p> <ul style="list-style-type: none"> • 1 July 2018 <p>Accountants</p> <ul style="list-style-type: none"> • 1 October 2018 <p>Real Estate Agents</p> <ul style="list-style-type: none"> • 1 January 2019 <p>High-Value Dealers</p> <ul style="list-style-type: none"> • 1 August 2019 <p>Impacting 7,600 entities</p>	<p>Not been implemented yet, expected to impact over 100,000 entities</p>



New Zealand was one of the first countries to enact Tranche 2 laws. It is inevitable that Australia will have to follow suit as the government signed up to The Financial Action Task Force (FATF) which is an intergovernmental organisation designed to develop policies to combat money laundering. Australia has been promising since 2006 to introduce Tranche 2 and is being highly criticised by FATF for the lack of commitment, with no set timeline.

The overall number of entities affected under Tranche 2 might seem small on the scale of the total number of businesses in New Zealand and Australia, however, there is a massive flow on effect in that you have to think of all the number of clients undergoing customer due

to roll out the second phase of the AML/CTF Act. It was supposed to be passed by the end of 2018, however, the likes of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Industry, amongst other issues we imagine, have meant AML legislation has been set aside.

Also, the effectiveness of the AML/CTF regime has come into question, as Tranche 1 has not necessarily been working with the Westpac current allegations and the Commonwealth Bank previous breaches. Despite this, it is bringing the issue into the spotlight more and more.

We are now at the beginning of 2020 with no legislation in sight for the second

“Knowing your client” is the cornerstone of the strengthened regulatory framework. This requires a more in-depth data capture which should keep dodgy customers from the door, or if they come knocking, the AML reporting obligations require the reporting entity to file a ‘suspicious activity report’.”

diligence (CDD) from these lawyers, accountants and real estate agents. Clients are now being asked to provide evidence of their ID, proof of address and in some cases, like when a Family Trust is involved, source of wealth when captured activities are carried out. As a result, it's hard to go anywhere in New Zealand without AML coming up in conversation, be it from the entities complying with the Act or clients affected by the new requirements.

“Knowing your client” is the cornerstone of the strengthened regulatory framework. This requires a more in-depth data capture which should keep dodgy customers from the door, or if they come knocking, the AML reporting obligations require the reporting entity to file a ‘suspicious activity report’.

With AML/CTF receiving more media coverage on both sides of the ditch you would think this would be increasing the pressure on the Australian federal government

tranche, handicapping the country's ability to fight transnational crime and terrorism financing.

All is not at a standstill though, as there were amendments (referred to as “Phase 1.5”) made in Australia during October 2019, to clarify the existing obligations of casinos, banks and other large financial institutions. The expectation has been made by commentators that although the shape and timeframe of the Tranche 2 legislation are uncertain, Australia is watching what is happening in New Zealand and should bring in their own legislation in 2020 or 2021. Others believe this is over optimistic.

Australia should learn from the mistakes made in New Zealand before rolling out Tranche 2. The mistakes ranged from how the sector supervisor DIA understood the Tranche 2 professions it now had to regulate, to how it managed its role. This coupled with the speed they introduced the legislation, which many people thought was too fast and lacked consultation.

With the inevitable Tranche 2 on the horizon, our experience with the New Zealand roll out has highlighted the following items Australian entities should be thinking about:

- Be involved with the regulatory consultation process when draft legislation comes through. Make your voice heard to ensure the framework is fit for purpose and workable in practice;
- Attend your regulator roadshows and training sessions held by both your Industry Representatives as well as PKF on AML compliance;
- Plan ahead. You will need to prepare a comprehensive Risk Assessment and AML Programme, along with appointing an AML Compliance Officer and carry out vetting and training of staff;
- Research what information you will be required to report on in your Annual AML/CTF Report to be filed with the regulator. This will ensure the information is being captured from the start of the legislation being implemented.
- Keep your clients informed of the additional identification and paperwork required under the new legislation, the more prepared they are the easier it becomes for you; and
- Contact your local PKF office to discuss the required appointment of an AML/CTF Auditor.

Remember – when Tranche 2 comes into effect in Australia it is important legislation for the country's safety and security, so engage positively with the new laws and embrace their heightened obligations. The cost of non-compliance is high, and even unintended non-compliance can give rise to penalties. ■



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NEW CHANGES TO ASX LISTING RULES

The Australian Stock Exchange (ASX) is always reviewing and implementing continuous improvement to their Listing Rules and Guidance to ensure that adequate information is being provided within the market to provide transparency.

During the second half of the 2019 calendar year, the ASX released a consultation paper on proposed changes which it has received and reviewed responses to. As of 1 December 2019, the majority of these changes will come into effect. Below is an overview of two common aspects that our listed clients need to be aware of.



