

# The Westworth Kemp Review of January to April 2020

... or “the view from the kitchen table”

## Contents

Introduction .....	1
Not another coronavirus newsletter! .....	2
Support materials that are available.....	2
Working from home and professional obligations .....	3
Key tips for auditors this year .....	4
Auditing in the time of COVID 19 .....	4
Not-for-profits.....	5
The AUASB’s additional Q&As .....	5
Looking forwards: consultation on revisions to the audit evidence standard .....	5
Financial reporting: standards you may not have thought about for a while .....	6
Looking forwards: no let up on the accounting front .....	7
<i>The Back Page</i> – reflections from our student intern Denica.....	8

## Introduction

As I wrote our last newsletter, bushfires were raging. These were followed by floods and now the coronavirus so it’s been an eventful few months.



Physical distancing as a result of the coronavirus has pushed us kicking and screaming up the IT learning curve. We can now use virtual meeting software such as Teams, Blue Jeans and Zoom, are into virtual document sharing, run to and fro to the computer shop for different bits of connecting wire and have learnt to connect extra monitors and full sized keyboards to make working on a laptop a bit more comfortable. Last week we finally managed to achieve a team meeting where everyone participated by both

video and audio! It remains to be seen whether all this technology becomes a permanent feature of working life - whether humans, being social animals, will return to face to face work in an office or whether the world of work has changed for ever. Flick to “The Back Page” to read our student intern’s reflections on this brave new world.

Our practice continues to be busy with report writing, preparations for conclaves and starting new assignments for new clients whom we have only met in cyberspace. For those clients who prefer to communicate traditionally, rest assured we are still checking the mail and the voicemail on the office landline. We count ourselves very fortunate that we can easily do our work from home and are still very much open for business.

### **Not another coronavirus newsletter!**

Every time I open my email I am greeted by a barrage of information from organisations I am involved, ranging from accountants and arts organisations to zoos with plenty of others in between. If I wasn’t stressed about the state of the world when I turned on the computer, I am by the time I have looked at the Inbox! To put things in context though, every generation has its challenges and our parents and grandparents had to face world wars and the 1930s depression, both of which lasted for several years. This forced slowing of the pace of life may yet turn out to be not such a bad thing, allowing us to focus on things that are really important.

### **Support materials that are available**

We are going to refrain from adding any more than necessary to the amount of commentary on the coronavirus that is already out there as every business’ circumstances will be different. Instead we will just point you in the direction of some support materials we have found helpful:

- The AASB and AUASB have issued a [joint frequently asked questions document](#) on the accounting and auditing implications of COVID-19. It draws on the previously issued guidance paper [“Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2”](#). For each topic, it covers the implications from both a financial reporting and an auditing perspective and looks at such matters as:
  - for preparers: how to assess whether the impact of COVID-9 is material, when to adjust the financial statements and how to treat and disclose events developing after the reporting date, including continuous disclosure for listed entities;
  - for auditors: the auditing implications of these matters, including addressing whether those charged with governance have performed appropriate risk assessment procedures and assessed the impact of the virus on the financial report (including the appropriateness of the going concern assumption). It also addresses the impact of travel bans on the ability to conduct the audit.
- The AUASB has prepared [additional COVID-19 questions and answers](#) focussing in more depth on these audit issues, which we look at in more detail below.
- The IAASB has issued a [staff paper](#) that charts key auditing standards alongside specific matters for consideration in the current environment under those standards.
- The AASB have also [listed the guidance issued by other regulators](#) on their coronavirus page, including the ASX, ASIC, ACNC, ATO and APRA. They also have links to the IASB’s guidance

on applying the new [IFRS 9 Financial Instruments](#) and [IFRS 16 Leases](#) in these times of uncertainty as to future cash flows and how these will interact with any government subsidies that might become available.

- ASIC have a [dedicated page for coronavirus support](#) and have announced that they are focussing on challenges created by the COVID-19 pandemic until at least 30 September 2020. Matters that ASIC will afford priority to are those where there is the risk of significant consumer harm, serious breaches of the law, risks to market integrity and time-critical matters. Inter alia, ASIC has [announced an extension of time for lodgement of annual reports for unlisted entities](#) and also announced that they will not pursue listed companies that delay holding their [AGM](#) until 31 July 2020 or companies that hold virtual AGMs for breaches of their rules or legal requirements in these respects .
- The [ACNC have published a blanket exemption](#) to charities whose 2019 Annual Information Statements are due between 12 March and 30 August 2020. These charities now need to submit their returns by 31 August 2020.
- Chartered Accountants ANZ (CA ANZ) has also created a [COVID 19 hub](#) which has links to [information about government assistance packages](#) and a [Q & A](#) on financial reporting and audit considerations that links to guidance being put out by all the major firms.

