

CLARITY

21
SUMMER
PKF

PERSONAL & PROFESSIONAL CHANGE – THE INFLUENCE OF A COVID-19 WORLD INTO THE FUTURE



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WELCOME TO THE SUMMER EDITION OF CLARITY



Welcome to our Summer 2021 edition of Clarity. Our aim is to deliver greater clarity and understanding to our clients on the current and emerging accounting and audit issues. We also look to provide thought leadership, and share our knowledge and expertise, in areas that will solve problems and create solutions for clients. We hope you find this edition of value and please feel free to contact your local Audit and Assurance Partners for any further assistance.



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“ Regardless of the challenge, we strive to be the calm, measured voice, that appears comfortable with uncertainty, inclusive of unfamiliar topics, stakeholders and consistently bring our A-Game. ”

THE ROLE OF THE RISK MANAGEMENT PROFESSIONAL

The prolonged and extreme nature of the challenges of 2020 have left many risk and assurance professionals feeling fatigued, with the holiday period giving them the opportunity to rest, reflect, and reset for the year ahead.

As with professions such as law and medicine, it is important to acknowledge the ‘high level of intellectual and emotional engagement’ required of risk and assurance professionals.

Regardless of the challenge, we strive to be the calm, measured voice, that appears comfortable with uncertainty, inclusive of unfamiliar topics, stakeholders and consistently bring our A-Game.

We seek to provide effective, practical tools, advice, and strategies to help others navigate high-stakes decision-making, and progress towards their desired goal.

In addition, we often work in small teams, with limited resources, must negotiate effectively with a variety of stakeholders (often with competing agendas and priorities), and continue to enhance our knowledge and experience.

It is therefore vital that we implement effective preventative strategies, to avoid potentially ‘depleting our internal resources,’ and detracting from our performance, value, and other aspects of our lives.

Experts in neuroscience have explained that when we allow ourselves to run on empty, our sympathetic nervous system becomes over activated, and we get trapped in a state of chronic flight, fight or freeze, or ‘amygdala hijack.’ In this heightened state of arousal, our physical and mental responses focus solely on ‘survival, threat management and preparing for potential injury.’

Until calmed, cognitive function is impaired, and professionals will feel fatigued, overwhelmed, and are more likely to “perceive threats that do not exist, react instead of respond, act instead of reflect, and speak instead of listen.”

Without sufficient recovery time, we may develop ‘chronically high levels of cortisol.’

Attempting to assist others in this state, will often result in poor outcomes, inclusive of damaged relationships and reputation, financial loss, and health impacts such as burnout, and fatigue.

Professionals may also lose confidence and motivation, experience irritability, social withdrawal, exhaustion and ultimately attrition.

Given the stakes, it is therefore, vital that we seek to practise what we preach, and implement effective controls to mitigate the risks, inclusive of:

- Striving to meet basic psychological, physical and emotional needs such as regular exercise, time with friends and family, healthy diet, and adequate sleep, rest and recovery;
- Scheduling regular physical and mental time to engage different parts of the brain, calm the nervous system and recalibrate;
- Exploring techniques that help with self-awareness and acceptance, such as regular reflection and mindfulness, which help us understand situations and events that may be potentially triggering, as well as our own needs and limits based on our unique psychology, life experience and risk appetite;
- Catching up with trusted peers regularly which can help reduce isolation and frustration, and provide additional insight, perspective and support as we attempt to make sense of confusing, complex and potentially distressing information; and
- Creating and diligently maintaining boundaries – inclusive of adequate balance between personal and professional, and seeking additional support and resources as required.

