CLARITY

A QUARTERLY PUBLICATION ON ACCOUNTING & AUDITING MATTERS

PKF

21

WINTER

KNOWLEDGE IS POWER

IN THIS ISSUE

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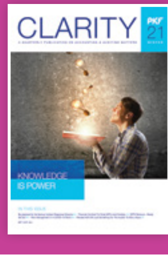
WELCOME TO THE WINTER EDITION OF CLARITY

Welcome to our Winter 2021 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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> “Aged care approved providers now have a mandatory obligation to take reasonable steps, in a short turnaround, to prevent the incidence of neglect and abuse of older Australians in residential aged care, and also have a responsibility to report and manage incidents through implementing and maintaining an incident management system.”

Be Prepared For The Serious Incident Response Scheme

The Serious Incident Response Scheme (SIRS) is an Australian Government initiative administered by the Aged Care Quality and Safety Commission (ACQSC) commencing on 1 April 2021. The Aged Care Legislation Amendment (Serious Incident Response Scheme and Other Measures) Act 2021 became law on 1 March 2021. SIRS is a further measure in the fight against elder abuse in Australia.

The main purpose of SIRS is to bring greater transparency into the issue of serious incidents that occur in aged care, and to enable a system which will effectively respond to and take steps to prevent the incidence of neglect and abuse of older Australians in residential aged care and residential aged-care settings. The law requires residential aged care approved providers to report all serious incidents to the ACQSC Commissioner (the first tranche takes effect on 1 April 2021), expands the powers of the ACQSC and includes a wider range of reportable incidents, including:

- unreasonable use of force;
- unlawful or inappropriate sexual contact;
- psychological or emotional abuse;
- unexpected death;
- stealing or financial coercion by a staff member;
- neglect;
- inappropriate physical or chemical restraint; and
- unexplained absence of care.

Aged care approved providers now have a mandatory obligation to take reasonable steps, in a short turnaround, to prevent the incidence of neglect and abuse of older Australians in residential aged care, and also have a responsibility to report and manage incidents through implementing and maintaining an incident management system.

The four key elements of an Incident Management System are:

1. documented policies and procedures;
2. a recording tool;
3. a staff training program; and
4. a governance/oversight arrangement.

Whistleblowers play an important role in identifying and calling out misconduct and harm. In-order to comply with the new SIRS requirements, we believe that an aged care provider must have an effective whistleblowing policy, including a strategy for dealing with any whistleblower reports received. This may form part of the aged care provider’s broader governance or compliance measures.

Providing staff and other stakeholders (eg. relatives and friends of residents) with an independent third-party reporting mechanism which allows them to anonymously report issues that are reportable under the SIRS is an important governance tool. It also provides the organisation with information that the organisation can then effectively understand and deal with appropriately.

Without such a mechanism, employees and stakeholders may feel the need to approach the regulator directly. In this case, the first time that senior management and the Board become aware of an issue is when the regulator comes calling—potentially unannounced. Such scrutiny may impact negatively on the reputation of the organisation.

The implementation of SIRS is moving at a fast pace which requires aged care providers to react quickly to prevent adverse action by the ACQSC Commissioner.

For further advice and assistance setting up and managing a whistleblower hotline, assistance implementing an Incident Management System, or to engage an independent investigator to investigate a matter, contact our team at PKF.

Financial Controls For Small NFPs And Charities

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The financial operations of small not-for-profits (NFPs) and charities are usually lean so that the entity can apply the maximum resources to its stated objectives. Implementing strong financial systems and controls with small staff numbers can be a challenge but not impossible by following a few basic principles:

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1 Identifying risk pressure points

The directors and management need to set the ‘tone at the top’ and foster a control environment that is committed to good governance and internal controls.

Internal controls require a risk-based approach to identify areas that could prevent the entity from achieving its objectives. Knowing the probability and likely impact of risks, it is important to know what to prioritise.

