Winter '24

clarity

A quarterly publication by PKF Australia

Building confidence, knowledge, and resilience

IN THIS ISSUE

Winter '24

Welcome to the **Winter 2024** edition of Clarity

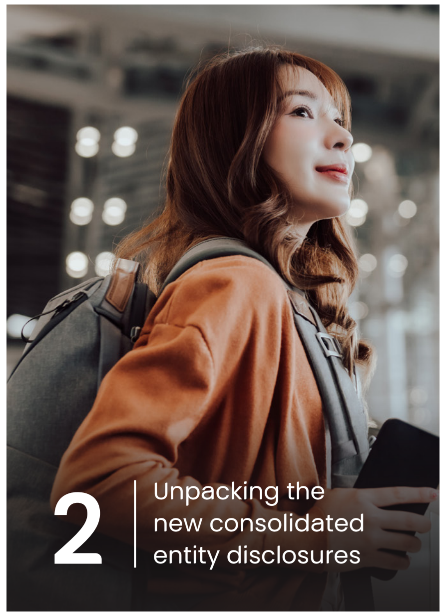
Our aim is to deliver greater clarity and understanding for businesses, on current and emerging accounting and audit issues. We also look to provide thought leadership, and share our knowledge and expertise, in areas that will solve problems and create solutions for clients. We hope you find this edition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

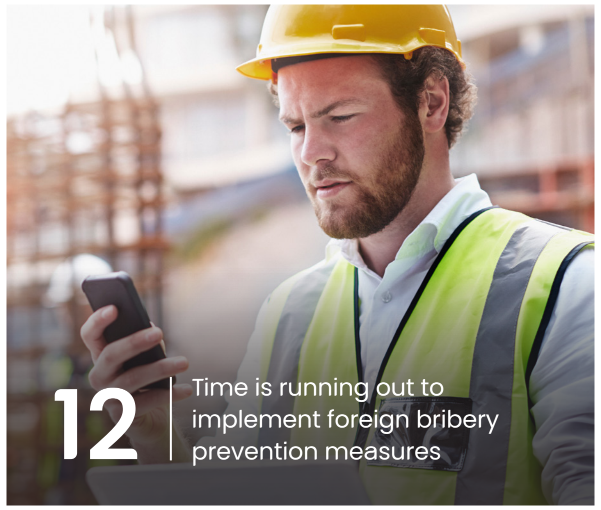
Your insights and expertise are highly valued, and we cordially invite you to contribute to future editions of Clarity. We actively seek captivating and thought-provoking articles that will not only enrich the pages of Clarity but also ignite intellectual exploration. Please submit any suggestions for articles to clarity@pkf.com.au.

pkf.com.au/clarity

PKF

Contents





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Unpacking the new consolidated entity disclosures

As a result of the introduction of the Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill 2023, from 30 June 2024 onwards, Australian public companies who prepare a consolidated financial report (except those companies that report to the ACNC) must include a new consolidated entity disclosure statement (CEDS) in their financial report.

What must relevant companies disclose?

In the consolidated financial report, companies are required to disclose with no materiality applied:

- Name of the entity
- Whether the entity is a body corporate, partnership or trust
- Whether the entity was a trustee of a trust within the consolidated entity, a partner in a partnership within the consolidated entity, or a participant in a joint venture within the consolidated entity
- Where the entity was incorporated or formed
- Where the entity is a body corporate with capital, the percentage of share capital directly or indirectly held by the public company
- Whether the entity was an Australian resident or foreign resident within the meaning of the Income Tax Assessment Act 1997, and
- If the entity is a foreign resident, a list of each foreign jurisdiction in which the entity is a resident for the purposes of the law of the foreign jurisdiction.

An example of the required disclosure is illustrated below:

Consolidated Entity Disclosure Statement as at 30 June 2024.