We look forward to working with you to help you and your organisations get some further runs on the board in 2021. ■

LESSONS TO BE LEARNT FROM 2020 FOR 2021 IN REGARDS TO NEW ACCOUNTING STANDARDS



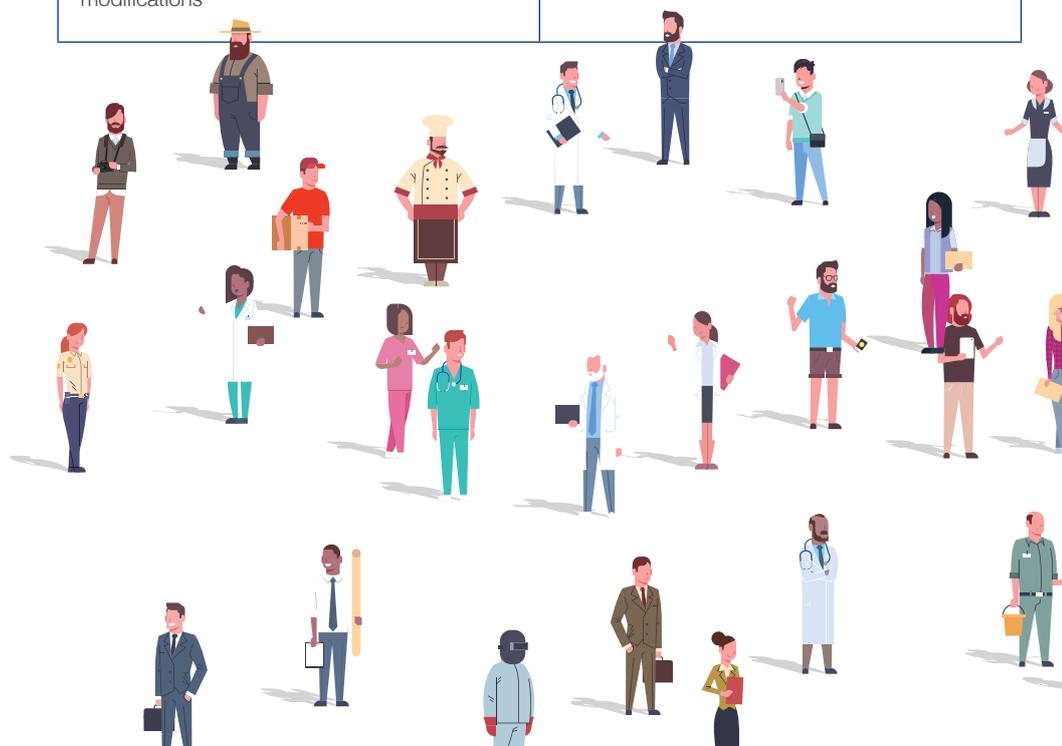
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2020 was a big year for financial reporting, mostly influenced by COVID-19, but with some other significant changes thrown into the mix. While it has been challenging, hopefully we have taken some lessons away and have grown from the experience. Here is a recap on the areas of accounting that challenged us for 2020:



Challenge	Key Takeaways
<p><i>COVID-19 as it applied to accounting</i></p> <p>Lockdowns and forced business closures compelled us to take a closer look at solvency and going concern requirements in an economic climate riddled with uncertainty. We welcomed regulatory relief of extensions for reporting dates, AGMs and insolvency safe harbour, as well as many forms of stimulus and support from the government, keeping us on our toes with reporting requirements.</p>	<p>This enormous relief for businesses came with unexpected complexities. It provided a refresher on impairment and asset value requirements, which will be helpful as we continue to navigate our way through the recession.</p> <p>https://www.pkf.com.au/blog/2020/covid-19-impact-on-asset-impairments/</p>
<p><i>AASB 16: Leases operational</i></p> <p>Changes to lease accounting had been on the horizon since January 2016, but challenges were still encountered during the transition to the new requirements. Our familiarity with accounting for finance leases allowed us to underestimate the complexities of operating leases, including variance payments, options for extensions, incentives, undocumented or implied terms and interest rates that were not always explicit.</p> <p>Most transitions focused on the day one accounting compliance and often overlooked the continuing requirements, including lease modifications</p>	<p>With 3 years to prepare there were still many troubles encountered, however this gave businesses the opportunity to learn and become proactive for future accounting standard changes. It also highlighted the importance of remaining versed in lease modification requirements going forward, and ensuring the software or lease calculation tool is capable of handling these modifications.</p>

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REGULATION OF AUDITING IN AUSTRALIA – WHAT DOES THE FUTURE HOLD?