2 Policies and Procedures

Sound internal controls systems require competent, reliable, and ethical staff and volunteers. Consider a strong hiring policy and ensure that the staff and volunteers are informed of company ethos, policies and procedures via an employee and volunteer handbook and orientation pack.

3 IT Controls

Whether using accounting software or Excel, personnel should understand basic cyber-attacks prevention, prevent unauthorised access through strong access and password policies, maintain privacy of information (discourage use of USBs) and prevent data loss through regular backups.

4 Segregation of duties

One person should not be authorising, processing and reviewing the entities’ financial transactions. Establish clear financial delegations and limiting authority to approve purchases. Directors may be required to be involved in the approval process.

5 Cash disbursement cycle

Invoices and payroll should be reviewed by appropriate personnel prior to processing by finance. Employee reimbursements, debit and credit cards should be reviewed by a supervisor and transactions accompanied by a valid tax invoice.

The payment authoriser should review supporting documentation prior to approval.

Limit petty cash held, and the amount paid through petty cash reimbursement.

6 Cash receipt cycle

Cash receipts and donations should be recorded in a log when received. Banking should be done on a timely basis by a person independent of receiving any general ledger functions.

7 Month end closing and financial reporting

Create a checklist for month-end and year-end signed off by the preparer and reviewer. The list should include the review of manual journal entries, bank and account reconciliations and financial statement preparation.

Financial information should be provided to directors and management regularly. Significant variations between actual and budget figures should be explained and followed-up.

8 Safeguard assets

Maintain inventory records of property and secure financial information and cash.

Policies should be designed to reduce the opportunities for fraud and theft.

9 Monitoring

Ongoing evaluation is necessary to ensure controls remain effective in case of changes in the entities’ strategic direction, systems and staffing. Establish an audit and risk committee and perform internal audits if possible.

Every entity is different and it’s a balancing act between having sufficient internal controls or having too many for a small team to handle. However, every entity is obliged to implement targeted internal controls to protect the organisation’s assets, funds and confidential information. PKF is highly involved in the NFP sector and would be pleased to provide further support and guidance. I

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"The removal of the reporting-entity concept occurs on 1 July 2021. If you are a June reporter you need to prepare a GPFS for your 30 June 2022 year (31 December 2022 for the December reporters)."

SPFS Removal – Ready Set Go!

As the removal of non-reporting entities and Special Purpose Financial Statements (SPFS) looms closer, have you considered yet if you are GPFS ready? Here is how to find out.

For a refresher on what the SPFS removal is all about refer to our [fact sheet here.]

Remaining timeline

The removal of the reporting-entity concept occurs on 1 July 2021. If you are a June reporter you need to prepare a General Purpose Financial Statements (GPFS) for your 30 June 2022 year (31 December 2022 for the December reporters).

Mandatory for:

- ✓ **Financial reports for year ended 30 June 2022**
- ✓ **Financial reports for year ended 31 December 2022**

The AASB is encouraging entities to transition earlier by offering disclosure relief for those that do.

Overview of practices (those early adopting and those not)

Most entities are waiting until the mandatory date to transition to their new GPFS. Reasons for this vary but these reasons are common:

"why make changes earlier than necessary?"

"the impact will be minimal for my business anyway"

"I want to protect the privacy of the business for as long as possible"

We want to let all SPFS preparers to be aware of the opportunities and implications of choosing the right transition date.

Transitional relief is available but only if you make the change early.

Waiting until 1 July 2021 means missing out on the relief. It is a good idea to assess if the relief is right for your business before it's too late.

Navigating the transitional relief

The transitional relief offered is complex. This brief overview is designed to give you an initial indication to help you understand what transition option is best for your business.