Name of entity	Type of entity*	Trustee of a Trust, Partner in a Partnership, or participant in joint venture	% of share capital held	Country of incorporation	Australian resident or foreign resident (for tax purposes)	Foreign tax jurisdiction(s) of foreign residents
Public company limited	Body corporate	n/a	100	Australia	Australian	n/a
Subsidiary 1 Pty Ltd	Body corporate	n/a	100	Australia	Australian	n/a
Subsidiary 2 Trust	Trust	n/a	n/a	Australia	Australian	n/a
Subsidiary 3	Body corporate	Trustee of a Trust	60	Australia	Australian	n/a
Subsidiary 4 LLP	Body corporate	n/a	70	United Kingdom	Australian	n/a ^
Subsidiary 5 Inc	Body corporate	n/a	70	United Kingdom	Australian	n/a ^
Subsidiary 6	Body corporate	n/a	100	New Zealand	Foreign	New Zealand
Subsidiary 6	Partnership	Partner in a partnership	60	Australia	Australian	n/a
Joint venture 1	Body corporate	Participant in a joint venture		Australia	Foreign	Ghana

^ These entities are also a tax resident in their respective countries of incorporation. However, they are assessed as an Australian resident under the Income Tax Assessment Act 1997 and therefore not classified as a foreign resident under the Act (not required disclosure but may stop questions from stakeholders if disclosed).

* Type of entity noted above are illustrations only and could be different depending on the actual type of entity.

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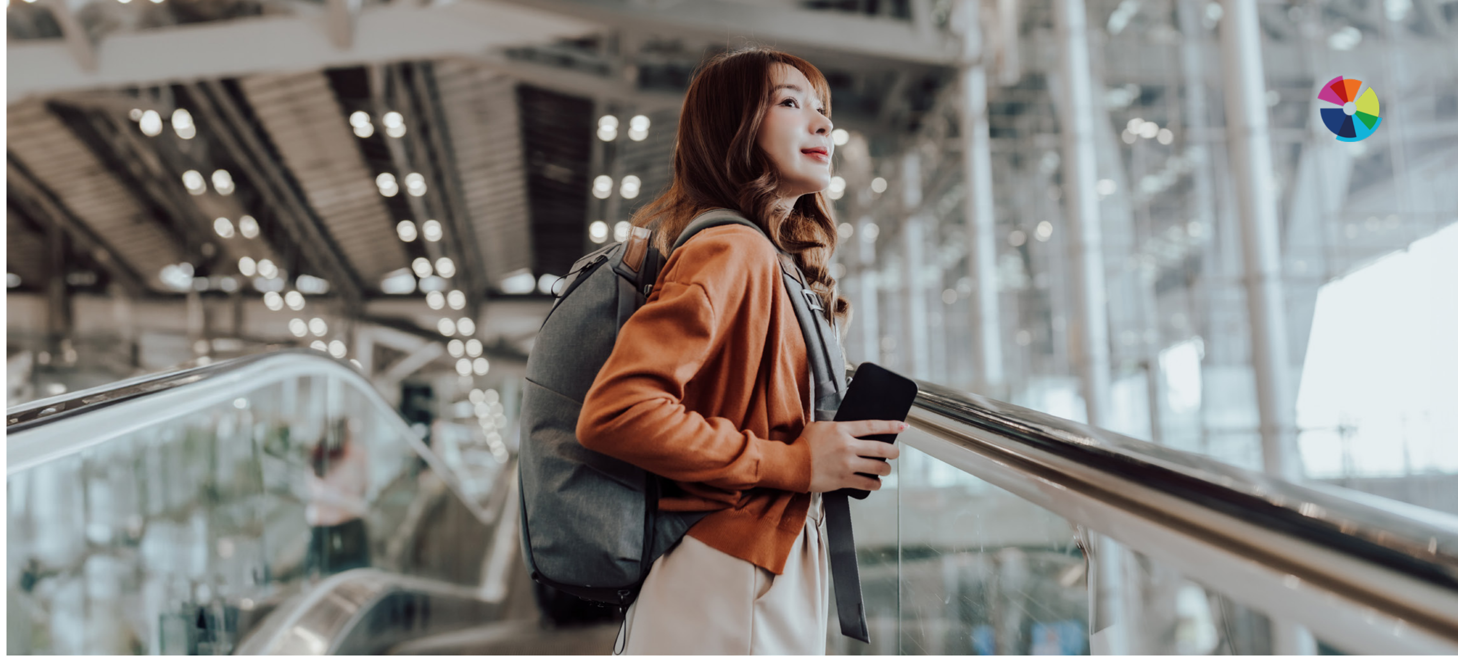
Unpacking the new consolidated entity disclosures (continued)



Frequently asked questions

1. Where do companies disclose the consolidated entity disclosure statements (CEDS)?

The CEDS do not form part of the financial statements and should not be included in the notes to the financial statements but have to be reported in the Financial Report. It is likely that the CEDS would follow after the notes to the financial statements.