On 1 August 2019, the Senate referred an inquiry into the regulation of auditing in Australia to the Parliamentary Joint Committee on Corporations and Financial Services. The report of findings and recommendations was released on 11 November 2020.

One of the main themes acknowledged in the report, which forms the basis for recommendations, is that in this radically changing environment, independent and accurate external auditing is more critical than ever in helping determine efficient and effective capital allocation. Most would agree that recent headwinds – not the least being the COVID-19 pandemic – have created a heightened level of general uncertainty.



“Accounting Professional and Ethical Standards (‘APES’) Board consider revising the APES 110 Code of Ethics to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.”

The report therefore makes recommendations which are expected to improve the business community’s ‘perception of the auditing profession’ in light of audit failures, perceived lack of visibility of accountability of auditors, and auditor independence considerations.

The report includes the following recommendations:

- The Australian Securities and Investments Commission (‘ASIC’) formally review how it publicly reports the findings of its audit inspection program, with a focus on the transparency and relative severity of identified audit deficiencies. This could include the findings being presented on ASIC’s website.
- The Financial Reporting Council (‘FRC’) and ASIC oversee consultation, development and introduction of

defined categories and fee disclosure requirements in relation to audit and non-audit services, and a list of ‘explicitly prohibited’ non-audit services.

- The *Corporations Act 2001* be amended so that an auditor’s independence declaration is expanded to require the auditor to specifically confirm that no prohibited non-audit services have been provided.
- Accounting Professional and Ethical Standards (‘APES’) Board consider revising the APES 110 Code of Ethics to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.
- ‘Auditor tenure’ be disclosed in annual financial reports.

“One of the main themes acknowledged in the report, which forms the basis for recommendations, is that in this radically changing environment, independent and accurate external auditing is more critical than ever in helping determine efficient and effective capital allocation.”

- The *Corporations Act 2001* be amended to implement a mandatory tendering regime such that entities required to have their financial reports audited must undertake a public tender process every ten years; or explain ‘why not’.
- The FRC oversee a formal review of the sufficiency and effectiveness of reporting requirements under the Australian standards in relation to the prevention and detection of fraud, and management’s assessment of going concern.
- The *Corporations Act 2001* be amended such that entities required to have their financial reports audited

under the Act, must establish and maintain an internal controls framework for financial reporting. In addition, such amendments should require that management evaluate and annually report on the effectiveness of the entity’s internal control framework; and the external auditor report on management’s assessment of the entity’s internal control framework.

- The Australian Government take appropriate action to make digital financial reporting standard practice in Australia.

There is significant work to be undertaken to further investigate and implement the above recommendations which will impact companies as well as auditors. However there is no doubt that there are changes afoot which will change the audit landscape – as auditors would say - ‘materially’.

Please contact your local PKF office if you require any support or guidance. ■





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“ The extended uncertainty, health crises and economic impacts of lockdowns have touched every company in every sector in some way. ”

RISK MANAGEMENT IN A COVID-19 WORLD



In recent days, PKF has been a key sponsor and contributor to the latest report issued by the Governance Institute of Australia: the Risk Management Professional of the Future. The Report was launched at the Institute's national conference, which like many others in 2020 was a fully online and virtual event.

In a year which began with the devastating bushfires in the Australia summer, 2020 then took another turn in a way few could have truly anticipated with the COVID 19 pandemic. The extended uncertainty, health crises and economic impacts of lockdowns have touched every company in every sector in some way. Indeed, writing this article in Victoria, many of us are still to fully return to our offices and worksites.

The Report asks the questions:

- What does risk look like in 2021 and beyond in the environment of maximum uncertainty?
- Is there still hope for the risk management profession, noting that the word 'unprecedented' has been used an unprecedented number of times?

In helping to prepare this report, the following key aspects came to mind:

Influence

- A key role of the Risk Profession is to find the balance between what you know is relevant and what your audience is interested in.
- Have you found what your relevance is? Do you know what your audience is interested in?
- What if you have something important to say and no one is listening?
- In order to influence and have the attention of those that matter, you need trust, you need respect and in order to be effective, at all times you need to be ferociously independent.

