

AUSTRALIAN
AUDIT



How to prepare compliant financial reports for your AFSL

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2015 AFSL Financial Reporting Requirements

- If a reporting entity, then
 - Statement of financial position
 - Statement of profit or loss and other comprehensive income
 - Statement of Changes in Equity
 - Statement of Cash Flows
- If a non reporting entity
 - Profit and loss statement
 - Balance sheet
- In both situations
 - The licensee is responsible for preparing financial statements that are
 - **True & Fair**

2018 AFSL Financial reporting requirements FS71

- the financial report/statements of the licensee for the financial year are in accordance with the *Corporations Act 2001*, including:
- (a) giving a **true and fair view** of the financial performance and financial position of the licensee; and
- (b) if the licensee:
 - (i) is a **reporting entity**, that the financial report complies with Australian Accounting Standards.
 - (ii) is **not a reporting entity**, that the financial statements are in accordance with all **the recognition and measurement requirements** of the Australian Accounting Standards, and in accordance with the **disclosure requirements of the Australian Accounting Standards that apply to non-reporting entities**,

What is a reporting entity?

- Reporting entities are described in Statement of Accounting Concepts SAC 1 – Definition of Reporting Entity
- Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users
 - **Who are dependent** on general purpose financial reports for information which will be useful to them for making and evaluating **decisions about the allocation** of scarce resources.
- A reporting entity must produce a **General Purpose Financial Report** applying all relevant Accounting Standards either International or Australian

Legislative requirements for True & Fair

- Corporations Act section 297 (true and fair view);
 - The financial statements and notes for a financial year must give a true and fair view of the financial position and performance of the company

RG 85 Reporting requirements for non-reporting entities

- The **accounting standards** provide a framework for determining a **consistent meaning** of 'financial position' and 'profit or loss' in financial reporting across entities.
- **In the absence of any such framework**, the figures disclosed in financial statements **would lose their meaning** and could be determined completely at the **whim** of the directors of individual entities
- The **profit or loss** reported by an individual entity **would vary greatly** depending upon which individuals were responsible for the preparation of its financial statements.
- **This would not be consistent** with the requirements of the Act for financial reports to give a **true and fair view** (s297)

RG 85 Reporting requirements for non-reporting entities

- A non reporting entity should produce a special purpose financial report as a minimum satisfying RG 85:
- Complies with the **recognition and measurement requirements** of the Accounting standards and the disclosure requirements of
 - AASB 101 'Presentation of Financial Statements';
 - AASB 107 '**Cash Flow Statements**';
 - AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
 - AASB 1048 'Interpretation and Application of Standards'.

RG 85 Reporting requirements for non-reporting entities

- Directors of non-reporting entities must also consider carefully **the need to make disclosures** which are **not directly prescribed by accounting standards**, but which may be necessary in order for the financial statements to give a **true and fair view**.
- Such disclosures could include certain significant **related party transactions**.

APES 315 – Compilation Your duties as a preparer

- You are applying professional expertise in accounting and financial reporting to assist Those Charged with Governance in the preparation and presentation of financial information in accordance with an Applicable Financial Reporting Framework – General RDR or Special Purpose
- The requirements of the **Applicable Financial Reporting Framework** determine the format and content of a financial report prepared in accordance with a Special Purpose Framework.
- You need to determine **Applicable Financial Reporting Framework** .

Where is the **Applicable Financial Reporting Framework** ?

- Corporations Act 2001
- ASIC Regulations RG 85
- The Framework for the Preparation and Presentation of Financial Statements 2009 (soon to be replaced for FY 20)
- Australian Professional & Ethical Standard 315 Compilation Reports
- The client's AFS License

Which type of financial statement should prepared?

- If the entity is a REPORTING ENTITY , it must submit a full General Purpose Financial Report
- If not
- Then a Special Purpose Financial Report
- Or
- A General Purpose Financial Report with Reduced Disclosures
- Or
- A full General Purpose Financial Report

Full General Purpose Financial Statements

- Comply with all relevant Australian Accounting standards
 - Recognition
 - Measurement
 - Disclosure
- May be over 35 pages
- Must give a True & Fair view of financial position and performance.

