

DECEMBER 2020



Tasmanian Audit Office

ACCOUNTING AND AUDITING DEVELOPMENTS

DECEMBER 2020

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Hot Topics

Commonwealth Parliamentary Inquiry into Auditing in Australia – Final Report released

On 11 November 2020, the Commonwealth Parliamentary Joint Committee on Corporations and Financial Services released their final report into the **Regulation of Auditing in Australia**.

The report reaffirms all 10 recommendations made in the **interim report** tabled in February 2020, however timelines and thresholds have been reconsidered in light of the current economic climate due to COVID-19.

The recommendations are summarised as:

Interim report	Final report
The Australian Government to legislate, by the end of 2020-21, the requirement for ASIC to publish individual audit firm inspection results (following implementation of recommendation 1).	Recommendation unchanged.
The Australian Securities and Investments Commission (ASIC) to review and revise the manner in which it publicly reports the periodic findings of its audit inspection program, including the grading of the severity of audit deficiencies, by the end of 2020-21.	Recommendation unchanged.
ASIC and the Financial Reporting Council (FRC), by the end of 2020-21, to introduce under Australian standards: <ul style="list-style-type: none"> • defined audit and non-audit categories and associated fee disclosures 	Recommendation unchanged.

<ul style="list-style-type: none"> a list of prohibited non-audit services. 	
The Corporations Act 2001 (Corps Act) be amended to require auditors confirm, in an auditor's independence declaration, they have not provided prohibited non-audit services.	Recommendation unchanged.
The Australian Professional Ethics and Standards Board to consider revising its code of ethics (APES 110) to stop partner incentives to sell non-audit work to audit clients.	Recommendation unchanged.
The FRC to oversee implementation of Australian standards, by the end of 2020-21, requiring audited entities to disclose audit firm tenure and lead audit partner tenure in financial reports.	Recommendation unchanged.
The Corps Act be amended to require companies to undertake a public tender for auditors every 10 years or to explain why in their annual reports if they did not do so. This process would be implemented by 2022 for any company with the same auditor for a continuous period of ten years since 2012.	<p>The Committee:</p> <ul style="list-style-type: none"> clarified that the recommendation is a recognition that boards should not 'set and forget' their auditor arrangements, not that entities need to change auditors every ten years. stated the 2022 implementation timeframe was no longer realistic but that the government should consider an appropriate timeline such as a staggered implementation timeframe.
The FRC to oversee a review, reporting by the end of 2020-21, of the sufficiency and effectiveness of reporting requirements under existing Australian standards relating to the prevention and detection of fraud and management's assessment of going concern.	Recommendation unchanged.
The Corps Act be amended so companies required to have their financial reports audited under the Corps Act must establish and maintain an internal control framework for financial reporting. The changes will also require external auditors to report on management's assessment of the effectiveness of that framework.	The Committee confirmed the importance of the recommendation but due to current economic conditions, now may not be the time to impose additional transitional costs on businesses. It requested the government to consider appropriate timelines and thresholds (in terms of entity size and type) with respect to implementing this recommendation.
The Australian Government to take action to make digital financial reporting standard practice in Australia.	The Committee considered it appropriate for the government to undertake a review to identify and resolve any remaining barriers to the use of digital financial reports, with a view to making digital financial reporting standard practice in Australia in the near future.

AASB staff FAQs – for not-for-profit entities – AASB 1058 updates

The **AASB Staff FAQs for not-for-profit (NFP) entities** have been extended (in section 5) to assist with accounting for transactions in scope of AASB 1058 'Income of Not-for-Profit Entities', such as grants, where a NFP entity has partially but not yet fully performed the activities required under the agreement and the associated asset (e.g. grant funding in cash or other asset) has not yet been received.

In those circumstances (such as accrued grants) a non-cash asset might exist (for example, a financial asset under AASB 9 'Financial Instruments' representing the contractual right to receive the cash) and should be recognised and appropriately described in the statement of financial position.

The new FAQs focuses on the initial recognition of this type of asset, although it also addresses some consequential matters relating to the recognition of associated income.

The FAQ includes simple practical example scenarios to illustrate the accounting.

ASIC announces findings from 31 December 2019 financial reports under COVID-19 conditions

The Australian Securities and Investment Commission (ASIC) recently released **20-325MR ASIC highlights focus areas for 31 December 2020 financial reports under COVID-19 conditions** announcing its focus areas for financial reporting by companies for years ending 31 December 2020.