Key Persons Responsible for Communications to ASX

Effective from 1 July 2020:

- Any listing applications lodged to be admitted to the ASX must appoint a person responsible for communication in relation to Listing Rules matters who has completed an approved Listing Rules compliance course and attained a satisfactory pass mark in the examination for that course; and
- An entity must also appoint and at all times have a person responsible for communication with ASX in relation to Listing Rules matters.

Generally, the most appropriate person is likely to be the company secretary but does not have to be. The ASX expects that this person will have a high degree of familiarity with the entity's operations and have ready access to senior management who have responsibility for day to day management of the entity. We would also expect that companies would have another person as an alternative so as to cover absences of the primary person.

Quarterly Reporters

There are a number of changes within this area that companies need to be aware of and addressed. Note that these changes are effective for the quarter ending 31 March 2020.

For Appendix 4C reporters, you will need to lodge an activity report (not previously required) at the same time as your cash flow report, which needs to provide details of:

- Its business activities, including material developments or changes in those activities, and a summary of the expenditure on those activities; and

- Description of and an explanation for any payments to a related party included within Appendix 4C.

For Appendix 5B reporters, the activity report has increased its disclosure requirements to include:

- Details of any farm-in or farm-out agreements it entered into during the quarter; and
- Description of an explanation for any payments to a related party included within Appendix 5B.

In addition, both Appendix 4C and Appendix 5B reporters need to download and utilise the updated and revised cash flow reporting templates from the ASX website to ensure that all the required disclosures are included. These revised templates included an additional disclosure requirement in Section 8 relating to the calculation of the estimated quarter's funding based upon its last quarter's cash burn. Should there be less than two quarters of funding available, the entity needs to answer additional questions relating to its current and future expectations, and what are the action plans that they have in place to address the funding shortfall.

In addition there are several other areas effective from 1 December 2019. For further details speak to your local PKF representative and/or go to the following link on the ASX website www.asx.com.au/documents/regulation/Listed-201910.html. ■

WAGE THEFT ISN'T ABOUT GOOD VS EVIL: IT'S ABOUT A FAIR GO

I believe that people genuinely think that they are fundamentally good, regardless of whether we perceive them to be otherwise. That they are doing the best they can with the resources they have and don't seek to do any harm.

In the context of wage theft, no individual or company views their own wage theft as malicious. It is often this nuance that gets left out of public debate in a world of outrage-fuelled media.

But noble intentions do not excuse businesses from the result and all businesses are treated the same in the eyes of the regulator.

Let's take the recent example of Woolworths. The company underpaid some of their 5,700 department managers across their retail network dating back to 2010. The \$300 million underpayments arose from differences in the employee's salary under an Enterprise Agreement and what they would have otherwise earned under the Award. It is fair to say, Woolworths did not intentionally set out to underpay their employees, and it is equally fair to say that this error resulted from (a) someone not reading the Agreement closely enough nor ever bothering to check and (b) poor systems and monitoring.

If it wasn't intentional, is it acceptable? No, culturally and legally Australians believe in a "fair go" and the truth of the matter is that dollars and cents matter to the employees affected no matter how small.

Woolworths joins a growing list of Australia's most recognisable brands that are being caught out by wage underpayment including Wesfarmers, Qantas, the Commonwealth Bank, Super Retail Group. Wage underpayment is no longer the domain of gritty corner shops or service stations. Many of these brands have been caught out by complex issues stemming from a handful of clauses in the Agreements and Awards.

So, how do you get it wrong when you have hundreds of people in your Human Resources and Payroll team?

The truth is that payroll is not simple; it is complex, dynamic and fluid. Some nuances we have observed include:



- The legacy of state-based Award systems
- Limitations of technology
- Complexity of Awards
- Changing focus of the Regulators (FWO & ATO)
- Complacency around payroll systems
- Payroll being dynamic and continuously evolving

Businesses need to be considering these nuances when looking at their own recruitment and payroll systems. The best way to get comfort over your compliance with workplace obligations and your interpretation with Awards and Agreements is through an audit that contemplates and responds to these nuances. The investment in a workplace compliance audit can save you millions in future underpayment and protect your biggest asset – your reputation.

We continue to support Australia's high-profile brands with their workplace compliance and brand protection. Get in touch with PKF Audit & Assurance to see how we can provide comfort and clarity in your compliance. ■

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“ The best way to get comfort over your compliance with workplace obligations and your interpretation with Awards and Agreements is through an audit that contemplates and responds to these nuances.

”



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NOT-FOR-PROFIT'S TIME TO SHINE

The next round of accounting standard changes is looming over the Not-For-Profit (NFP) sector but is everyone ready?

History tells us that in practice, changes are implemented at the very last minute. In fact, the release of AASB 15: *Revenue from Contracts with Customers* as well as recent changes to AASB 9: *Financial Instruments* for the For-Profit sector was exactly that. Last minute chaos! Whilst this was occurring, the NFPs received

a 12-month deferral on revenue meaning that they could watch and learn when transitioning to their new standards for periods beginning on or after 1 January 2019. NFPs should be looking to use this additional breathing room to their advantage.

