Winter ‘23

PKF

clarity

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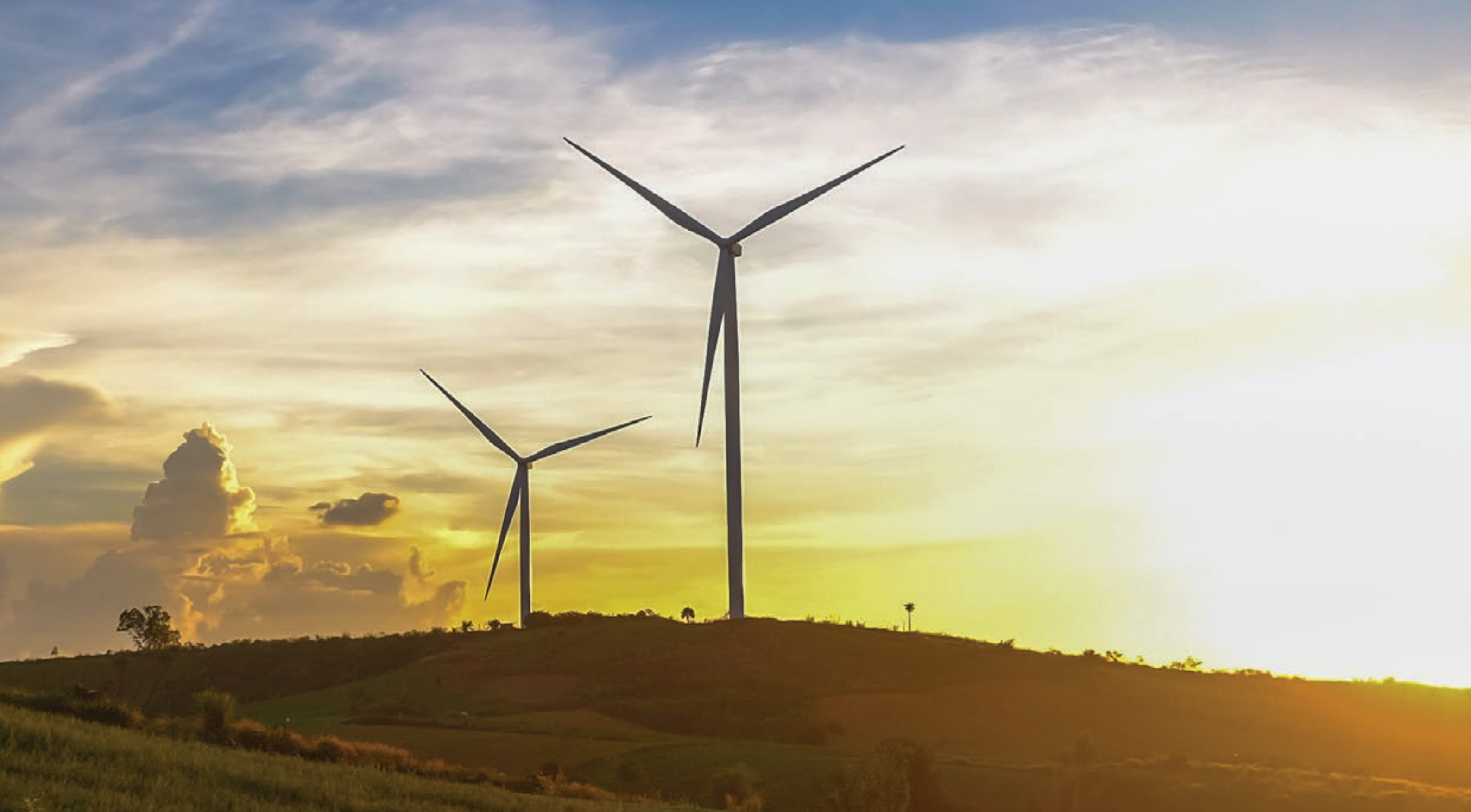

Looking towards a more sustainable future with ESG reporting

IN THIS ISSUE

Winter '23

Welcome to the **Winter 2023** 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