Responding to change

- Risk in the future will increasingly focus on: Responding not reacting
- Part of that ability will be anchored around a true understanding of 'Who would miss us if we didn't exist next year?'



- Are you helping to shape 'what' your organisation 'will' do & 'why' in order to protect what makes it special rather than just reporting on what happened in the past.
- Scenario planning or stress testing are now essential tools that cannot be narrow minded or tick the box exercises.

The spirit in which risk work should take place

Risk should:

- Be proactive and innovative
- Deliver clarity
- Actively listen

These last three touch points are essential attributes of a strong risk management framework. They also represent the core values and goals of each one of our people at PKF.

PKF is proud to continue our long association with the Institute in serving as a research partner for the Risk Management Professional of the Future. We share the Institute's goals in promoting the highest levels of good governance and within that, the ever important function that risk professionals play across all sectors of our economy.

If you are looking to better structure the risk efforts in your organisation, our teams are ready to assist you, assess your ability and capacity to manage in these uncertain times and plan ahead into 2021 and beyond with confidence. ■



TIME TO FOCUS 2021

This has been a tumultuous year for the Hospitality sector, with numerous challenges and risks arising from the pandemic, along with ongoing uncertainties. Social distancing and health guidelines throughout 2020 have changed many services to patrons, as well as the flow of people through venues. This has had a dramatic effect on Food & Beverage offerings and gaming performance.

During this year PKF has provided support and advice to its Hospitality clients to help them navigate and pivot around the constant challenges, while protecting the businesses going forward. Across our various service lines at PKF we had the following common learnings and observations which are our **RECOMMENDED FOCUS AREAS FOR THE HOSPITALITY SECTOR IN 2021:**

1 Audit & Assurance

- Assess any changes in the control environment. Were they relaxed to facilitate the changes in the business? Ensure overarching controls remain to detect any inappropriate behaviour.
- Potential fraud needs to be mitigated through effective fraud assessment and management – fraud escalates in times of adversity.
- Follow up any identified anomalies in a timely manner—and ensure that someone in the business is accountable for doing so.

2 Business Advisory

- Review current financial trends and the ability to meet financial objectives and working capital needs in the short and medium terms.
- Obtain familiarity with banking covenants under existing finance facilities.
- Ensure future effects of any deferred liabilities have been accounted and any payment arrangements cleared and confirmed in writing.
- Consider a second opinion in relation to Government stimulus entitlements.

3 Risk Management, Governance & Culture

- Consider how culture is being overseen and driven, starting at the top and across the organisation.
- Consider if Business Continuity Planning manages the risk of the pandemic and similar events in the future – are these tested?



- Review policies around Key Risk & Governance – are they clearly articulated, communicated and continually updated?
- Consider appropriateness of Whistleblowing framework – does it comply and serve its purpose.

4 Taxation

- Revisit your reporting processes and delegations to ensure timely compliance, and to avoid exposure to penalties.
- Review calculation of GST on electronic gaming and member points - this area continues to cause confusion.

5 Compliance

- Ensure Award Wages and Workplace Compliance are priority areas of consideration following recent corporate failures.
- Perform AML/CTF independent reviews to ensure ongoing compliance with legislation.

6 Cyber Security

- Cyber security is a continually evolving environment that requires ongoing Audit, Education, Remediation and Re-evaluation. It should not be considered in isolation but as part of the overall risk management.
- In-house or outsourced IT providers should be independently reviewed and challenged, and staff need to be continually educated on emerging risks eg phishing.

PKF is a multi-disciplinary accounting firm with national coverage which provides support to the Hospitality sector around their external & internal audit, accounting, tax and advisory needs, including the above areas. Please contact your local office for any assistance. ■

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About PKF

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

PKF Australia firms are members of the PKF International Limited (PKFI) network of legally independent firms in 440 offices, operating in 150 countries across five regions.

In Australia, PKF offers clients the expertise of more than 94 Partners and 750 staff, across audit, taxation and specialist advisory services.

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Our values

- Passion
- Teamwork
- Clarity
- Quality
- Integrity



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Newcastle | Gold Coast | Tamworth | Rockhampton | Walcha | Central Coast

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