These are strange times, but the key thing to remember is that the financial report is how the entity tells its story from a financial perspective. Preparers need to focus on how best to tell that story and what information is material to users. In an environment where estimation uncertainty is rife, disclosures, especially about how the entity is responding to this uncertainty, become doubly important.

### Working from home and professional obligations

Working from home has its obvious challenges, ranging from isolation in some cases to longing for isolation in others as the worker juggles the needs of children, spouses and pets while trying to maintain a professional persona over zoom or on the phone. However other more serious implications which are gradually emerging, such as business confidentiality and the protection of personal client information. The inner city share house of young professionals can become a business risk if the flatmates are not scrupulous about maintaining the confidentiality of their work. What if Flatmate A's investment bank or fund manager employer is looking at the company that Flatmate B is working on corporate strategy for?

The key thing to watch out for is confidentiality. [Subsection 114 of the Code of Ethics](#) for Professional Accountants sets out the principle of confidentiality, which requires a professional accountant to respect the confidentiality of information acquired as a result of professional and business relationships.

The possibility of inadvertent disclosure increases when workers are outside their normal working environment, in the company of family members or flatmates and using domestic IT equipment which may be more vulnerable to security threats than equipment in a secure office. Care still needs to be taken to keep information private, for example by remembering to shred old drafts of confidential work. [CA ANZ has put out a Q&A](#) on maintaining client confidentiality and other professional obligations when setting up a virtual accounting practice.

## Key tips for auditors this year

Our main message for auditors in previous newsletters has been evidence, evidence, evidence, sufficient appropriate audit evidence. Under current conditions, obtaining that evidence just became a whole lot harder, but no less necessary.

### Auditing in the time of COVID 19

Regardless of what is happening around us, auditing standards remain the same and so it is the auditor's approach to fulfilling the requirements of those standards that has to change.

In many respects, COVID-19 is just another risk, albeit a substantial and unexpected one that business managers have to manage, preparers of financial reports have to incorporate into their story and auditors have to audit. Aspects of this crisis challenge auditors in new ways as they have to audit remotely and deal with sources of estimation uncertainty that are legion.

COVID 19 Infection control measures such as travel bans and physical distancing raise their own challenges:

- The auditor may not be able to visit significant component locations in a group audit or be able to attend stocktakes, even if the company holds them; and
- Physical distancing and office closures make even locally based auditing difficult and addressees of confirmation letters or other correspondence may not be in their offices to receive them and respond.

Auditors will have to think laterally and work around these challenges and so it will be vital to make file notes of procedures followed and of conversations that have taken place with the client and within the team.

Fortunately, in responding to these challenges, auditors have the support of technology tools that even a few years ago were nowhere near as effective or as cheap. For example:

- It may be more effective to have a video call than just a telephone call or an email as it facilitates a more complete communication, particularly when it is an important discussion;
- Technology makes it possible to transfer client information to the auditor and interrogate it away from the client's premises, but this must be done under secure conditions and fully documented.

On top of the impacts of these infection control measures, the associated economic crisis poses the challenges many of us will remember from the GFC of 2008 – 2009, and for some of us the even the early 1990s:

- The hit to cash flows a lot of businesses are experiencing will affect their ability to meet financial obligations and stay within loan covenants – it is important to speak to the bank sooner rather than later;
- Superannuation funds and other investment vehicles are experiencing a threat to liquidity as people need to access their savings to live on; and
- The assumptions underlying fair value calculations all have to be reassessed.

As the use of fair values has gradually crept into financial reporting as a means of producing more relevant financial information than historical cost, *ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* has become a very important reference.

With no one knowing how long the crisis will last or how it might change day to day, forecasting is incredibly difficult. This poses challenges wherever estimation of asset values is required, such as in expected credit losses and impairment of other non-financial assets. These forecasting issues also pose significant challenges when determining what impact the crisis may ultimately have on a business' ability to continue as a going concern.

At the end of the day, it may be that we have to see far more modifications to audit reports in 2020 because auditors simply cannot access sufficient appropriate audit evidence to overcome the uncertainties faced by their clients at this time.