Under COVID-19 conditions, ASIC expects directors, preparers of financial reports and auditors to pay particular attention to:

- asset values
- provisions
- solvency and going concern assessments
- events occurring after year end and before completing the financial report
- disclosures in the financial report and Operating and Financial Review (OFR).

Further details on the focus areas can be found in the attachment to 20-325MR on ASIC's **website**.

ASIC announces findings from 31 December 2019 financial reports

In July 2020, the Australian Securities and Investments Commission (ASIC) released 20-173MR **'ASIC review of 31 December 2019 reports'**, highlighting the results from its review of the financial reports for the year ended 31 December 2019 of 90 listed and other public interest entities. Some of the key findings from the review are below:

Revenue recognition

Concerns around revenue recognition, particularly contracts that involve multiple performance obligations where one or more obligation is still to be met.

Some instances noted where the accounting policy for revenue recognition needed to be more clearly described.

Asset values and impairment testing

Concerns about assessments of the recoverability of the carrying values of assets, including goodwill, exploration and evaluation expenditure, and property plant and equipment, including:

- cash flows and assumptions to determine recoverable amounts were not reasonable or supportable
- determining the carrying amount of cash generating units
- appropriate use of fair value
- assessment of impairment indicators
- entities not making necessary disclosures around sources of estimation uncertainty, key assumptions and sensitivity of inputs.

Tax accounting

Concerns include the adequacy of tax expense and probability that future taxable income will be sufficient to recover deferred tax assets.

Provisions

Concerns noted relating to the adequacy of provisions for rehabilitation, warranty claims and employee benefits.

Financial instruments

Concerns noted included the fair valuation of equity instruments and an arrangement where a fair value gain arose from the forgiveness of debt.

Consolidation and equity accounting

Concerns noted about non-consolidation of other entities or not equity accounting an interest in other entities where there were indicators of possible significant influence.

New lease accounting standard

Concerns noted around the explanation of the impact of adopting the new leasing standard.

Accounting Updates

Australian update – Australian Accounting Standards Board (AASB)

Topics discussed included:

AASB Meeting Highlights – 11-12 November 2020

- Not-for-profit private sector financial reporting framework
- Fair value measurement for not-for-profit entities
- Goodwill and impairment
- Minimum disclosures in SPFS of certain for-profit private sector entities
- Sustainability reporting
- Termination for convenience clauses
- Going concern
- Transition between tier 2 frameworks for not-for-profit entities
- Parliamentary inquiry into the regulation of auditing in Australia.

AASB Meeting Highlights – 16-17 September 2020

- Interest rate benchmark reform – phase 2
- Primary financial statements
- Goodwill and impairment
- Fair value measurement for not-for-profit entities
- Right-of-use assets for not-for-profit entities
- IPSASB exposure drafts on revenue and transfer expenses
- Not-for-profit private sector financial reporting framework
- Conceptual framework – not-for-profit entities
- Audit fee disclosure and going concern.

Latest **news**, **accounting standards** and **work-in-progress** documents from the AASB included:

- Exposure Draft ED 306 'Transition Between Tier 2 Frameworks for Not-for-Profit Entities' – open for comment until 15 January 2021 (15 Dec)
- Updated AASB 1048 'Interpretation of Standards' (15 Dec)
- AASB 2020-9 'Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments' (11 Dec)
- Business Combinations Under Common Control – open for comment until 17 July 2021 Invitation to comment (3 Dec)
- Exposure Draft 305 'Lease Liability in a Sale and Leaseback – proposed amendments to AASB 16' – open for comment until 21 February 2021 (3 Dec)
- AASB Staff FAQ on initial recognition of an asset acquired by a NFP entity in transactions within the scope of AASB 1058* (29 Oct)
- Updated AASB Standard-Setting Framework Documents (29 Oct)
- Interest Rate Benchmark Reform – Phase 2: Tier 2 Disclosures - Exposure Draft (13 Oct)
- AASB Work Program Update - Work Program (24 Sept)
- AASB 2020-8 'Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2' - Accounting standard (22 Sept)

- Goodwill and Impairment Discussion Paper webinar - Webinar (19 Aug)
- AASB 2020-7 'Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions: Tier 2 Disclosures' - Accounting standard (13 Aug)
- AASB Staff FAQ on Accounting for Concessionary Loans by Not-For-Profit entities - Guidance (5 Aug).

* For more information see the Hot Topics section above.