2. Can the disclosure be made in the controlled entities note?

No. As noted above the disclosure has to be made outside of the financial statements.

3. What if the company does not have any subsidiaries?

There may be instances where a public company has no subsidiaries and therefore does not prepare consolidated financial statements. If the company has no subsidiaries and are not required to prepare consolidated financial statements, then the company must provide a statement to that affect.

Suggested wording:

Consolidated Entity Disclosure Statement as at 30 June 2024.

Subsection 295(3A) (a) of the Corporations Act 2001 does not apply to the company. This is because the company is not required to prepare consolidated financial statements by Australian Accounting Standards.

4. What is true and correct?

The new requirements introduce the concept of the information being 'true and correct' with this requirement applying to:

- The Directors' Declaration in the Financial Report, must include a statement that the CEDS is 'true and correct'.
- For listed companies The CEO and CFO Declaration must include in their declaration on the Financial Report a statement that the CEDS is 'true and correct'
- ASIC notes that 'true and correct' is a higher reporting requirement than under a 'true and fair view or fair presentation framework'.

ASIC notes that 'true and correct' is a higher reporting requirement than under a 'true and fair view or fair presentation framework'.

Suggested wording:

Consolidated Entity Disclosure Statement as at 30 June 2024.

The company has prepared a Consolidated Disclosure Statement that can be found on page XX of the financial report in line with the requirements of Subsection 295(3A) (a) of the Corporations Act 2001. The Consolidated Disclosure Statement is True and Correct as at 30 June 2024.

5. Why is materiality not applied for CEDS disclosure?

ASIC notes that materiality under accounting standards does not apply to the CEDS because it is a separate legal requirement under the Corporations Act. Therefore, a public company must disclose all entities in the consolidated entity at year end, regardless of whether they are not material to the group. This means that all entities must be disclosed even if they are newly acquired 'shelf' companies, or dormant companies or companies that have not been consolidated based on materiality for accounting purposes.

ASIC Info Sheet 284 is a helpful resource

ASIC has published [Info Sheet 284] to provide guidance to public companies to ensure that the CEDS are compliant with the requirements of Corporations Act 2001.

What it means to audit the CEDS

While directors cannot prepare CEDs on a true and fair basis, as auditors under the reasonable assurance framework, auditors can apply materiality as it underpins the concept of reasonable assurance.

The auditor will need to conduct specific work in relation to the required CEDS disclosures which will be in addition to the level of procedures previously completed for the controlled entities note in the financial statements.

Depending on the structure and determination of foreign tax jurisdictions from a completeness and accuracy perspective the auditor may or may not be able to issue an unmodified auditors opinion.

An unmodified auditors opinion would likely look like this:

Opinion

We have audited the financial report of ABC Company Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, the consolidated entity disclosure statement and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the Group's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and

ii. complying with Australian Accounting Standards and the Corporations Regulations 2001.

Note that the auditor's responsibility paragraph does not change as a result of the additional wording in the auditor's opinion paragraph.

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Strengthening resilience: Key considerations for business following the global outage

On Friday, 19 July 2024, worldwide infrastructure crumbled in what is now recognised as the largest outage the global economy has ever seen.

A critical error in CrowdStrike Falcon led to a widespread outage affecting organisations relying on their endpoint protection services. The error was introduced during a routine software update, which inadvertently triggered a malfunction in the security platform's functionality.

The impact of the outage was severe. It affected a significant number of enterprises worldwide, causing disruptions in their security monitoring and endpoint protection. Many organisations experienced downtime, affecting their daily operations and cybersecurity posture. CrowdStrike quickly identified the issue and began working on a fix.

They communicated with affected customers and provided workaround solutions. A subsequent update was rolled out to rectify the error, restoring the normal functioning of the Falcon platform.

While PKF continues to assess the full impact of this outage, there are three key strategies that every Australian business should consider to build resilience at this time.

Three key considerations for establishing and building resilience

1. Complete a comprehensive risk assessment

Know your dependencies by identifying and assessing your critical third-party suppliers. Understand the potential risks each poses in case of an outage. Where is your single point of failure?

Conduct an impact assessment to determine how outages in third party services could affect your business operations. Prioritise high-impact vendors for more stringent oversight.

2. Prepare your incident response plan

Have a well-defined incident response plan that is communicated clearly, enhances your business's preparedness, and allows for quick identification and resolution of issues.

Establish clear communication with third party vendors. Ensure timely and transparent updates about their system statuses and outages.