### **Not-for-profits**

Not for profits are particularly affected by physical distancing. Their ability to raise money depends largely on gatherings of people, for fun runs, church services, fairs, balls, etc, or on being able to sell raffle tickets and cakes in shopping centres. Volunteers are often from the vulnerable age groups and are isolating at home but many not for profits are finding demand for their services is stronger than ever.

### **The AUASB's additional Q&As**

The [AUASB's additional Q&As](#) look at how these sorts of issues affect the auditor. They cover issues such as:

- The impact on risk assessment;
- Whether the preconditions for an audit are still present;
- Alternative procedures to attending a stocktake or arranging a debtors' circularisation;
- Events unfolding after the balance date and the potential impact on going concern; and
- The possible need for additional paragraphs relating to COVID-19 issues in the letter of representation

The Q&A also draws attention to the recent revision of *ASA 540 Auditing Accounting Estimates and Related Disclosures*. A climate of uncertainty affects all accounting estimates as it contributes to the reliability or otherwise of the assumptions on which the estimate is based and while the new standard is not operative until periods beginning on or after 15 December 2019, the AUASB is of the view that auditors will find the enhanced standard useful.

### **Looking forwards: consultation on revisions to the audit evidence standard**

Interesting timing for the IAASB to launch a consultation on revising *ASA 500 Audit Evidence*!

This consultation is currently at an early stage, but it is vitally important. The current standard dates back to the 1980s so the IAASB is asking for stakeholder feedback for areas where it needs revision. The board has listed 15 issues that cause trouble in practice and make ASA 500 hard to apply in a modern environment. Interestingly, the sorts of issues raised are instructive in considering how to perform an audit in today's environment. They fall under three main headings:

1. Scepticism, including over reliance on tools and a lack of objectivity towards audit evidence that is corroborative. This is an issue we see on the files that we review all the time, but, as the AUASB pointed out at their consultation webinar, this is not really an issue of how ASA 500 is drafted, but an issue of how our auditors are exercising their professional judgment.
2. The nature and source of the information available, including the blurring of the distinction between internal and external with cloud-based systems and paperless offices.
3. The impact of technology – issues such as whether sampling still relevant when data analytics programs can interrogate the entire system, is it acceptable to attend a stocktake virtually by drone and do large quantities of data downloaded for analytics form part of the audit file?

When using modern analytical procedures, the explicit application of a logical thought process is vital and should be well documented on the file, so that a reader can see the objective of the test, the method and criteria that were applied, the results generated and the logic that supports the conclusions that were derived from the analysis. Putting effort into the documentation of the test may seem superfluous, but it will help the auditor to see whether there are flaws in logic and whether the test does what it was designed to do.

The [AUASB are seeking feedback from constituents](#) and have published the IAASB’s outreach paper and a recording of their webinar. The board has picked their top 5 issues for feedback to the IAASB and welcome feedback from stakeholders. These issues are:

- Factors that determine the reliability of evidence;
- How information has changed as a result of technology;
- Whether tools are separate from audit procedures or a means of performing audit procedures;
- How an auditor responds to assessed risks and factors that determine the reliability of information; and
- Whether ISA 501’s content on stocktakes should be updated to reflect the modern environment.

### **Financial reporting: standards you may not have thought about for a while**

Changed circumstances cause us to reconsider standards that we may not have thought about in depth for quite a while.

[AASB 101](#) *Presentation of Financial Statements* contains requirements relating to the going concern assumption in paragraphs 25 and 26 and requires management to disclose significant uncertainties as to whether the entity can continue as a going concern. If the entity cannot continue as a going concern, the going concern basis is not used. There is a lack of information in the standards about what the alternative is, but one place to look for insights is AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Paragraphs 125 to 133 of AASB 101 are also crucial. Paragraph 125 reads: “An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a

material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature, and

(b) their carrying amount as at the end of the reporting period.”

Accounting estimates are often on ASIC’s list of focus areas and regularly feature in our litigation support practice.

[AASB 108](#) *Accounting Policies, changes in Accounting estimates and errors* reminds preparers that the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. The concepts of estimation and uncertainty are nothing new but this year the process is more challenging. Judgement is essential, based on the latest available reliable information and, as discussed above, these judgements should be clearly disclosed.

[AASB 110](#) *Events after the Reporting Period* has taken on new importance for 31 December reporters whose reports were being finalised as the COVID-19 pandemic unfolded. For preparers of 31 December reports in Australia, the pandemic is a non-adjusting event as it only became known in January and social distancing measures started in March. However, if the impact is so severe that the entity will cease to trade, the financial statements should not be prepared on a going concern basis. Again judgement is called for.