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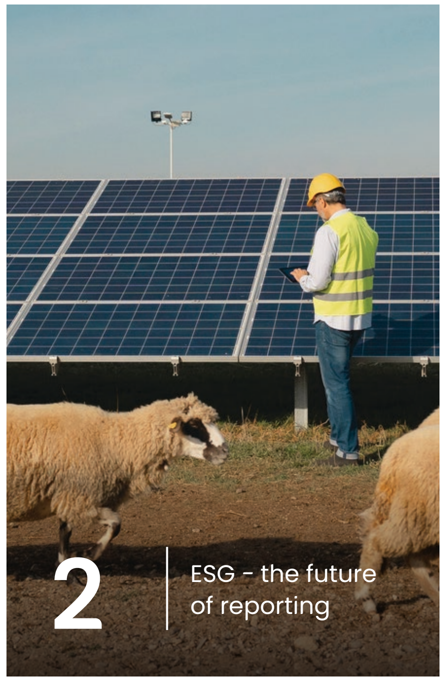
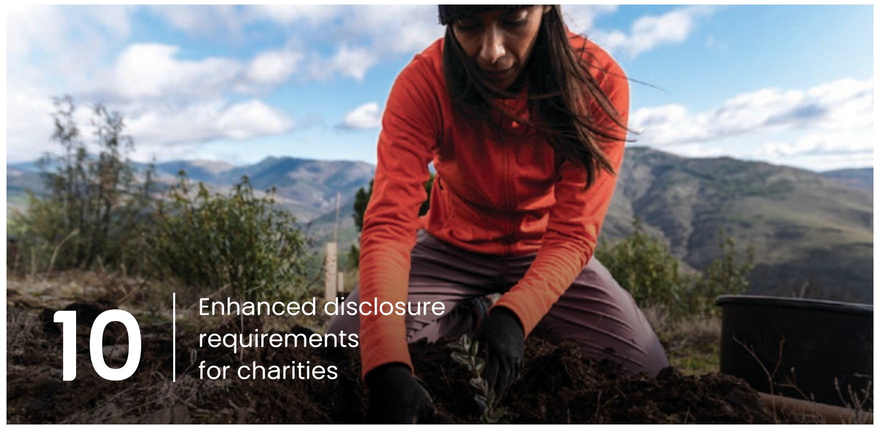
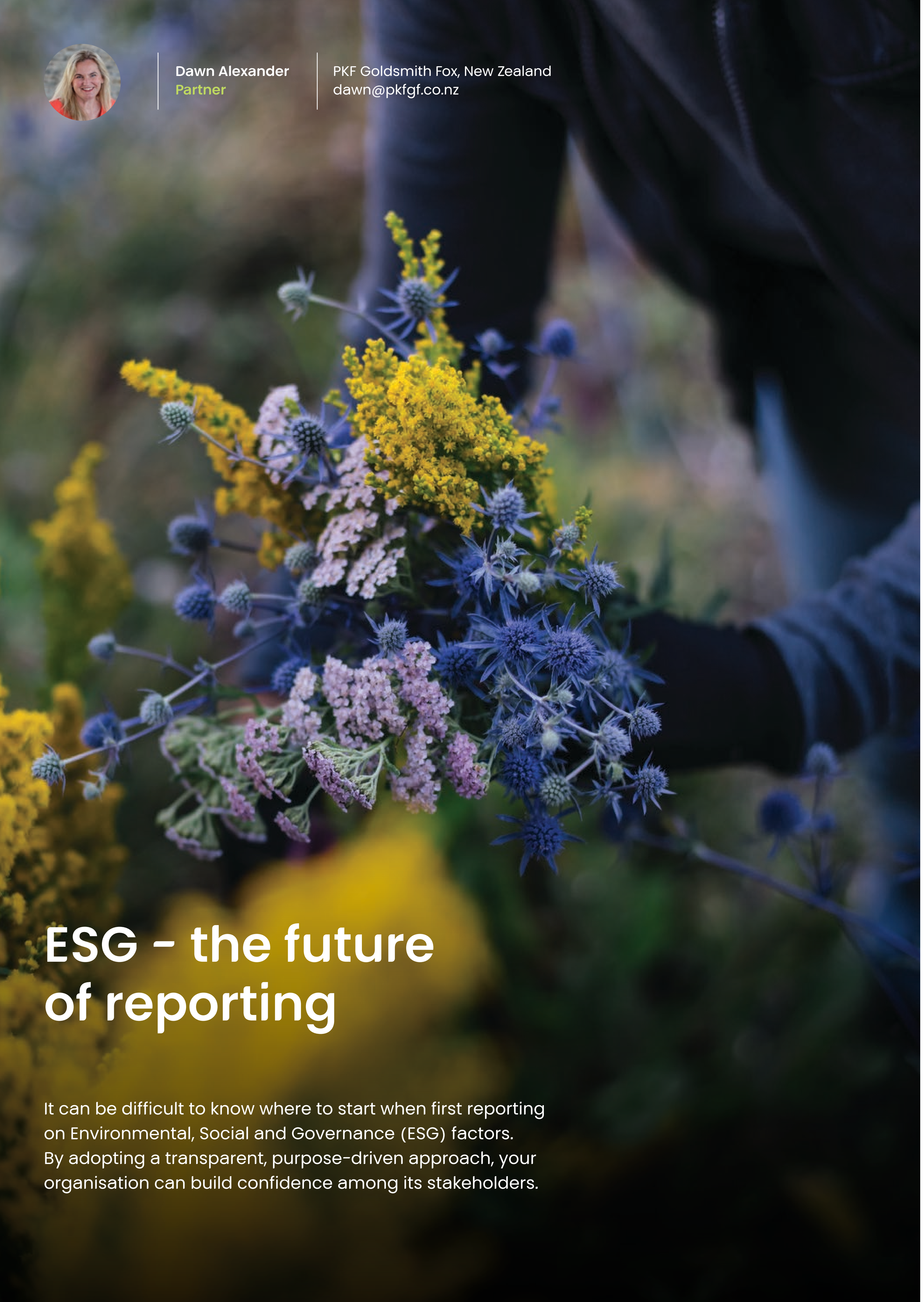
Contents