3. Back up your essential data

Regular backups of critical data guarantees that vital information remains accessible, even if primary systems fail during an outage.

Maintaining up-to-date backups protects against data loss, allowing for swift recovery and continuity of operations following any disruption.

PKF is well positioned to help you and your business with understanding your incident response and third-party risk through our comprehensive advisory services.

Contact us today for assistance.

James Lee
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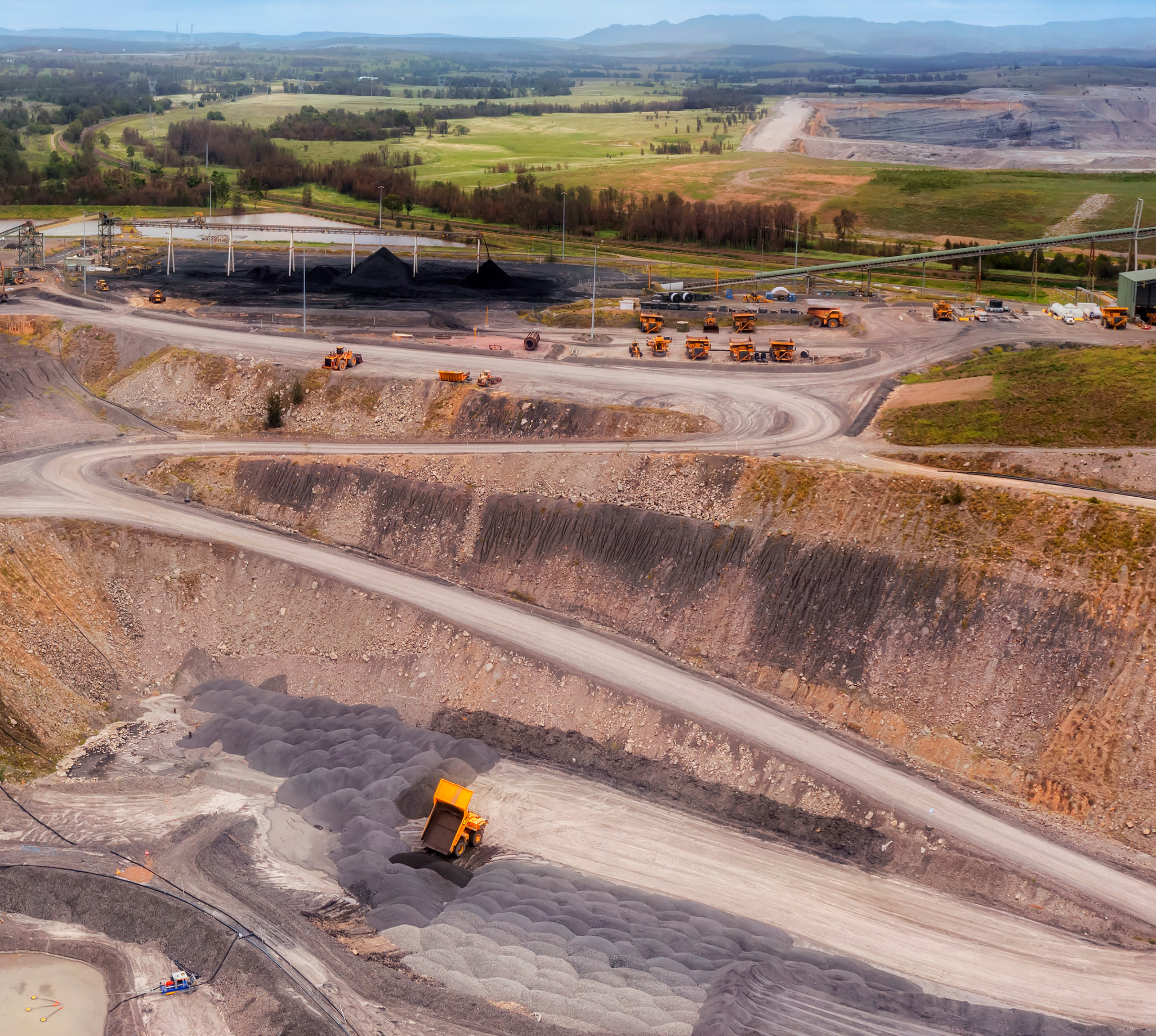
ASIC focus to improve investor confidence and knowledge

The latest advice from ASIC to enhance the reliability and transparency of financial reports.