[AASB 120](#) *Accounting for Government Grants and Disclosure of Government Assistance*. This is the standard that deals with government assistance to for-profit entities (as opposed to not-for-profit entities covered by AASB 1058 *Income of Not-for-Profit Entities*).

[AASB 137](#) *Provisions, Contingent Liabilities and Contingent Assets* contains material on when a provision should be recognised and on the measurement of liabilities as well as specific requirements for the recognition of onerous contracts and when restructuring gives rise to provisions.

### Looking forwards: no let up on the accounting front

As they say, there is no peace for the wicked! Virus or no virus, the accounting standard setters have continued their work and 2020 will see the following major financial reporting developments:

- A number of standards that came into operation on 1 January 2019 will be in use for the first time in Australia for the period ended 30 June 2020: AASB 9 *Financial Instruments*, AASB 11 *Joint Arrangements*, AASB 13 *Fair Value Measurement*, AASB 15 *Revenue from Contracts with Customers*. Numerous other existing standards have been revised.
- AASB 16 *Leases* is operative for periods beginning on or after 1 January 2020;
- Special purpose financial reports are being retired for some for profit entities, including large proprietary companies, following the recent issue of [AASB 2020-2](#) *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. It comes into operation for periods beginning on or after 1 July 2021, but can be applied earlier. Affected entities will now be required to prepare general purpose financial reports (GPFRs), adopting all the recognition and

measurement requirements of the accounting standards. However the disclosures required in these GPFRs will now be governed by a new standard [AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities](#) which also comes into operation for periods beginning on or after 1 July 2021, but can be applied earlier. It introduces a new Tier 2 disclosure regime (for entities preparing general purpose financial reports that do not have public accountability) which replaces the AASB's current Reduced Disclosure Regime. Based more closely on the disclosures required by the IASB's *IFRS for Small to Medium sized Entities* (IFRS for SMEs), it provides a more suitably tailored disclosure package for these entities and all the disclosure requirements are contained in one standard, rather than spread through all the standards as was the case with RDR .

- The IFRS Interpretations Committee has released a compilation of its agenda decisions for the period from October 2019 to March 2020. Agenda decisions do not set standards but do represent a view by senior members of the profession as to how those standards should be applied and so are a useful source of guidance. The [compilation](#) can be found on a link from the AASB website.

For those looking for even more to keep them busy while they are at home, standard setting continues and the AASB has a few important consultations that are currently open for comment:

- [Presentation and disclosure](#) (ED 298) – changes to the presentation of the income statement (AASB 101), including defining more subtotals in the profit and loss account and separating operating activity from financing and investing so that profit before financing and tax corresponds with what many entities refer to as EBIT and setting some rules around the use of non-GAAP performance measures;
- Responding to [interest rate benchmark reform](#) (ED 299) – proposes amendments to several standards that will be affected by the move away from major interest rate benchmarks (such as LIBOR) to other alternative rates;
- A discussion paper on [goodwill and impairment](#), which seeks to improve the quality of information about business acquisitions and canvasses the possibility of reintroducing goodwill amortisation.

### **The Back Page – reflections from our student intern Denica**

What a world we live in right now. A few months ago, I couldn't tell you what "Zoom" or "Teams" were, and now here we are, a virtual reality of screen-sharing and video chats, and the occasional stop and pause that comes as someone adjusts their camera and unmutes their mic. Covid-19 has certainly brought with it a technology hurdle we have had to get our heads around, but I have found that whilst we may not be able to gather around a table and point to a passage on paper, the work ethic and professionalism that has pervaded the office has nonetheless manifested itself in this online world.

Thankfully, there is a wealth of knowledge online and isolation has not stopped me from completing the tasks I ordinarily do in working and studying law. I think it is safe to say that it has definitely forced us all to be adaptive during these turbulent times, become a little more well-versed in technology and continue to keep up productivity. Mass shutdowns have certainly minimised distractions and in fact forced increased communication in order to remain 'in the loop', and,



without the need to commute to work and university, I feel there is much more time in my day to be more productive than I would have ever previously been able to be.

I think we will come out of this better prepared for what the future holds, perhaps gone will be the days of toddling off to an institution, as the world shifts to this increasingly digitalised space. Although for me, I feel like there is nothing quite like the enriching experience of being able to learn from the insightful conversations with Chris and Stephanie that come from being together in the office. I am certainly looking forward to returning after the Covid-19 crisis!