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ESG - the future of reporting

It can be difficult to know where to start when first reporting on Environmental, Social and Governance (ESG) factors. By adopting a transparent, purpose-driven approach, your organisation can build confidence among its stakeholders.

Reporting on ESG outcomes is an increasing expectation of investors, and a legal requirement for some organisations.

It can be difficult to know where to start, so, to assist with your transition to ESG reporting, we have consulted experts in this field to glean insights from their experiences.

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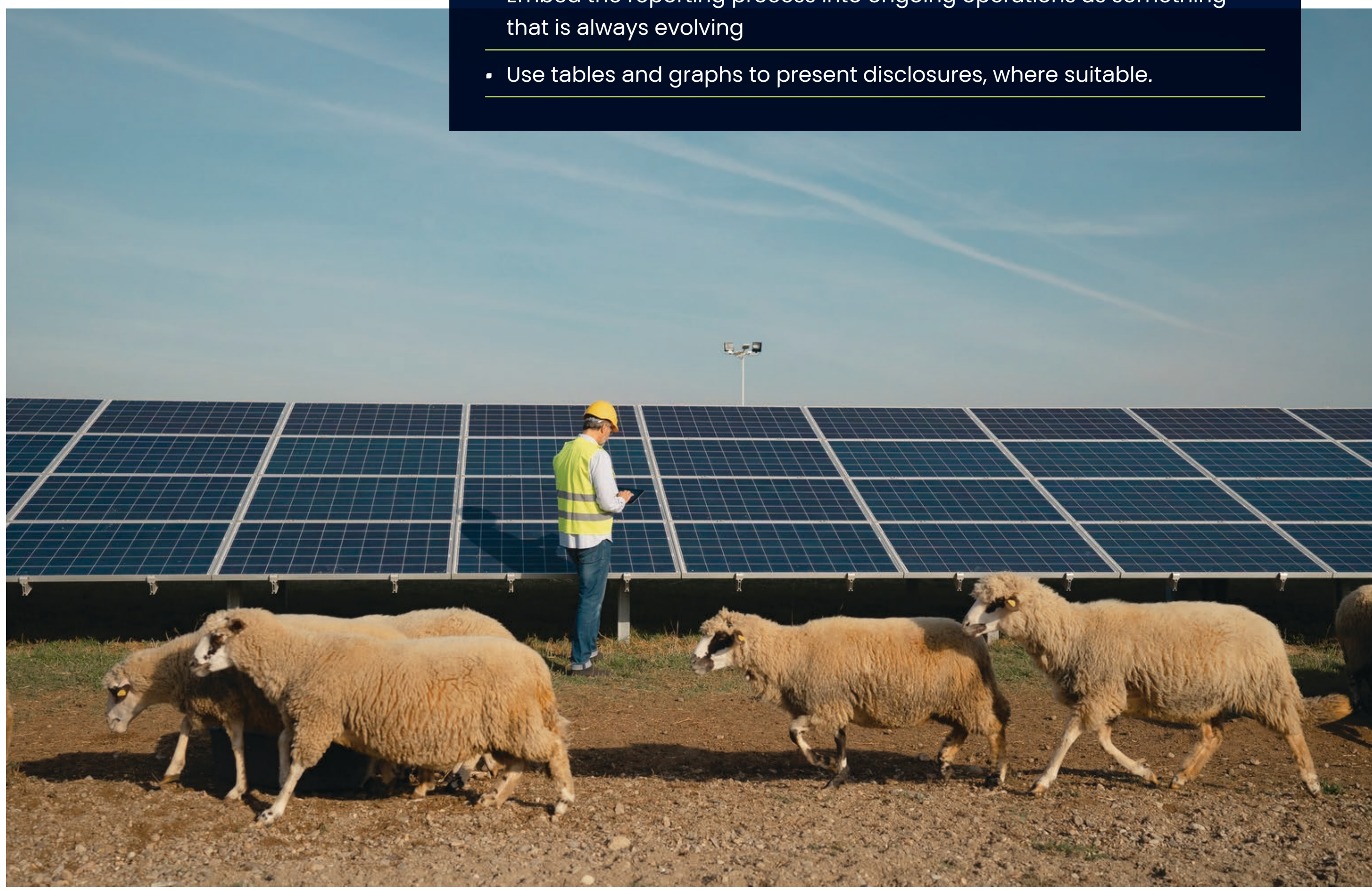
Prevention and education is the way towards a brighter, more sustainable future.

Top tips for climate disclosure reporting

We have consulted with a range of businesses to find that, of most importance when reporting on ESG outcomes, is the need to have a well-presented set of objectives, clearly linked to the entity's purpose and strategy.

In addition, high quality climate disclosures must:

- Be tailored and relevant to your business and key stakeholders
- Align climate targets to those for the rest of the business
- Include timeframes and set targets over a variety of timeframes
- Make strategy and targets achievable and realistic to ensure accountability by the company and buy-in from stakeholders
- Not be vague or misleading to avoid any risk of greenwashing
- Disclose links between climate impacts and financial performance indicators
- Use scenario analysis when discussing strategy for the move towards net zero
- Embed the reporting process into ongoing operations as something that is always evolving
- Use tables and graphs to present disclosures, where suitable.



Case study: Not-for-profit

In their Annual Report, Far North REAP Society Incorporated, based in New Zealand, recognises the relevance of the United Nations Sustainable Development Goals to achieve a better and more sustainable future for their community.

As a result they have chosen to focus on nine goals that are particularly relevant in areas where they can make a difference through their delivery and services. They understand that this is a journey, and they strive to make changes, shape behaviour and align policies to help them reach their sustainable goals.

Overall, the initiatives Far North REAP have in place aim to increase community awareness about how to care for their environment to ensure future generations can enjoy what we have today. They firmly believe prevention and education is the way towards a brighter, more sustainable future.

> By focusing on nine clear goals, we believe we can achieve a more sustainable future for our community.

Case studies relating to other sectors will be provided in the next edition of Clarity.

With any questions whatsoever, please contact your local PKF team.