In May 2024, ASIC published its Focus Areas for the 30 June 2024 reporting season, giving priority to educating and building the confidence of investors.

ASIC focus areas are now classified as either:

- Enduring focus areas, or
- Particular focus areas.

ASIC highlighted financial reporting areas which they have determined to be the most significant and common instances of non-compliance with accounting standards, as well as areas that are emerging as more challenging areas for preparers.

ASIC set out that Directors are primarily responsible for the quality of the financial report and that companies must have appropriate processes, records and analysis to support information in the financial report, including robust position papers with appropriate analysis and conclusions with appropriate accounting standard references, as well as producing quality and timely financial information for audit.

ASIC also set out that:

- The Operating and Financial Review (OFR) should complement the financial report and tell the story of how the entity's businesses are performing.
- The underlying drivers of the results and financial position 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
- Audit fees should be reasonable and have regard to any increased costs for auditors and additional audit effort required in judgement area
- Preparers and auditors need to consider the impairment of lessee right-of-use assets
- ECLs should be a focus for companies in the financial sector and other sectors.

ASIC's enduring focus

ASIC set out that ASIC's enduring focus areas for directors, preparers and auditors and their financial report reviews are fairly consistent with previous reporting periods being:

- Asset values including: impairment of non-financial assets, values of property assets, expected credit losses (ECLs) on loans and receivables, financial asset classification, value of other assets
- Provisions including: onerous contracts, lease makegood provisions, mine site restoration, financial guarantees given and restructuring
- Subsequent events
- Disclosures including: general considerations, disclosures in the financial report, disclosures in the OFR, non-IFRS financial information, disclosure in half-year reports.

ASIC's particular focus areas for June 2024

ASIC set out that ASIC's particular focus areas for June 2024 are:

- 'Grandfathered' large proprietary companies - second year that large proprietary companies, which were previously exempt, are required to lodge audited financial reports with ASIC. Financial reports from these entities are now included in ASIC's financial reporting and audit surveillance program
- Registrable Superannuation Entities - for the first time, superannuation trustees are required to lodge audited financial reports for most registrable superannuation entities (RSEs) with ASIC. Trustees will need to lodge within three months of the end of the fund's 2023-24 financial year.

ASIC's other key comments

In announcing these Focus Areas, ASIC also outlined an expanded program of work to enhance the integrity and quality of financial reporting and auditing in Australia in achieving the broader goal of confident and informed investors.

With any queries whatsoever, please do not hesitate to reach out to your local PKF Audit team.

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Enabling a consistent approach to tax affecting your leases and decommission responsibilities

For the year ended 30 June 2024 (and 31 December 2023), entities are required to recognise a related deferred tax asset (DTA) and a deferred tax liability (DTL) for leases and decommissioning liabilities.

In June 2021, the Australian Accounting Standard Board (AASB) published AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction to clarify that the initial recognition exemption does not apply to transactions that gives rise to an asset and a liability simultaneously.

Common examples of transactions that give rise to an asset and a liability simultaneously are when:

- a lessee enters into a lease, and recognises a right of use (ROU) asset and a lease liability
- an entity has decommissioning obligations, and recognises a provision for the expected costs of the decommission obligation, and a corresponding amount is capitalised into the cost base of the related asset.

Before the amendments were published, there was diversity and inconsistency in practice. Some entities applied the initial recognition exemption in AASB 112 Income Taxes and did not recognise the associated DTA or DTL, whereas others recognised the related DTA and DTL.

The amendment clarified that entities do not apply the initial recognition exemption in AASB 112. Therefore, an entity must recognise both a DTA and DTL for transactions that give rise to the recognition of an asset and a liability.

The clarification applies from annual reporting periods beginning on or after 1 January 2023 (ie for 31 December 2023 and 30 June 2024 year ends) and at the beginning of the earliest comparative period presented.

The cumulative effect is recognised as an adjustment to the opening balance of retained earnings, or another other component of equity at that date.

Example

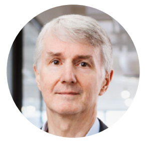
Entity A enters into a five year lease. Annual lease payments are $1,000 per year in arrears. Entity A's incremental borrowing rate is 10%. Initial direct costs relating to the lease is $10.

Both the lease payments and initial direct costs are tax deductible when Entity A makes those payments. Entity A's tax rate is 30%. On entering into the lease the lease liability is therefore $3,790 and the ROU asset is $3,800 (lease liability of $3,790 plus initial direct costs of $10).