Standards that NFPs should be ready for:

Pre AASB 16	Outline
AASB 15: <i>Revenue from Contracts with Customers</i>	Changes core principle for revenue recognition to be based upon the delivery of goods or services to a customer. Applies to funding arrangements which are “enforceable” and where there are “sufficient specific” performance obligations.
AASB 1058: <i>Income for Not-for-Profit Entities</i>	Explains how to record income when acquiring an asset where consideration is significantly less than the fair value. Will relate to assets received in-kind, grant arrangements which don't fall under AASB 15 and volunteer services.
AASB 16: <i>Leases</i>	Recognising operating leases onto the balance sheet of lessees. Will result in an increase in assets and liabilities on the balance sheet, while rent expense will be replaced by interest and depreciation for the profit and loss (P&L) statement.

How to get ready

Preparation is key, and the earlier the better. A good approach for revenue and other income would be:

- 1 Identify where revenue comes from – categorise by contract.
- 2 For each contract determine if revenue falls under AASB 15 or AASB 1058. The following [flow chart](#) has been provided by the AASB to assist you with the process.
- 3 Determine when you can recognise revenue by either referring to the 5-step approach under AASB 15 or by reference to receipt of consideration under AASB 1058.
- 4 Compare assessment from Point 3 with current revenue policies and identify changes.
- 5 Substantiate and record impact of change at both start of reporting period as well as at end.
- 6 Make changes to systems and processes to ensure compliance maintained going forward.

It is best not to perform annual assessments to align your revenue with the required policies. Instead, change your processes to reflect the changes. Performing adjustments when needed for reporting can create an unnecessary burden, as essentially you are maintaining two separate sets of accounting records.

When tackling the changes to leases please consider our [‘AASB 16 Leases’](#) article from the 2019 Autumn edition of Clarity.

The team at PKF have developed a calculation tool designed to help you with your updated lease calculations. Reach out to your local PKF Audit & Assurance representative to obtain the tool or to talk about the impact the above standards will have on your organisation. ■

SNAPSHOT: PKF INTERNATIONAL ASSURANCE AND TAX MEETING HELD DURING NOVEMBER 2019 IN DUBAI

Travelling so far for a conference, you want to make sure you come away with valuable new insights and a spring in your step – and we weren't disappointed!

PKF Australia and New Zealand were well represented, being joined by almost 200 other PKF global delegates. The over-arching themes of the meeting were 'elevating the client experience', and 'creativity', as well as exploring the big changes and opportunities in audit, tax and advisory.

The highlights were provided from the following guest speakers and PKF delegates:

- **Karin French**, a staff member of the International Auditing and Assurance Standards Board (IAASB) and Chair of the International Standards on Quality Management (ISQM) 1 Task Force. Karin covered all the new auditing standards, in particular, ISA 540 Auditing Accounting Estimates and ISA 315 Risk Identification and Assessment. With 'quality' being an essential part of the culture and philosophy at PKF, we were very interested to hear her speaking on the game-changing new Audit & Assurance Quality Management standard which aims to enhance quality controls and practices, not just at the firm level, but from engagement-level right up to the network-level.
- **Bruce Mackenzie** (W Consulting) on IFRS hot topics. At PKF, we keep abreast of the new standards and continuously educate our clients on emerging issues. In particular, Bruce emphasised the need to decrease the quantity while improving the quality of the financial statement disclosures.
- **Ken Weldin** (Partner, PKF Melbourne) and **Mark Bednarz** (Partner, PKF O'Connor Davies) provided insights into our PKF risk advisory capabilities, and their fresh and vibrant approach, with heightened importance on governance and culture. Also emphasising that external auditors have a great opportunity to provide the Board with significant value in these key areas.



- **Clayton Hickey**, (Chairman, International Professional Standards Committee & Partner, PKF Sydney & Newcastle) presenting on 'Creativity in the profession and within PKF', including a panel discussion. Clayton challenged us to think outside the box to offer greater value to our clients, so we maintain our relevance and keep our clients at the very heart of what we do, especially in the face of technological advances, while critically challenging how we can continue to deliver value to our clients.

The panel showcased creativity and innovation within the PKF International network, with real life benefits provided around data analytics and risk advisory. We were especially proud of Matt Mansfield, our Senior Data Analyst from PKF Sydney & Newcastle, who showcased groundbreaking data analytic techniques, with the ability to provide significant insights in the audit process, while adding additional value to the client.

We shared many great ideas within the PKF network, and we continue to rise to the challenge and maintain momentum in turning these new learnt initiatives into real life value for our clients. ■



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“ We shared many great ideas within the PKF network and are all up for the challenge to continue with the momentum as we turn these new learnt initiatives into real value for you, our clients. ”



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.

In Australia, PKF offers clients the expertise of more than 94 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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