Annual goals measured by Far North REAP Society Incorporated:

Goal	Strategy
No poverty	• Ensure all staff receive the minimum wage or higher.
Zero hunger	• Community and staff plant, maintain and harvest a community garden/market and cook meals from produce, promoting a sustainable lifestyle.
Good health and wellbeing	• Encourage a four day week for a healthy work/life balance • Staff have access to an Employee Assistance Program.
Quality education	• Delivery of education is customised to meet community need.
Gender equality	• Adhere to the Human Rights Act and offer equal employment opportunities.
Affordable and clean energy	• A hybrid car available for staff use • Introduced LED lights to reduce electricity consumed • Installed hand dryers in bathrooms • Aims to have solar panels that produce 100% clean energy.
Responsible consumption and production	• All food scraps are sustainably diverted. No food is placed in landfill • Used hand towels are turned into reusable compost.
Climate action	• Implemented a system to monitor carbon emissions, overseen by a Sustainability Committee, which reports to the leadership team and board • Aims to reduce carbon emissions by planting trees and recycling.
Life on land	• Had a Marae based wananga (sleep-over) to teach students how to care for their land.

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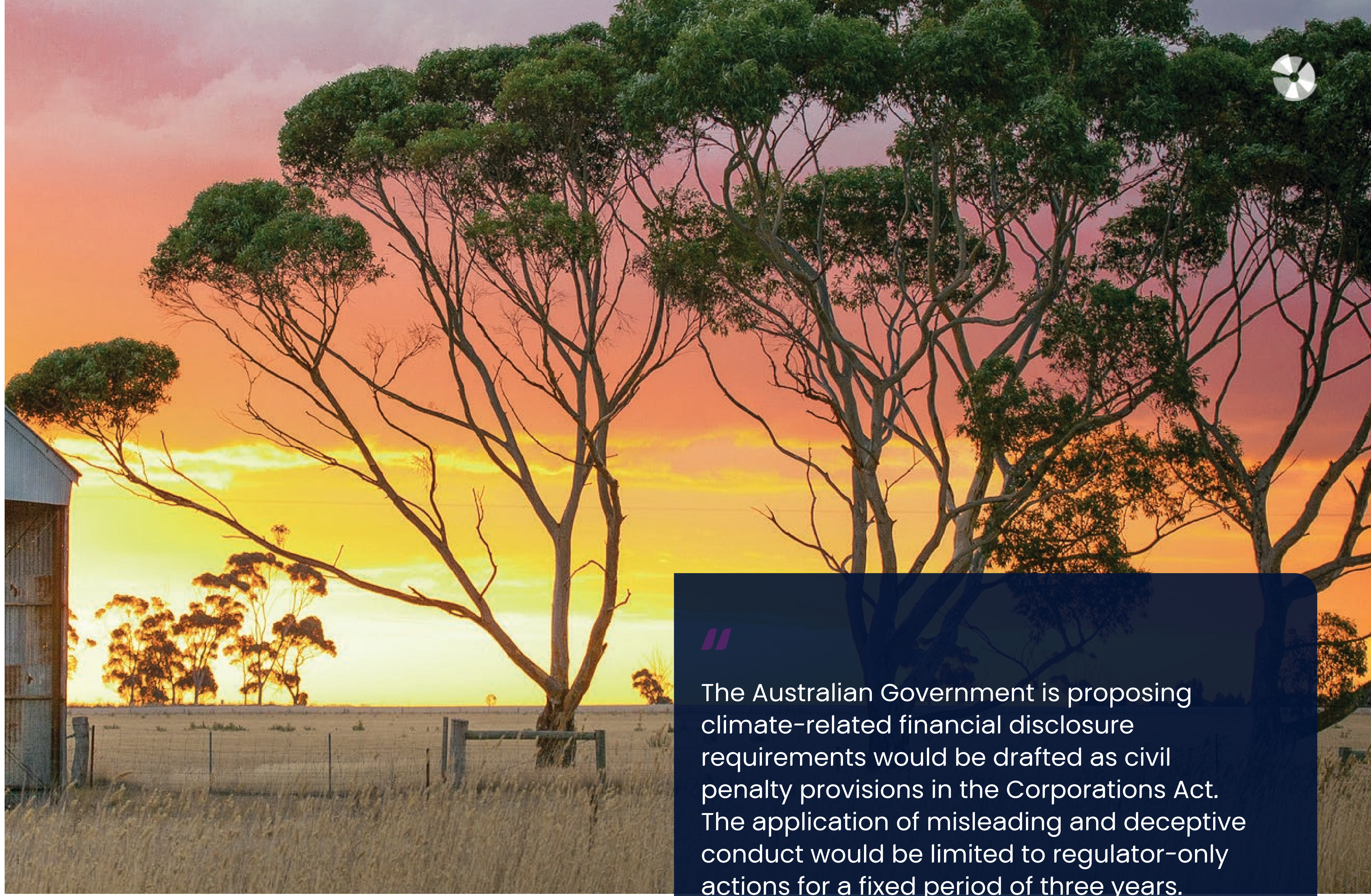
Climate-related financial disclosure

