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Financial Reporting Update

June 2023

Agenda

01 Some reminders

02 Related Parties

03 Simplified reporting

Some reminders

Special Purpose Reporting – For Profit

- AASB 2020-2 – Removes opportunity to prepare SPFS for private entity for profits required to report under legislation (e.g. Corporations Act)
- Impacts large, foreign owned and unlisted publics that lodge with ASIC
- Periods beginning from 1 July 2021

ASIC – Large Pty Ltd

- Thresholds – No change since 1 July 2019

Large	2 of either
Consolidated Revenue	Greater than $50m
Gross Assets	Greater than $25m
Number of employees	100 or more

All tests are based on consolidated calculations.

Large Pty Ltd companies must prepare and lodge with ASIC general purpose audited financial reports - SDS replaced RDR in 2022

Grandfathering has also been removed so no exemption exists going forward

Note – ASIC extensions not likely to be given for 30 June 2023

Leases - remeasurement

Lease accounting requires remeasurement if linked to CPI

- Large uplift in ROU asset and liability given CPI
- Impact on future profitability and cashflows – be mindful of assumptions in forecasts

Portable LSL

Employer has the right to recover from the PLSL Authority amounts payable under a Fair Work Instrument.

- Only amounts in excess of the FWI or prior to entering PLSL would be included in the LSL provision

Intangibles - Software

Software as a service

- Cloud computing arrangements becoming more common
- To meet definition of intangible must control

  "if a contract conveys to the customer only the right to receive access to the supplier's application software over the contract term, the customer does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits."

IFRIC decision in April 2021

Software as a service

In short, the IFRIC has identified 2 general ‘buckets’ of implementation cost in a cloud computing arrangement:

- configuration costs, and
- customisation costs.

Configuration involves the setting of various ‘flags’ or ‘switches’ within the application software, or defining values or parameters, to set up the software’s **existing code** to function in a specified way.

Customisation involves modifying the software code in the application or writing **additional code**. Customisation generally **changes, or creates additional**, functionalities within the software.

IFRIC decision in April 2021

Software as a service

An **intangible asset** is recognisable when it has the following characteristics:

- the asset is **separable and transferable** from the entity, or arises from **contractual or other legal rights**
- the asset is a resource **controlled by the entity**, and
- the entity has the power to obtain economic benefits flowing from the resource and restrict the access of others to those benefits.

The IFRIC communicated it is typical the software underlying a cloud computing arrangement is not transferred to a customer, and the setting of flags (i.e. configuration) in third party software does not provide a separable and transferable, or contractual, right to an asset as no asset that is separate from the software has been created.

The IFRIC also identified in certain situations, customisation costs may be required to be capitalised. This will be applicable where the entity has engaged resources (internal or external) to create software to which the entity retains intellectual property rights.

Fair values, impairment and useful lives

- Buildings carried at fair value – depending on location some declines being reported – in particular CBD
- Assets useful lives – reminder required to assess. E.g. - If older building any additions should align to remaining life not just 2.5%.

Fair values, impairment and useful lives

- Impairment testing – if have goodwill or other indefinite life assets subject to impairment testing. You are required to complete a DCF model. Interest rate increases may increase the discount rates applied
- Other assets (PPE, Intangibles) highly likely you have impairment triggers given economic events so will also have impairment calculation requirements – unless significant headroom exists

Related Parties

Will apply for almost all entities

KMP and Related Parties

General Purpose – must already comply

ACNC Special Purpose – ACNC new requirements

- Medium or Large charities will be required to report and comply with AASB124 in their annual reporting to the ACNC for the financial year ending 30 June 2023 and onwards.

Except for:

- KMP remuneration (exempt if medium OR if large and only one KMP).
- Comparatives not required

KMP and Related Parties

Small Charities

- Required to report in 2023 AIS.

BRC

- No requirement to report and no financial information in AIS.
- If choose to lodge financial reports required to comply with requirements as listed on previous slide