	Initial carrying amount ($)	Tax base ($)	Deductible / (taxable) temporary difference ($)	DTA/ (DTL) 30% ($)
ROU asset	3,800	Nil	(3,800)	(1,140)
Lease liability	3,790	Nil	3,790	1,137

In summary, there has been diversity in recognising deferred taxes on leases and decommissioning obligations over the years, which has caused inconsistency in reporting. The amendments will narrow the exemption in AASB 112 and provide improved comparability and more relevant information to users of financial statements.

Please reach out to the PKF technical team for further details if required.



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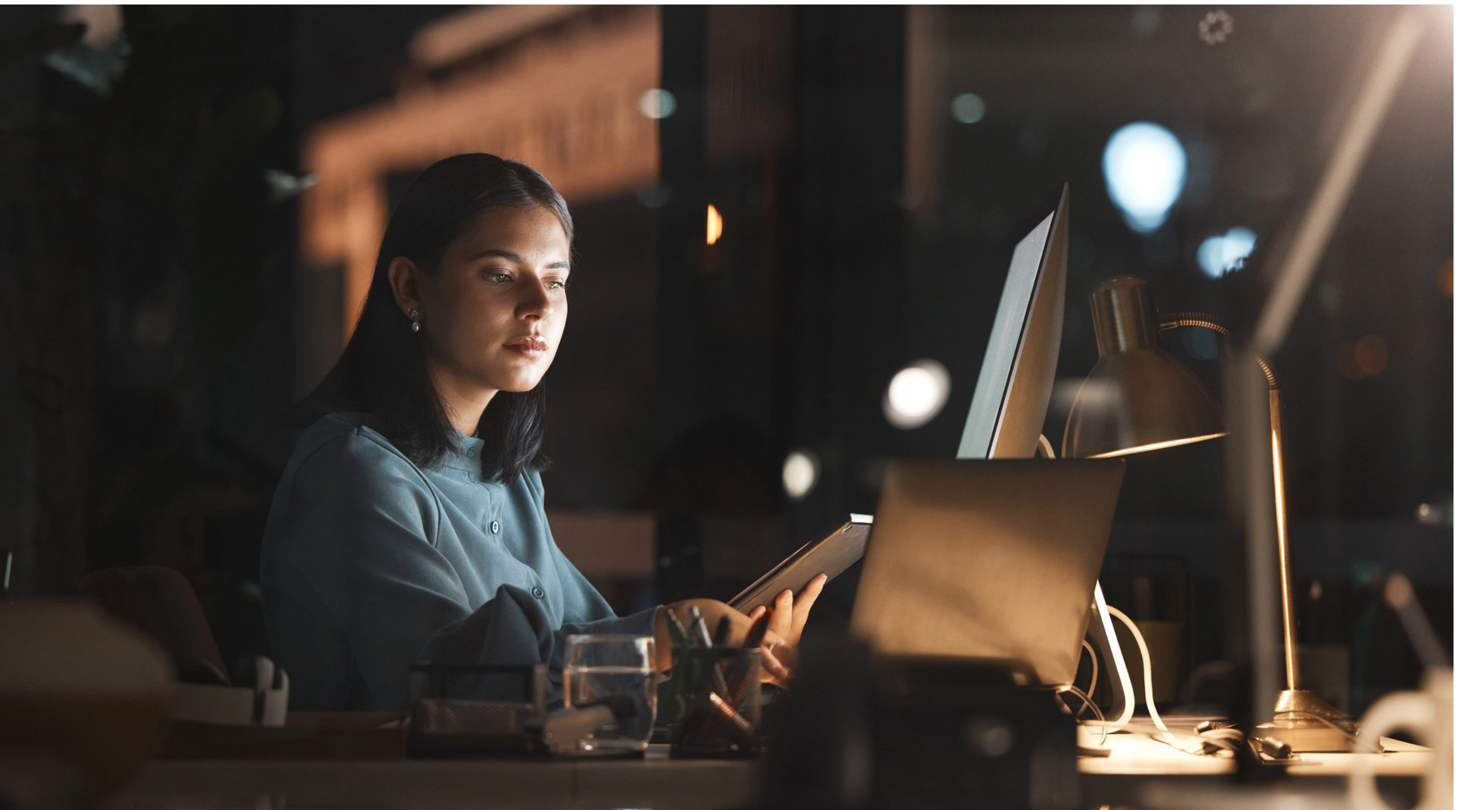
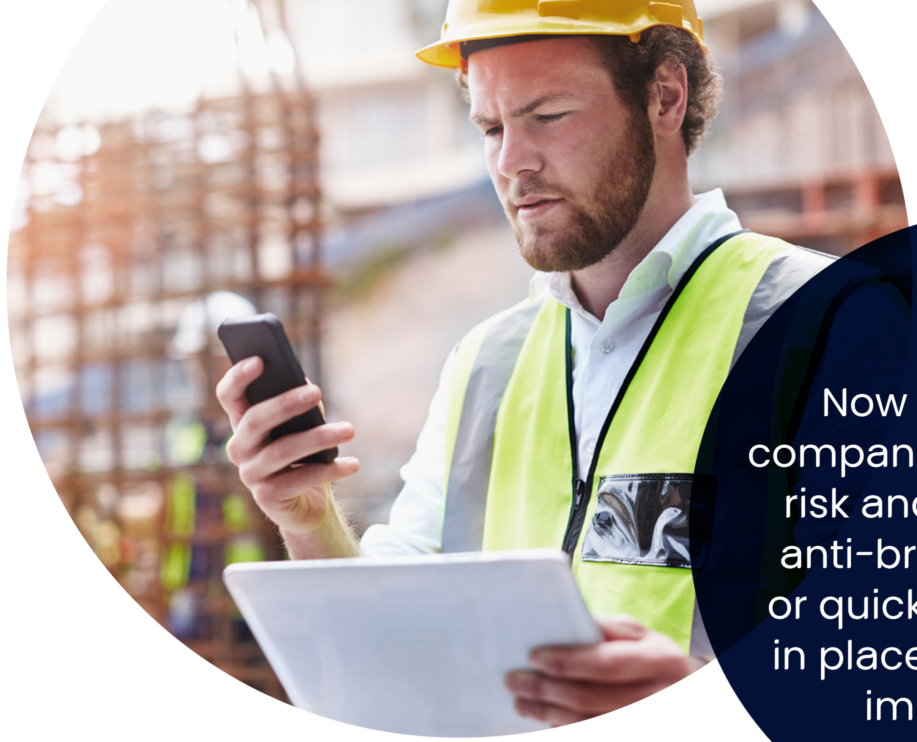
Time is running out to implement foreign bribery prevention measures