International Update – International Accounting Standards Board (IASB)

Topics discussed included:

IASB Meeting Highlights – 14-16 December 2020

- maintenance and consistent application – IFRS Interpretations Committee's agenda decision on Supply Chain Financing Arrangements—Reverse Factoring
- second comprehensive review of the IFRS for SMEs standard
- disclosure initiative – Accounting Policies
- primary Financial Statements
- post-implementation review of IFRS 9 – Classification and Measurement
- disclosure initiative – subsidiaries that are SMEs
- financial instruments with characteristics of Equity
- pension benefits that vary with asset returns.

IASB Meeting Highlights – 18-19 November 2020

- board work plan – post-implementation reviews and agenda consultation
- maintenance and consistent application
- disclosure initiative – subsidiaries that are SMEs
- management commentary
- post-implementation review of IFRS 10, IFRS 11 and IFRS 12.

IASB Meeting Highlights – 22-23 September 2020

- maintenance and consistent application
- rate-regulated activities
- management commentary
- business combinations under common control
- extractive activities.

IASB Meeting Highlights – 22-23 July 2020

- IBOR reform and its effects on financial reporting – phase 2
- disclosure initiative – accounting policies
- IFRS taxonomy update
- maintenance and consistent application
- extractive activities
- management commentary.

International Update – International Financial Reporting Standards (IFRS) Foundation

Latest news from the IFRS Foundation included:

- IFRS Taxonomy Update for Interest Rate Benchmark Reform – Phase 2 (17 Dec)
- IASB reviews package of IFRS Standards for group accounting – IFRS 10, 11 and 12 (9 Dec)
- IASB to publish Request for Information – Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12 (7 Dec)
- IASB consults on possible new accounting requirements for mergers and acquisitions within a group (30 Nov)
- IASB proposes amendment to its leases Standard to improve accounting for sale and leaseback transactions (27 Nov)

- The IFRS Foundation proposes changes to the IFRS Taxonomy 2020 to support high-quality tagging of information related to employee benefits (24 Nov)
- The effects of climate-related matters on financial statements prepared applying IFRS Standards (20 Nov)
- IASB begins Post-implementation Review of classification and measurement requirements in IFRS 9 (18 Nov)
- Applying IFRS Standards in 2020 – impact of COVID-19 (28 Oct)
- Compilation of IFRS Interpretations Committee agenda decisions – volume 3 published (14 Oct).

International Update – International Public Sector Accounting Standards Board (IPSASB)

Topics discussed included:

IPSASB Meeting Highlights – 1-2, 8-11, 15 December 2020

- ED 77 Measurement
- ED 76 Conceptual framework – limited scope update
- ED 78 IPSAS 17 update, heritage and infrastructure
- ED 75 Leases
- natural resources
- revenue and transfer expenses – ED 70 – ED 72
- mid-period work program consultation
- program and technical director's report on work program.

IPSASB Meeting Highlights – 27 October 2020

- ED 77 Measurement.

IPSASB Meeting Highlights – 14-18 and 22 September 2020

- ED 73, COVID-19: deferral of effective dates
- ED 74, amendments to IPSAS 5, borrowing costs
- public sector specific financial instruments
- ED 75, leases – IFRS 16 alignment
- ED 76 and ED 77, conceptual framework – limited scope update and measurement
- ED 79, non-current assets held for sale and discontinued operations
- ED 78, IPSAS 17 update, heritage and infrastructure
- natural resources.

IPSASB Meeting Highlights – 28 July 2020

- public sector specific financial instruments, responses to exposure draft 69
- ED 78 – IPSAS 17 update.

Recent **news** from the IPSASB included:

- IPSASB defers effective dates for upcoming standards and amendments (Nov 6)
- IPSASB issues exposure draft to clarify guidance on borrowing costs (Oct 21)
- New accounting tool available for governments to better understand impacts of COVID-19 Interventions (22 July)
- IPSASB proposes delay of effective dates for recent Standards and Amendments (15 July).

Audit Updates

Australian Update – Auditing and Assurance Standards Board (AUASB)

Topics discussed included:

AUASB Meeting Highlights – 1 and 4 December 2020

- FRC and audit quality update

- AASB chair update
- IAASB discussion paper on fraud and going concern
- international matters
- due process framework and conformance and harmonisation policy with the NZAuASB.

AUASB Meeting Highlights – 21 October 2020

- joint meeting of the AUASB and NZAuASB
- repeal of superseded ASAs
- IAASB fraud and going concern discussion paper
- AUASB 2020-21 work program
- updates on other AUASB projects.

AUASB Meeting Highlights – 9 and 11 September 2020

- ASRS 4400 'Agreed-Upon Procedures Engagements'
- GS 012 'Prudential Reporting Requirements for Auditors of Authorised Deposit-taking Institutions (ADIs) and ADI Groups'
- AUASB guidance statements revisions
- IAASB matters
- due process documentation and revision of the AUASB preambles.