Who are related parties

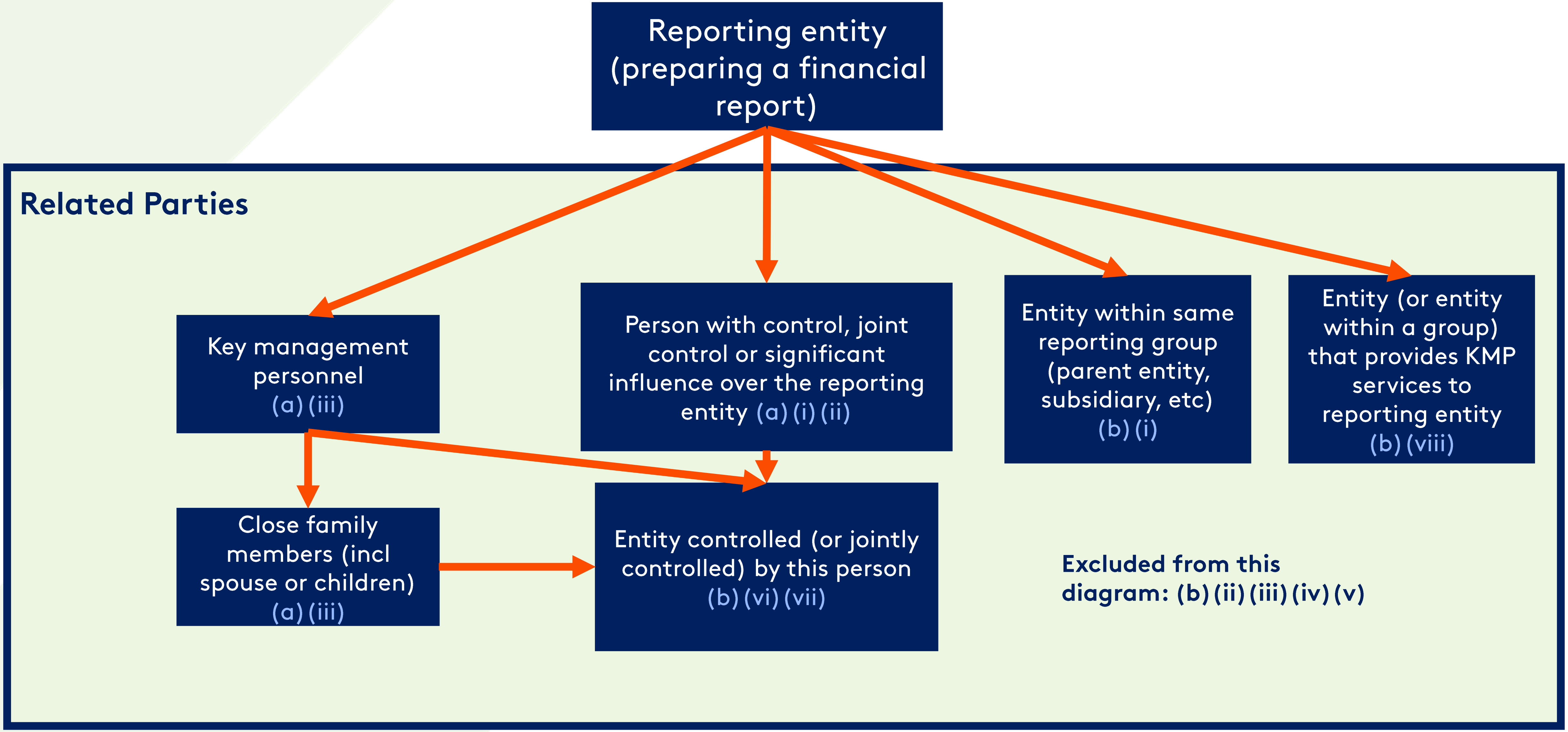
In summary, a related party is:

- a person that is connected to the entity, such as a Director, Responsible Person or a close member of their family, that has control or joint control of the charity
- a member of the entity's key management personnel (people with authority and responsibility for planning, directing and controlling the activities of the charity directly or indirectly) or a close member of their family
    - Any entity that is controlled or jointly controlled by anyone identified above
    - An entity that is significantly influenced by or has a member of the KMP for anyone that controls the entity
    - Entity providing KMP services to the entity

Who are related parties

- an organisation that is connected to the entity and has control or significant influence over the entity, such as a parent entity of the entity
- an organisation that the entity has control or significant influence over, such as a subsidiary entity
- any organisation and the entity that are members of the same group (for example, fellow subsidiaries)
- an associate (an entity over which the entity has significant influence) or joint venturer (an entity that shares control of an arrangement with the entity and has rights to the net assets of the arrangement).

Related Party – Definition (visual)



Types of related party transactions

A related party transaction is a transfer of resources, services, or obligations between related parties. It does not have to include financial payment.

A related party transaction can include:

- purchases, sales or donations
- receiving goods, services or property
- leases
- transferring property, including intellectual property
- loans
- guarantees
- providing employees or volunteers
- a Director or Responsible Person of an entity providing professional services (for example, accounting or legal services) at a discounted rate or for free.

Key Issues

Who

Board members and KMP change – can't set and forget

Definitions are difficult in NFP context so need to work way through relationships

What organisations are related? Haven't previously had to formally assess control and significant influence if Special Purpose. Control and significant influence are more difficult in an NFP context

If in doubt include?

Note – common directors between 2 entities doesn't necessarily mean the entities are related

Key Issues

Sensitive Information

Donations and other contributions where no benefit back to contributor. Seeking anonymity.

What is material?