Climate change is recognised internationally as presenting material risks to the global financial system. These risks need to be managed by capital markets, regulators and corporations. They include physical risks of climate change and the transition risks associated with policy, regulatory and technological change brought on by efforts to mitigate climate change.

The Australian Government sought views on the proposed position of the detailed implementation and sequencing of standardised, internationally-aligned requirements for disclosing climate-related financial risks and opportunities standards issued by the International Sustainability Standards Board (ISSB) in Australia from 27 June to 21 July 2023. The consultation built on the previous discovery consultation, which occurred from 12 December 2022 to 17 February 2023.

Group	Timing	Meets two or more of these thresholds	Meets the NGER publication threshold
1	2024-25 onwards	• More than 500 employees • Consolidated gross assets of more than $1 billion • Consolidated revenue of more than $500 million	Yes
2	2026-27 onwards	• More than 250 employees • Consolidated gross assets of more than $1 billion • Consolidated revenue of more than $200 million	Yes
3	2027-28 onwards	• More than 100 employees • Consolidated gross assets of more than $25 million • Consolidated revenue of more than $50 million	Not applicable



> The Australian Government is proposing climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct would be limited to regulator-only actions for a fixed period of three years.

The Australian Government has issued a proposed roadmap for mandatory disclosure requirements under Chapter 2M of the Corporations Act, for entities which fulfill two of the three thresholds and which are 'controlling corporations' under the National Greenhouse and Energy Reporting (NGER) Act. *(left)*

National Greenhouse and Energy Reporting (NGER) Entities would be phased in based on the publication threshold, which determines whether the Clean Energy Regulator (CER) publishes emissions data about reporters. The thresholds are:

- **Controlling corporation threshold:** Data is published if corporate totals have combined scope 1 and scope 2 greenhouse gas emissions equal to or greater than 50 kilotonnes carbon dioxide equivalence (CO2-e).
- **Reporting transfer certificate holder threshold**: Data is published if a facility has greenhouse gas emissions of 25 kilotonnes CO2-e or more; or production of energy of 100 terajoules or more; or consumption of energy of 100 terajoules or more.

The Australian Government is proposing climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act.

The application of misleading and deceptive conduct provisions to scope three emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.

Continuous disclosure obligations would apply as they do presently, requiring entities to make timely and accurate disclosures.

Please reach out to your local PKF Audit & Assurance office for further insights of the reporting and assurance requirements of the climate -related financial disclosure.

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Seeking external valuations on land and buildings in 2023

We are progressing through another pivotal reporting period, being 30 June 2023. It's at this time (or earlier) when directors of companies determine that external valuations may be needed in support of the carrying value of land and buildings recorded in the balance sheet. These could be either owner occupied properties (accounted for under AASB 116 Property, Plant and Equipment) or investment properties (accounted for under AASB 140 Investment Properties). Directors should be aware that their external auditors will most likely request reliable support for the carrying value of land and buildings.

This is certainly not a new dynamic, however there are a few factors that directors need to be aware that may be unique to this reporting period:

1. There has been much speculation about the falling values of properties in Australia's CBDs as a result of the slow return to offices post COVID-19. This is particularly so for older CBD properties. For any business that owns commercial property, it is almost certain that the external auditor will require a formal valuation in 2023, notwithstanding that the company may have an accounting policy that stipulates the cycle on which external valuations are obtained. As directors, it may be difficult to argue that an impairment trigger under AASB 136 Impairment of Assets does not exist, therefore necessitating an impairment assessment.