Latest **news** from the AUASB included:

- New AUASB Due Process Framework available for public comment (Dec)
- IAASB formalise plan to develop separate standard for audits of Less Complex Entities (LCE's) (Dec)
- AUASB Research Report 5: COVID-19 Snapshot of Auditor Reporting in Australia (Dec)
- Implementation support materials on ASA 540 'Auditing Accounting Estimates and Related Disclosures' (Dec)
- AUASB issues revised ASRS 4400 'Agreed-Upon Procedures' (Dec)
- The IAASB issues new support for assessing risks of material misstatement when using automated tools and techniques (18 Nov)
- IAASB releases video introductions to the new and revised quality management standards (18 Nov)
- Auditing and Assurance Standard Board welcomes the final report of the Parliamentary Joint Committee on Corporations and Financial Services Inquiry on the Regulation of Auditing in Australia (11 Nov)
- AUASB remote roundtable to discuss IAASB fraud discussion paper (10 Nov)
- Addressing issues and challenges in audits of less complex entities (5 Nov)
- IAASB support materials – FAQs regarding the use of technology in performing audit procedures (Sept)
- Seeking feedback on IAASB's Going Concern and Fraud Discussion Paper (Sept)
- Illustrative examples for ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures (Sept).

International Update – International Auditing and Assurance Standards Board (IAASB)

Topics discussed included:

IAASB Meeting Highlights – 7-11 December 2020

- audits of less complex entities
- audit evidence
- ISA 600 (revised)
- extended external reporting assurance
- fraud.

IAASB Meeting Highlights – 10-11 November 2020

- definitions of listed entity and public interest entity

- conforming amendments to other IAASB standards resulting from the quality management standards.

IAASB Meeting Highlights (virtual board meeting) – 14-23 September 2020

- ISQM 1 – Quality Management at the Firm Level
- ISQM 2 – Engagement Quality Reviews
- ISA 220 – Quality Management at the Engagement Level
- EER (Extended External Reporting) Assurance
- quality management conforming amendments to ISAs
- quality management conforming amendments to other IAASB Standards
- due process.

IAASB Meeting Highlights (conference call) – 11 August 2020

- fraud and going concern.

IAASB Meeting Highlights (conference call) – 22 July 2020

- definitions of listed entity and public interest entity
- quality management standards – conforming amendments to ISAs.

Latest **news** from the IAASB included:

- IAASB Raises the Bar for Quality Management (17 Dec)
- IAASB communique details plans to develop separate standard for audits of less complex entities (15 Dec)
- IAASB issues new support for assessing risks of material misstatement when using automated tools and techniques (18 Nov)
- Video introduction to the new IAASB quality management standards (18 Nov)
- Key takeaways from the IAASB's roundtable series on fraud and going concern (17 Nov)
- Deadline extended for IAASB's discussion paper on fraud and going concern (16 Nov)
- New IAASB communique details plans to address complexity, understandability, scalability, proportionality (5 Nov)
- IAASB issues staff audit practice alert on climate-related risks (1 Oct)
- New support materials available from IAASB for using automated tools and techniques in audit procedures (28 Sept)
- IAASB seeks feedback on fraud, going concern in financial statement audits (15 Sept)
- IAASB issues new project update for ISA 500 'Audit Evidence' (3 Sept)
- New illustrative examples for ISA 540 (Revised) implementation: expected credit losses (31 Aug)
- IAASB assists with audit considerations for the impact of COVID-19 (31 July).

Ethics Updates

Australian Update – Accounting Professional and Ethical Standards Board (APESB)

Topics discussed included:

APESB Meeting Highlights – 16 November 2020

- update on IESBA's projects on non-assurance services and fees
- international and other activities
- update on review of APES 230 'Financial Planning Services'
- update on COVID-19 resources
- update on review on APES 220 'Taxation Services'
- proposed revised APES 305 'Terms of Engagement'
- proposed whistleblowing technical staff Q&A publication
- project update APES 330 'Insolvency Services'.

APESB Meeting Highlights – 28 August 2020

- proposed revisions to Part 4B of the Code
- proposed revisions to the Code of the role and mindset of accountants
- international and other activities
- update relating to insolvency services
- COVID-19 Q&A on various services
- IEASBA presentation on technology
- proposed submission on the AASB's ED regarding special purpose financial statement disclosures
- update on whistleblowing project
- update on audit standard setting and regulations.