In March 2024, the Crimes Legislation Amendment (Combatting Foreign Bribery) Act 2024 (Cth) was passed. The Act is designed to remove barriers to foreign bribery investigations and prosecutions previously faced by law enforcement and prosecutors.

The key changes include:

- A company will be criminally liable if an associate (an officer, employee, agent, contractor or subsidiary) bribes a foreign public official. This will be a strict liability offence.
  - (i) By making the offence strict liability, it means an organisation will be liable even if it did not condone or know of the behaviour.
- Broadening the bribery offence by:
  - (i) Including bribing to a gain a personal advantage (i.e., non-business)
  - (ii) Removing the previous requirement that the benefit or business advantage sought must be 'not legitimately due'. Instead, improperly influencing a foreign public official will be sufficient
  - (iii) Removing the requirement to show that the foreign public official was influenced in the exercise of their duties, and
  - (iv) Includes 'candidates for public office' within the definition of foreign public official.





"

Now is the time for companies to assess their risk and revisit existing anti-bribery measures, or quickly put measures in place to manage this important risk.

- Establishing a new corporate, strict liability, indictable offence of 'failing to prevent bribery of a foreign public official' **to take effect from 8 September 2024**.
- Providing a defence for organisations to the failing to prevent bribery offence if they can show they had implemented 'adequate procedures' to prevent bribery.
- Providing for a maximum penalty for failing to prevent bribery of the greater of $31.3 million, three times the value of the benefit obtained or 10% of the company's annual turnover.

The adequate procedures for defence

The Act provides a defence for a company that can demonstrate that it had in place 'adequate procedures' intended to prevent foreign bribery.

The legislation does not define 'adequate' but does place a requirement on the Attorney General's Department to publish guidance on what adequate procedures should include. These guidelines will be helpful, but companies must design procedures based on their particular circumstances.