2. When an external valuation is sought, directors need to understand exactly what they are receiving in terms of support as such a valuation is likely to form the basis for the assessment of the value of land and buildings. During the COVID-19 period, "significant uncertainty" paragraphs started to appear in valuers' reports. This practice has continued and is likely to do so for the near future. Directors should consider the following:

- What does "significant uncertainty" mean in the context of the valuation report? The answer to this should be sought in writing if possible.
- Can the assumptions that form the basis of the valuation report be relied upon?
- What additional work may be required of management to pressure test the assumptions?
- Does the valuation report provide sufficient detail in order to make the required disclosures in the financial report?
- Will the external auditor be satisfied with the valuation report and any additional work completed by the management team if a "significant uncertainty" is present in the valuation report?
- Will the external auditor need to amend the audit opinion if a "significant uncertainty" is present in the valuers' report?

In summary, if directors have not yet considered the need for external valuations for 30 June 2023, now is the time to act, or now is the time to reflect on what valuation reports have been received.

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For any business that owns commercial property, it is almost certain that the external auditor will require a formal valuation in 2023, even though the company may have an accounting policy that stipulates the cycle on which external valuations are obtained.

Consult with your relevant PKF Audit Partner sooner rather than later to discuss any potential impact on the audit.

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Enhanced disclosure requirements for charities

A charity registered with the Australian Charities and Not-for-Profits Commission (ACNC) is required to prepare either general purpose financial statements (GPFS) or special purpose financial statements (SPFS). The reforms that were effective from 1 July 2021 that saw the end of SPFS for many for-profit private sector entities did not extend to not-for-profit (NFP) entities. For this reason, where a charity is not considered to be a reporting entity under Statement of Accounting Concepts 1: Definition of a Reporting Entity, it may still prepare SPFS.

> "Where management and risk functions are not keeping pace in the real economy, issues can and will be identified late and the implications can be significant.

In response to the ACNC Legislative Review that was completed in 2018, and to give effect to certain recommendations coming out of that review, the disclosure requirements of charities preparing SPFS were enhanced. These new disclosure requirements relate specifically to Key Management Personnel (KMP) remuneration and related party transactions.

KMP remuneration

For financial years ending on or after 30 June 2022, large charities (i.e., charities with annual revenue greater than $3 million) that prepare SPFS must disclose KMP remuneration, either in aggregate or on a disaggregated basis. According to guidance published by the ACNC, KMP are the senior decision makers in a charity and do not include team leaders or operational managers. Examples of KMP are Responsible Persons (e.g., board or committee members, and trustees) and senior staff (e.g., the CEO, CFO and COO). Judgement may be needed to identify a charity's KMP.

Large charities that have only one remunerated KMP at any given moment during the reporting period are exempt from making the required disclosures.

KMP services are often provided by a separate management entity, such as an accounting firm, to a charity. In this case, the amounts paid to the separate management entity for KMP services must be disclosed separately. Where the management entity provides KMP services as well as other services, judgement will be required to reasonably apportion the cost between KMP and non-KMP services.

Related party transactions

For reporting periods ending on or after 30 June 2023, charities that prepare SPFS have the option to apply either:

1. The six 'mandatory standards' for special purpose reporting, being:

- AASB 101 Presentation of Financial Statements
- AASB 107 Statement of Cash Flows
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 124 Related Party Disclosures (now also a 'mandatory standard')
- AASB 1048 Interpretation of Standards
- AASB 1054 Australian Additional Disclosures.

or

2. The recognition and measurement requirements of the above standards but the equivalent disclosures for these standards contained in AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2.

This means that a medium or large charity preparing SPFS that has had related party transactions during the reporting period will have to disclose the nature of the related party relationship, as well as information about transactions with those related parties and any associated outstanding balances at reporting date.

A related party is defined differently according to charity size.

For small charities (i.e., charities with annual revenue less than $500,000), the ACNC defines a related party as "a person or organisation that is connected to the charity and has significant influence over the charity."

This includes:

- Responsible Persons and their close family members
- Senior management and their close family members
- Other people or organisations that can influence the charity's decision-making.

As the ACNC points out in the guidance it has published, a person is not a related party simply by virtue of being an employee or volunteer. The person or organisation must have significant influence over the charity's strategic and financial decisions to be a related party.