General Purpose with Reduced Disclosures

- In accordance with AASB 1053
- Disclosures are reduced
- Complies with the all the recognition and measurement principles of all relevant Australian Accounting Standards
- May be over 20 pages in length
- Must give a True and Fair View

Special Purpose Financial Statements

- Must comply with
 - AASB 101, Presentation of Financial Statements
 - AASB 107, Statement of Cash Flows
 - AASB 108, Accounting Policies, Changes in Accounting Estimates & Errors
 - AASB 1048, Interpretation of Standards
- **should comply with the recognition and measurement requirements of accounting standards**
- **For AFSL entities must give a True and Fair view**

Special Purpose Financial Statements

- Disclosures are limited to those required by the four standards
- Any other disclosure that is relevant to a True and Fair View
- Specific accounting policies must have sufficient detail to explain departures from accounting standards
- The auditor or reviewer has to assess whether or not these specific accounting policies give a True and Fair View
- The criteria of only being understandable to the shareholders is not sufficient

ASIC concerns regarding Financial Statements

- Financial statements are not presented in the required format and do not comply with all of the recognition and measurement requirements of the Accounting Standards
- As such many Financial Statements do not present a **True and Fair** view
- **Trust account** has not been reflected as part of the financial assets and liabilities of the licensee
- This is particularly relevant to insurance brokers and OTC derivative dealers

What is a True & Fair View?

- There is much written on the topic
- The prevalent view is that at a minimum
- The Financial report must comply **with the recognition and measurement principles** of Australian Accounting Standards
- The Framework for the Preparation and Presentation of Financial Statements 2009
- AASB 101 the Presentation of Financial Statements

AASB 101 Presentation of Financial Statements

- Financial statements shall **present fairly** the financial position, financial performance and cash flows of an entity.
- Fair presentation requires the **faithful representation** of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.
- The **application of Australian Accounting Standards**, with additional disclosure when necessary, is presumed to result in financial statements that achieve a **fair presentation**

A complete set of financial statements comprises:

- a **statement of financial position** as at the end of the period;
- a **statement of profit or loss and other comprehensive income** for the period;
- a **statement of changes in equity** for the period;
- a **statement of cash flows** for the period;
- **notes**, comprising significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period; and
- a statement of financial position as at the beginning of the preceding period **when an entity applies an accounting policy retrospectively** or makes a retrospective **restatement** of items in its financial statements

Other Titles for the statements

- An entity may use titles for the statements other than those used in this Standard.
- For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.
- An entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections.

Accounting policies

- **An entity cannot rectify inappropriate accounting policies** either by disclosure of the accounting policies used or by notes or explanatory material
- If special purpose financial report is prepared, in **extremely rare** circumstances, you may depart from a relevant Accounting standard **if application of the Standard is misleading and not be true and fair.**
- If so you must disclose the departure from the relevant Standard and its **financial effect.**

Accrual basis of accounting

- An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.
- an entity **recognises** items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*

Materiality and aggregation

- An entity shall present separately **each material class of similar items**.
- An entity shall present separately **items of a dissimilar nature or function** unless they are immaterial.

Offsetting

- An entity **shall not offset assets and liabilities or income and expenses**, unless required or permitted by an Australian Accounting Standard.
- Exceptions
 - Gains & loss on disposal of assets
 - expenditure related to a Provision

The statement of financial position shall include line items (if relevant)

- property, plant and equipment;
- investment property;
- intangible assets;
- financial assets (excluding amounts shown under (e), (h) and (i));
- investments accounted for using the equity method;
- biological assets within the scope of AASB 141 *Agriculture*;
- inventories;
- trade and other receivables;
- cash and cash equivalents;
- the total of assets classified as held for sale

The statement of financial position shall include line items (if relevant)

- trade and other payables;
- provisions;
- financial liabilities
- liabilities and assets for current tax, if relevant
- **deferred tax liabilities and deferred tax assets**, if relevant
- non-controlling interests, presented within equity; and
- issued capital and reserves

Current assets

- An entity shall classify an **asset as current** when:
 - it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
 - it holds the asset primarily for the purpose of trading;
 - it expects to realise the asset within twelve months after the reporting date
 - the asset is cash or a cash equivalent
 - unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
- An entity shall classify **all other assets as non-current**.

Current liabilities

- An entity shall classify a **liability as current** when:
 - it expects to settle the liability in its normal operating cycle;
 - it holds the liability primarily for the purpose of trading;
 - the liability is due to be settled within twelve months after the reporting date
 - it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date
- An entity shall classify **all other liabilities as non-current**.