Type of special purpose report you currently prepare	Full compliance with recognition and measurement of accounting standards including consolidations	Full compliance with recognition and measurement of accounting standards but does not consolidate	Some or no compliance with measurement of accounting standards
Explanation of financial report type	The way in which you report the balances are consistent with accounting standards. You consolidate all businesses in that are controlled by the head entity.	The way in which you report the balances are consistent with accounting standards. You prepare only a stand-alone financial report for the single entity.	The way in which you report your balances do not necessarily follow accounting standards. Examples would be using tax basis for accounting or choosing not to apply lease accounting.
Is relief available?	No	Yes	Yes
Extent of relief	Relief is not available to those who have disclosure implications only.	Relief can assist with the burden of having to prepare consolidations at multiple balance dates.	Relief can assist with the burden of having to redo accounting entries at multiple balance dates.

How the relief works

Relief is only available for businesses changing over to GPFS prior to the mandatory date. You will need to act this year if you have not done so already.

The relief allows businesses to avoid restating comparative information and instead including disclosures regarding what changes have occurred to your financial report.

For example, an entity who applies the relief would show the following balances:

Financial Report Prepared Under GPFS–SDS For The Year Ended 30 June 2021

	Balance	Comparative
Balance sheet	30 June 2021	1 July 2020
Profit & loss	30 June 2020	30 June 2020*

* Transactions per old SPFS. An additional note disclosure is required to explain the differences between balance sheet and P&L.

The comparative balance sheet date of 1 July 2019 means disclosures such as movement reconciliations will show only 1 period.

The statement of cash flows and statement of changes in equity will need to align with the profit and loss comparative dates. Meaning that numbers will not easily be reconciled between the current and comparative balances.

In contrast, an entity that does not apply the relief or who waits until the mandatory transition date will show the following balances:

Financial Report Prepared Under GPFS–SDS For The Year Ended 30 June 2022

	Balance	Comparative	Additional*
Balance sheet	30 June 2022	30 June 2021	1 July 2020
Profit & loss	30 June 2022	30 June 2021	

* a third Balance Sheet showing opening balances will need to be included as per AASB 108.

The relief can provide some cost savings if preparing the financial informatiovn for three balance dates will be cumbersome. Although it will not be the answer to everyone's concerns during this time of change.

The relief can provide some cost savings if preparing the financial informatiovn for three balance dates will be cumbersome. Although it will not be the answer to everyone's concerns during this time of change. GPFS ready workshops during June this year. To register click here. I

Alert for not-for-profits and other entities currently using RDR!

If you currently prepare GPFS-RDR you will also be impacted by the transition from RDR to SDS with the same mandatory dates. These changes impact the type of information you need to disclose. It is best to be prepared in case any additional financial information needs to be collected by your business.

Acronym explanation

We love to apply our acronyms in accounting. It allows us to relay more information in a condensed form. However, we understand not everyone speaks this language so here is a list of acronyms you may come across on this topic:

AAS	Australian Accounting Standards	**SAC**	Statement of Accounting Concept 1,
AASB	Australian Accounting Standtards Board	**1**	Definition of the Reporting Entity
ASIC	Australian Securities & Investment Commission	**SPFS**	Special Purpose Financial Statements
GPFS	General Purpose Financial Statements	**SDS**	Simplified Disclosure Standard
NFP	Not-for-profit	**RDR**	Reduced Disclosure Regime

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Risk Management In A COVID-19 World

March brought around the 12-month anniversary since the first wave of COVID lockdowns. That means a year since the exodus from CBDs, the working from home revolution and a level of disruption that had not been seen for a number of generations. The word 'unprecedented' was used an unprecedented number of times.

Teams across all sectors were forced to 'pivot' or 'flex.' There was a heavy focus on engagement and interconnectedness. Zoom and Teams, online coffees and quizzes and "sorry you're on mute" became the norm.

For those in the retail and hospitality sectors, life became very tough. The pressures on our health, aged care and mental health providers became acute.

Now as we sit 12-months on, what is on the minds of our business leaders as they contemplate 2021 and the next 12-months?