Simply rolling out an anti-bribery policy will not be sufficient. The policy should form part of a robust anti-bribery framework. To be able to demonstrate adequacy, the anti-bribery framework should:

- Be supported by a demonstrable culture of integrity with support from senior management and the board.
- Be based on a bribery and corruption risk assessment.
- Link to other relevant policies and procedures including codes of conduct, fraud and corruption control, whistleblower management and employee, supplier, customer and third-party due diligence.
- Be adequately communicated to employees and third parties with mechanisms to test understanding. Higher risk roles should attest that they have received training and confirm periodically that they have not been involved, or are aware of, foreign bribery.
- Be periodically and independently tested and assessed to ensure the framework remains fit for purpose and is working as intended.

It's time to act

Now is the time for companies to assess their risk and revisit existing anti-bribery measures, or quickly put measures in place to manage this important risk.

PKF Integrity has leading practitioners with extensive experience helping companies comply with complex bribery and corruption laws.

We would be delighted to speak with you about how we can assist you to ensure you are compliant with this new regime.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Elevation and maturity of the internal audit function

> Internal audit plays a vital role in helping organisations achieve improved performance, in ensuring risks are adequately managed in an increasingly complex landscape, and in protecting the public interest.
>
> Now is the time to ensure the function in your organisation is meeting the new standards.
>
> Amy Daley, Manager - Audit, PKF Sydney and Newcastle

With less than six months to go, has your organisation considered how to implement the new internal audit standards?

Internal Audit ('IA') plays a vital role in helping organisations achieve improved performance, in ensuring risks are adequately managed in an increasingly complex landscape, and in protecting the public interest. To perform their role effectively, internal auditors need consistent and appropriate guidance, structure and support. This has been recognised with the release of the new Global Internal Audit Standards earlier this year.

The new standards will come into effect in January 2025 and are designed to promote the value of and elevate the maturity of this important function.

This was the first major review of the standards since 2017 and involved members of the community, senior management and Boards from public and private sectors, practitioners and regulators to ensure their diverse needs and priorities were reflected.

The standards form part of the International Professional Practices Framework ('IPPF'), which provide effective and consistent guidance for achieving robust, effective and suitably tailored Internal Audit service delivery.

An overview of the standards

The standards are organised by the following five key focus areas:

1. **Purpose**: To promote the value of Internal Audit and ensure the function seeks to enhance organisational performance, reputation, governance and risk management practices, and serves the public interest
2. **Ethics**: To promote an environment of professionalism, integrity, independence, courage and performance.
3. **Governance**: The 'essential conditions' to be documented in the IA Charter and established to ensure the function has adequate support, engagement and oversight. This includes IA being quality assessed by an external assessor at least once every five years.
4. **Management**: The development, implementation and periodic review of a Board endorsed IA strategy that is closely aligned to the organisation's vision, goals and governance, and risk management processes. The strategy must be supported by a dynamic, fit for purpose and adequately resourced IA plan. This includes the use of effective methodologies to create and enhance value; positive stakeholder engagement and relationships; clear, objective, accurate and concise communication; and adequate monitoring and supervision.
5. **Performance**: This includes adequate review planning, development of an effective work program, stakeholder engagement and communication protocols, review and record keeping procedures, and independent review and monitoring of the progress of audit actions.

Detailed guidance on each of the specific requirements, considerations and how to evidence compliance can be found within the publicly available document (https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/free-documents/complete-global-internal-audit-standards/).

Who is impacted by the changes?

The standards apply to all entities with an IA function, whether performed in-house or via an outsourced arrangement. They impact the entire organisation, including the Board, senior management and second line. It is envisaged there will be improved stakeholder alignment, enhanced insights and value for the business, greater focus and efficiency and mitigation of evolving key risks.

The standards also include guidance for how they can be adapted for the public sector and for those working in smaller IA teams.

Recommended response

We recommend that affected organisations perform an IA readiness assessment to assist in developing a transformation plan which embodies these new changes.

Being able to demonstrate compliance with the new standards will also educate your stakeholders on the value and importance of Internal Audit, promote engagement with function, and evidence a genuine commitment to responsible, ethical and effective operations.

> The standards apply to all entities with an IA function, whether performed in-house or via an outsourced arrangement, and they impact the entire organisation.
>
> **Tim Cronin, Partner, PKF Brisbane**

For any assistance, contact your local PKF Audit and Assurance advisor.

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Learn more at pkf.com.au

Contact us at propel@pkf.com.au

PKF

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

PKF is a global community where dynamic business and wealth advisors can belong, grow, and thrive. Together, we create powerful opportunities to propel the success of our clients, our people, and our communities.

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