Statement of Profit or Loss shall as a minimum present:

- Revenue from ordinary operations
- interest revenue
- Expenses from ordinary operations
- gains and losses arising from the derecognition of financial assets
- finance costs;
- **impairment** losses
- share of the profit or loss of associate
- Tax expense
- A single amount for the total of discontinued operations

Statement of Profit or Loss shall present:

- When items of income or expense **are material**, an entity shall disclose their nature and amount separately.
- An entity shall present an **analysis of expenses recognised** in profit or loss using a classification based on either **their nature** or their **function** within the entity, whichever provides information that is reliable and more relevant.
- **This requires aggregation** of like items under meaningful headings

Statement of Profit or Loss shall present: "by Nature"

- Revenue
- Other income
- Production or service expenses
- Consumables expenses
- Employee benefits expenses
- Depreciation and amortisation expenses
- Other expenses
- Total expenses
- Profit before tax

Statement of Profit or Loss shall present: "by Function"

- Revenue
- Cost of sales (including direct labour costs)
- Gross profit
- Other income
- Administrative expenses (including indirect labour costs)
- Other expenses (including Depreciation)
- Profit before tax

Information to be presented in other comprehensive income

- Revenues, expenses, gains and losses appear in other comprehensive income **when they have not yet been realised**.
- For example:
 - Unrealised holding gains or holding losses **on investments** that are classified as available for sale
 - Revaluation of property
 - Foreign currency translation gains or losses

Statement of changes in equity

- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, including **retained earnings** arising from :
 - profit or loss;
 - Other comprehensive income
 - The creation of **reserves** and subsequent movements
 - Transactions with owners such as **share capital** if relevant

Statement of cash flows (AASB 107)

- Operating cash flows
 - Receipts from operations (you may split between type of receipt)
 - Payments to employees
 - Payments to suppliers

Entities are encouraged to report cash flows from operating activities **using the direct method**
- Investing cash flows
 - Interest received (may be operating)
 - Dividends & distributions
 - Payments for investments (including Plant & Equipment)
 - Proceeds from sale
- Financing cash flows
 - Interest paid
 - Funds received from loans
 - Funds paid on loans
- Net increase or decrease in cash

Difficult Accounting standards to consider

- **AASB 101 Presentation of Financial statements**
 - No requirement to disclose the impact of new Accounting standards
 - But Full General Purpose and Special Purpose reports require disclosure
- **AASB 119 Employee Benefits**
 - Calculating the Net present value of long service leave entitlement
- **AASB 13 Fair Value Measurement**
 - Assessing the fair value of assets in a changing environment
- **AASB 16 Property Plant & Equipment**
 - The standard allows cost or revaluation
 - But requires depreciation on revalued assets
 - And assessment of impairment

Difficult Accounting standards to consider

- **AASB 124 Related party disclosures**
 - RDR allows aggregation of Key management personnel.
 - GPFR and Special Purpose do not
- **AASB 138 Intangible assets**
 - Recognising Goodwill on merger or acquisition
 - Excluding internally generated Goodwill
 - When to capitalise development costs
 - **Impairment of Goodwill arising from the purchase of a Client List**

Difficult Accounting standards to consider

- **AASB 1054 Australian Additional Disclosures**
 - Require disclosure of audit fees, franking credits, *reconciliation of Net operating cash flow to net profit*
 - Not required for General Purpose RDR
- **AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors**
 - Change to policy may lead to a restatement of the prior two years balance sheets
 - A note explaining the impact of the policy change
- **AASB 137 Provisions, Contingent Liabilities and Contingent Assets**
 - When can you take up a provision – must be **an obligating event**
 - When do you have to disclose contingent assets & liabilities
 - Such as possible costs arising from legal actions & how much detail

Difficult Accounting standards to consider

- **AASB 10 Consolidated Financial Statements**
- If the AFSL holder is a parent entity there is an argument it should consolidated its subsidiaries in its financial report as a recognition and measurement issue.
- ED293 is suggesting that Special Purpose Reports should disclose why they have not consolidated subsidiaries.

Use of templates

- Beware using templates
- **Only include policies and notes that relate to items in the four financial statements**
- **Only include relevant disclosures**
- For example
- **There should not be a policy on leases if there are no leases in place.**

New Accounting Standards

- AASB 15 Revenue from Contracts with Customers applicable **FY 19**
 - Specific enforceable performance obligations met – recognise revenue
 - Contract assets when work done but obligations not met
- AASB 9 Financial Instruments **FY19**
 - Loans to others – expected credit losses need to be assessed
- AASB 16 Leases applicable FY 20

New conceptual Framework & AASB changes

- There is a movement to abolish Special Purpose reports
 - Except for trusts, partnerships, sole traders, and Self managed Superannuation Funds.
- A new conceptual framework has been released to underpin these changes
- Australia is the only country to have special purpose reports