- **People, people, people –** The hidden costs of the pandemic in terms of mental health remain a focus for many. Burnout and stress were and remain a real issue. The 'democratisation of the workplace' in terms of flexible working arrangements, and what looks set to be a slow return to the office (especially in Victoria), will play out for some time to come.
- **Cyber –** Everyday it seems another organisation is 'hit.' Simply put, cyber is the risk that will just not go away. From sophisticated business email compromise scams, to basic cyber housekeeping shortfalls, are you doing enough to avoid making it too easy for bad actors to compromise your systems?
- **Cash, cash, cash –** How to get it, how to keep it, how to use it wisely?
- **Delegations of authority –** Always a cornerstone of any control environment, delegations have come under stress in the remote working environment and continued uncertainty. Has your delegation process kept pace with the challenges of the last 12-months and those that lie ahead?
- **Fraud awareness and prevention –** Somewhat linked to delegations and alongside cyber, are you doing enough to be alert to red flags around control issues or even something that just looks too good to be true? Complacency here can be costly.
- **Third party contractor/consultant risk –** Is your reputation dependent upon someone else being consistently excellent at something they are doing in your name? Do you rely on being told everything is ok or do you look for real evidence?
- **Sustainability –** With both the literal and contemporary definitions of the word, is there a better way of working for 2021 given the year that was?

These are some of the issues we are working on with our clients as we mark the COVID anniversary. If you would like to learn more about how we can support you, get in touch with the team at PKF.

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Revised ASA 540: Just Something For The Auditor To Worry About?

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After the considerable change to accounting standards over the last 24-36 months, many accountants will be looking forward to a simpler reporting season in 2021.

Enter the revised version of ASA 540: Accounting Estimates, (unsurprisingly) the auditing standard that deals with the audit of accounting estimates. The revised standard has been brought about in reaction to increased complexity of reporting in recent years, coupled with continued drive by regulators globally to increase audit quality. The relevance of this is brought into focus when reading newspaper headlines on corporate reporting failures such as the restatement of write-downs of Freedom Foods which has led to significant erosion of shareholder value. The revised ASA 540 is now effective and applies to all audits for the upcoming reporting season.

Almost all businesses will have some accounting estimates, and these encompass everything from calculations of depreciation through to complex valuation models. The huge spectrum of risk is evident and is incredibly important as this drives the level of audit work performed.

At face value, this seems like being the auditors' problem; after all, is it not them for which the new standard is written? However, it is likely for this change to lead to an increased need for audit evidence, which in turn is anticipated to increase to the amount of information requested from management. We see the key impact on management as follows:

Change to audit approach	Impact on management
Increased professional scepticism required from auditors.	Finance teams can expect auditors to provide more challenge to how management derive accounting estimates.
More detailed risk assessments at each stage of the audit.	Auditors are likely to place more emphasis on understanding the estimation process and key aspects and controls in place relating to accounting estimates. Auditors may request copies of control and process documentation around estimates.
Improved linkage between the levels of estimation uncertainty, subjectivity, and complexity in accounting estimates and the magnitude of work performed.	There may be increased demand for information from the auditor in relation to estimates in areas of greater risk of material misstatement. This may include requests for written assessments from management in relation to significant estimates.
Increased scrutiny of accounting estimate disclosure in financial statements. This includes focus on the sufficiency of disclosure and particular focus on the detail that highlights risk to readers of the financial statements.	The auditor may request increased, or more focused, disclosure in the financial statements.
More detailed management representations.	The auditor may request management to provide more detailed representations in relation to areas of significant estimation.

Ultimately, we see this as an important improvement to the quality and consistency of audits which in turn gives greater value to shareholders and other stakeholders. It also provides good opportunity for boards and management to consider their own approach to accounting estimates and judgements.

Please get in touch to your local PKF office if you require any support, guidance, or additional insights. I

"After the considerable change to accounting standards over the last 24-36 months, many accountants will be looking forward to a simpler reporting season in 2021."

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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