Latest **news** from the APESB included:

- APESB issues revised APES 305 'Terms of Engagement' (4 Dec)
- APESB's Response to the Parliamentary Joint Committee's Final Report on Regulation of Auditing in Australia (19 Nov)
- A framework for ethical behaviour (30 Oct)
- New guidance on the application of professional standards when facing COVID-19 circumstances (16 Oct)
- Proposed revisions to clarify the role and mindset expected of accountants – Exposure Draft 03/20 – open for comment until 1 February 2021 (8 Oct)
- APESB issues amendments to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (30 Sept)
- APESB issues guidance on APES 110 Code prohibitions for all audit and review engagements (12 Aug)
- APESB and IESBA staff collaborate on ethics guidance for COVID-19 (3 Aug).

International Update – International Ethics Standards Board for Accountants (IESBA)

Topics discussed included:

IESBA Meeting Highlights – 30 November, 4, 8 & 9 December 2020

- non-assurance services provisions in the Code of Ethics
- revision to fees-related provisions in the Code of Ethics
- definitions of listed entity and public interest entity
- technology
- engagement team – group audits independence.

IESBA Meeting Highlights – 14-21, 29 September and 1 October 2020

- appropriate reviewer objectivity
- non-assurance services
- IAASB-IESBA coordination
- fees
- public interest entities
- technology
- eCode.

IESBA Meeting Highlights (virtual board meeting) – 22 July 2020

- fees
- non-assurance services
- benchmarking initiative.

Latest **news** and **publications** from the IESBA included:

- Revisions to the code to promote the role and mindset expected of professional accountants (5 Oct)
- International Audit and Ethics Standards Boards embrace conclusion of monitoring group review and renewal of commitment to global standards (14 July).

ASIC, ACNC and ACAG

Australian Securities and Investments Commission (ASIC)

Recent **media releases** included:

- 20-329MR ASIC review of 30 June 2020 financial reports (17 Dec)
- 20-325MR ASIC highlights focus areas for 31 December 2020 financial reports under COVID-19 conditions* (15 Dec)
- 20-255MR ASIC Annual Report 2019-2020 (23 Oct)
- 20-202MR ASIC's Corporate Plan 2020-24 (31 Aug)
- 20-173MR ASIC review of 31 December 2019 financial reports* (31 July).

* For more information see the *Hot Topics* section above.

Australian Charities and Not-for-profits Commission (ACNC)

Recent **news and media** included:

- Bushfire Response 2019-20 – reviews of three Australian charities (24 Oct)
- ACNC to introduce charity risk review program (21 Oct)
- 2019-20 annual report (16 Oct).

Australasian Council of Auditor-Generals (ACAG)

ACAG recently made submissions on:

- ED ISA 600 'Special Considerations – Audits of Group Financial Statements' (4 Sept)
- ED 298 'General Presentations and Disclosures' (13 Aug).

TAO client information

The below are all on our **resources page**

Change to Submission of Financial Statements Requirements:

- [Updated management certification to be provided by Those responsible for Financial Reporting at the time of Submission of Financial Statements](#)

COVID-19 Financial Reporting Impacts:

- [COVID-19 impacts on financial statements](#)
- [COVID-19 impacts on financial statement audit reports](#)
- [Impact of COVID-19 on valuations of non-financial assets](#)

Other information:

- [Updated template AASB 119 Employee entitlements 30 June 2020 \(Updated till June 2020\)](#)
- [Updated local government model financial statements for financial year 2020](#)

TAO Reports

- [Annual Plan of Work 2020-21](#)
- [Tasmanian Audit Office Annual Report 2019-20](#)

Tabled reports so far in the 2020-21 financial year:

- [Effectiveness of Internal Audit](#)
- [Management of Underperformance in the Tasmanian State Service](#)
- [Expressions of interest for tourism investment opportunities](#)
- [Information and communications technology strategy, critical systems and investment](#)

- [Review of selected COVID-19 support measures and expenditure in 2019-20](#)
- [Management of the State road network](#)
- [Procurement in Local Government](#)
- [Auditor-General's Report on the Financial Statements of State Entities Volume 1 – Audit of State entities and audited subsidiaries of State entities 31 December 2019 and 30 June 2020](#)

Contacts

The Deputy Auditor-General and/or the relevant Assistant Auditor-General are usually your first point of contact for the application of financial audit queries on the general office number: (03) 6173 0900.

The Assistant Auditor-General, Performance Audit Services, may be contacted for performance or compliance audit queries on the general office number: (03) 6173 0900.

Ric De Santi, Deputy Auditor-General

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