

After a few years of stability, the powers that be have decided to shake up the accounting and audit world with a few changes. Here are a few of the more imminent changes that will affect financial reports over the next few years.



What's over the horizon? – AASB 16 Leases

The new leasing standard will be effective commencing on or after 1 January 2019 and promises to be a bit of shake up of how leases are recognised. The ability to recognise a lease as an expense when it is paid (i.e. operating lease) will disappear and all leases will need to be recognised on the statement of financial position if the term is longer than 12 months. There is an exception for assets that have little value.

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On the horizon – AASB 15 Revenue from Customer Contracts

This recently released (7 December 2015) accounting standard is intended to replace AASB 118 Revenue and AASB 111 Construction Contracts. While the removal of the Construction Contracts standard is not likely to impact on Not-for-profits, the removal of the Revenue standard is likely to have an impact on the timing of revenue recognition for many.

What you need to know?

AASB 15 applies to reporting years commencing on or after 1 January 2018. However, as the standard will affect the timing of revenue recognition, it will have an impact on the comparatives disclosed in the financial report. Working backwards for a 30 June balance date, the standard will have the following impact:

- 1) Financial reports for the year ended 30 June 2019 to be prepared under the new accounting standard.
- 2) Comparatives (i.e. year ended 30 June 2018) to be prepared in accordance with the newer accounting standard;

- 3) Opening balance for the year ended 30 June 2018 to be prepared in accordance with the new accounting standards (i.e. 1 July 2017).

For a 31 December balance date, bring the timeline forward 6 months.

The complication

Another accounting standard is due to be released in December 2016 that is intended to provide guidance to NFPs on how to apply AASB 15 particularly for grant funding. This standard (currently ED 260) will also replace the current accounting standard for Contributions (AASB 1004) that many NFP's use to recognise revenue.



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Audit reports to be “enhanced”

For 30 June reporters, this will be the last time you will see a stock standard audit report. The Audit and Assurance Standards Board have decided to incorporate a number of “enhancements” that will affect all audit reports for reporting periods that end after 15 December 2016.

Firstly, the part of the audit report that we are actually engaged to provide (i.e. the opinion) will appear first rather than last. The hope is that people will read it without having to plough through the basis for our opinion (which never changes).

If that wasn’t enough change to scare an auditor, the report will have to include a going concern section where, in the auditor’s opinion, there is uncertainty about this basis of accounting. This section, if required, will also clearly describe the responsibilities of management and the responsibilities of the auditor in relation to going concern.

The “enhanced” audit report will also expand on the responsibilities of Those Charged With Governance and the responsibilities of the auditor in an attempt to close the expectations gap that auditors and clients continually experience.

Finally, the exciting part, there is a whole new section for key audit matters (KAM’s). This section will be mandatory for listed entities and voluntary for all others. This section will provide the auditor with the opportunity to identify matters of audit significance and how they have been addressed.

So, no longer will the audit report be a single page template tacked on the end of the financial report. It will become 2-3 pages of information about the audit which, unless your business is identical to another, will be tailored to you.



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Improvements in financial controls – Supplier Master Files

Most organisations that we audit now pay all bills by EFT as it saves costs and improves the efficiency of payments. But, while the EFT details are readily available on each supplier invoice, have you stopped to consider where they are held within your finance system? Each finance system will have a supplier master file that that records relevant information about each supplier such as their name, address, ABN and bank account details.

As part of our audit testing this year, we have been examining the supplier master file for potential gaps in the information held. From our reviews

we have noted that, unless the finance system has been changed recently, the supplier master file invariably contains historical and unused information that can be well out of date.

Old, unused supplier details can provide the opportunity for fake invoices to be submitted using old supplier details. Other controls in the payment process may detect the fake invoice, but if one control can be bypassed, so can others.

If you wish to have your supplier master file reviewed, or learn how to review it yourself, please contact us.

IN THE NEXT EDITION:

- Financial controls for small organisations.
- Common control issues encountered by organisations.
- The fraud triangle.

Timeline for changes to revenue recognition

Financial Year	2016-17	2017-18	2018-19
2017-18	Financial Report prepared using AASB 118		
2018-19		Financial report prepared using AASB 15	
Note that the balance sheet as at 30 June 2017 and 30 June 2018 will need to be prepared using both accounting standards.			