Where a child or spouse or Director / KMP employed results in disclosure of their wage to everyone

Confidentiality and highly sensitive. AASB124 says amount

Discussions with ACNC – they have issued views on materiality.

ACNC Guidance for Disclosures

- The ACNC has issued guidance
- This guidance represents the ACNC's interpretation of AASB 124 (consider interaction with ASA 550)
    - For instance, materiality of related party transactions

Related party transactions that are not material

A related party transaction is not considered material if it:

- does not substantially influence a charity's decisions or activities
- does not affect someone's understanding of the charity or its finances.

A charity does not need to report a related party transaction that is not material.

Related parties

What you need to do

Have an appropriate policy and procedure

ACNC recommend that each charity has a policy and procedure for dealing with related party transactions. A policy and procedure will help ensure that the charity discloses related party transactions and records them appropriately.

A policy and procedure will also clarify who should and who should not be involved in making decisions about related party transactions. This will reduce the risk that the charity's decisions are influenced by the interests of others.

Policy should provide a control framework to ensure all RP transactions identified, authorized (before) and documented / disclosed

Related parties

Can it be an extension of Conflicts of Interest?

–perhaps but has different objectives

Must make sure it is sufficient to ensure all:

- RPs identified
- Transactions identified for authorization
- Captured for disclosure

You will need a register....

Related parties

Maintain a register

ACNC recommends that each charity records related party transactions in a register.
For each related party transaction, the register should keep enough information about the related party and the transaction to allow the charity to make disclosures in line with its requirements.

ACNC template register of related party transactions for small charities.

SD has a template which we can provide if you email us (Georgia@sawarddawson.com.au). This has prompts to consider the various types of RPs

Related parties

Maintain a register

Related Party Register

Entity Name: *XYZ Charity*

Full name	Role	Date appointed	Date resigned	Entities or business controlled or jointly controlled	Spouse or Children with potential transactions with the entity
Directors / members of the governing body					
Eg. John Smith	*Chair*	*1 May 2008*		• *John is part owner of JS&CF Marketing Services. XYZ Charity has used JS&CF Marketing Services previously.*	• -
Eg. Mary Jones	*Treasurer*	*1 June 2021*		• *Mary is a Partner at Abacus Accounting Services. XYZ Charity has not used Abacus before.* • *Mary donates money to XYZ Charity.*	• *Mary's son Simon Jones works as the Property Manager.*
Eg. James Dobson	*Director*	*1 August 2020*		-	-

Related parties

Practical issues

Finance team must have access to register if they are responsible for authorisation and capturing transactions for disclosure

Formalise transaction basis as disclosure includes terms and conditions – eg loans, leases etc

What about donations? Consider sign off that not above a materiality threshold – perhaps confirmation in minutes

Dealing with sensitivity – Let’s discuss

Related parties

Auditors

You will get more detailed questions / questionnaires

They will be looking for the register

They will be testing transactions and searching for what you may have missed

They cannot be swayed by sensitivity – should be pragmatic within reason

Simplified Reporting – Tier 3

Special Purpose Reporting – NFP's

- AASB NFP Advisory Panel
- Proposals being developed for NFP specific (standard for Tier 3 Revenue $500k - $3m)
- Single Standard
- Can opt up into Tier 1 or 2

Discussion paper released October 2022

Responses closed March 2023

Special Purpose Reporting – NFP's

Key proposals

- Consolidation optional
- Leases not on balances sheet
- Simplified revenue recognition

Exposure Draft proposed for late 2024 – this means special purpose here until at least 2026

What are the thresholds? Regulator decision.

Consolidation

Current standard is ability to control test:

Post implementation review comments by 31 March 2023. Feedback sought on:

- Difficulties in determining control
- Variable returns

Consolidation

We think it is a big issue – many special purpose reporters haven't adopted – so post implementation review of something many haven't implemented.

Standard does not consider users, different charitable purposes, no ability for financial returns, inability to access information etc.

Consolidation

We think an alternative model is required that focuses on the following:

- Considering the primary users of the entities. Where they are the same, consolidated reports may be of use and other factors of control should be considered to determine if control exists.
- Consideration of functional and practical control where nomination and veto rights over directors is not determinative. This could include the concept of protective rights within the NFP private sector.
- A narrowing of the variable returns to focus on financial returns within Appendix E rather than the broad concept adopted. We think this overextends the application of AASB10. Variable financial returns could focus both on financial returns provided to or from the parent or subsidiary and consider the access to funds on windup.

Consolidation

Submissions have not yet been considered by AASB as far as I can see.

Assume it will form part of the Tier 3 considerations

We will continue to advocate

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SAWARD DAWSON

20 Albert St, Blackburn VIC 3130
T +61 3 9894 2500 F +61 3 9894 1622
contact@sawarddawson.com.au
sawarddawson.com.au