While small charities are not required to prepare financial statements, they will need to disclose reportable related party transactions in their 2023 and later Annual Information Statements.

For medium and large charities preparing SPFS, the definition of related party in AASB 124 must be applied when disclosing related party transactions.

In terms of comparatives for the new related party disclosures, the ACNC Commissioner has relieved charities from the need to provide comparative information in the first year that these disclosures are made, whether applying AASB 124 or AASB 1060. This means that charities making the new related party disclosures in their 30 June 2023 SPFS will not have to provide the related comparative numbers. Comparative information will, however, be required in the 30 June 2024 SPFS.

Please contact your local PKF team for guidance.

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ASIC's financial reporting hit list for 30 June 2023

As we progress through the 30 June 2023 financial reporting season, the Australian Securities and Investments Commission (ASIC) has placed a strong focus on the current economic climate in which entities are operating and how this may affect their business, especially considering factors such as increasing interest rates and rising inflation.

ASIC has urged entities to assess the impact of these uncertain market and economic conditions, consider the impact on their operations, and adequately reflect this in their financial report.

As per the June 2023 media release, ASIC has highlighted key areas of attention as outlined on the next page.

For any clarification or further insight, please do not hesitate to contact your local PKF Audit representative.

Draft CPS 230	ASIC's focus	What you can do
Asset values	Judgements and assumptions utilised to calculate asset values must be reasonable and supportable. ASIC's focus will be to ensure assets such as goodwill and other intangible assets, property, inventories, deferred tax assets, and loans and receivables, are not overstated.	• Ensure that impairment testing is performed where necessary applying the requirements of the relevant accounting standard • Ensure that valuation inputs are supported by observable data as far as possible • Ensure current and future expected economic conditions are appropriately factored into asset valuations • Stress test impairment assessments and valuations to understand how sensitive they are to possible changes in key assumptions.
Provisions	The impact of changing circumstances, uncertainties, and risks, and how these may impact an entity's provisions. ASIC's focus will be on whether provisions are adequate based on an entity's circumstances. Key provisions for entities to consider include provisions for onerous contracts, leased property make-good and mine site restoration obligations, financial guarantees given, and restructurings committed to before reporting date.	• Review all new and existing contracts for any potential provisions or contingencies • Ensure that estimated provisions take into consideration all likely outflows • Update provision estimates from prior periods to reflect current economic conditions.
Solvency and going concern	Changing circumstances and increased uncertainty make forecasting more challenging for entities. ASIC will be paying attention to the reasonableness of solvency and going concern assessments undertaken by directors.	• Consider the impact of both internal and external factors when preparing a going concern assessment • Consider key assumptions used in these assessments and whether they are appropriate in the current economic environment and can be supported.
Subsequent events	ASIC reminds entities to identify those events that occur after reporting date but before signing of the financial report and, where applicable, ensure these are appropriately reflected in the financial report.	• Review subsequent events to identify those that affect the numbers at reporting date and those that require only disclosure • Refer to AASB 110 Events after the Reporting Date for guidance.
Disclosures in the financial report and Operating Financial Review	ASIC will be paying attention to disclosures in the financial report and the OFR considering current economic and market conditions. Directors should be forthcoming about uncertainties, key assumptions, sensitivity analyses, and risks where these are material to the business. ASIC has reiterated that the OFR should complement the financial report and appropriately discuss an entity's results, strategies, future prospects and business risks, taking into account the economic climate and changing circumstances.	• Ensure that disclosures made in the financial report and OFR are consistent with other publicly available information • Ensure disclosures are specific to the entity and contain information that investors would want to know • Consider disclosures regarding climate change risks and cyber security risks given recent developments in both areas • Refer to RG 247 Effective Disclosure in an Operating and Financial Review for guidance.
New insurance standards (AASB 17)	ASIC reminds entities to apply the new accounting standard AASB 17 Insurance Contracts where applicable. The new standard is effective from 1 January 2023 and may significantly affect the financial results of an entity.	• Seek assistance if you need to clarify or further understand whether AASB 17 applies to your business, noting that the new standard could apply to non-insurers in certain circumstances.

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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