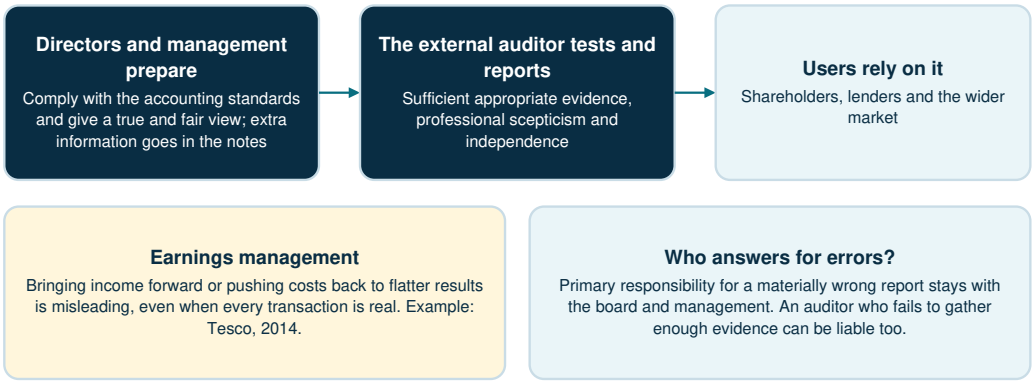
Reporting, audit and accountability beyond companies

MODULE 4 | PART A.4 | STUDENT COMPANION

The directors' reporting duties

Requirement	What it means
Reporting cycle	Annual and half-year financial reports and directors' reports, reporting to members, and lodgement with ASIC (Corporations Act, Part 2M.3).
Comply with accounting standards	The financial report must follow the standards (s 296).
True and fair view	The report must give a true and fair view (s 297). If the standards alone don't achieve that, add information in the notes; don't depart from the standards in the main statements.
Executive declarations	In a listed company, the chief executive and chief financial officer give the board a written declaration about the financial statements.



Legitimate judgement or earnings management?

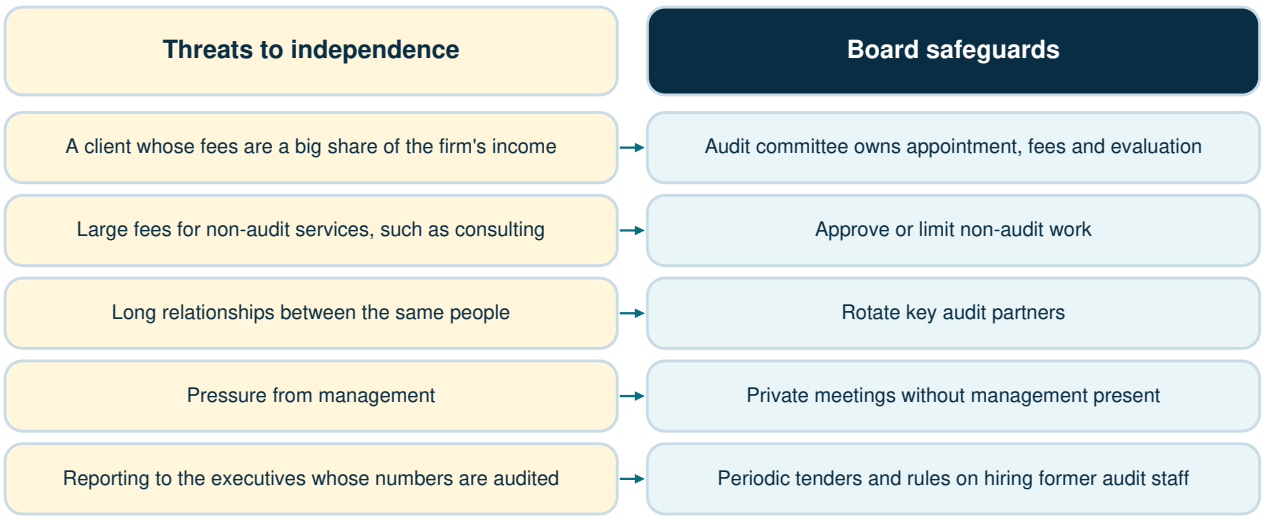
Legitimate accounting judgement	Earnings management (window dressing)
Estimating a provision using current, supportable evidence	Choosing an estimate to hit a profit target
Recognising revenue when the goods or services are delivered	Recording next period's deliveries as this period's sales
Recording costs in the period they relate to	Holding back invoices so costs fall into the next period

Ethics link: earnings management threatens integrity, objectivity, professional competence and due care, and professional behaviour.

The external auditor

MODULE 4 | PART A.4 | EVIDENCE, SCEPTICISM AND INDEPENDENCE

What the Corporations Act requires	In plain words
Audit to auditing standards (s 307A)	The audit must follow the auditing standards.
Working papers (s 307B)	Audit working papers must be kept for seven years.
Independence declaration (s 307C)	The auditor declares in writing that independence rules were met.
Auditor's reports (ss 308, 309)	Reports on the annual and half-year financial reports.
Information and help (ss 310, 312)	The auditor can obtain information; officers must assist.
Reporting to ASIC (s 311)	The auditor must report certain suspected contraventions to ASIC.



Professional scepticism means critically testing the evidence and management's judgements, especially accounting estimates. ASIC's audit inspections keep finding weaknesses in the audit of revenue and of asset values, including impairment, and concerns where firms sold other services to audit clients.

Real example. In October 2023, the UK Financial Reporting Council fined KPMG a record GBP 21 million (reduced from GBP 30 million for cooperation) over its audits of Carillion, citing failures of professional scepticism and of obtaining sufficient appropriate evidence.

Widening responsibilities

MODULE 4 | PART A.4 | SUSTAINABILITY REPORTING, GOVERNMENT BODIES AND CHARITIES

Sustainability reporting

Development	What it means
ISSB standards (June 2023)	One standard on general sustainability-related financial disclosures and one on climate.
Australia: largest entities	Mandatory climate reporting for financial years starting on or after 1 January 2025.
Australia: further groups	Phased in from 1 July 2026 and 1 July 2027.
Assurance	Sustainability reports are assured, moving from limited towards reasonable assurance.

Commonwealth government bodies

Governance and performance law
How entities are governed, report performance, and manage risk and fraud

Public interest disclosure law
Protects public sector whistleblowers

Audit legislation
The Australian National Audit Office audits Commonwealth entities

Fraud prevention centre
Helps entities strengthen their counter-fraud defences

Registered charities

To be a charity
Not-for-profit; only charitable purposes for the public benefit; no disqualifying purpose; not an individual, political party or government entity

Register and report
Register with the ACNC and lodge an annual information statement

Five governance standards
Purposes and not-for-profit nature; accountability to members; compliance with Australian laws; suitable responsible persons; their duties

Sources: Tesco - UK FCA final notice and SFO deferred prosecution agreement, 2017; KPMG and Carillion - UK FRC announcement, 12 October 2023; Australian climate reporting - Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024 and the Australian climate disclosure standard. Riverbend and other businesses named in the questions are imagined.

Practice questions

MODULE 4 | PART A.4 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - spot the earnings management at Kestrel Furniture

Imagine **Kestrel Furniture Ltd**, with a 30 June year-end. Which of these are earnings management, and why? (a) Furniture delivered on 3 July is recorded as June sales. (b) The June electricity bill is left out of the accounts because the invoice arrived in July. (c) A supplier rebate that relates to next year's purchases is recognised in full this year. (d) The warranty provision uses last year's claim rate, which matches current claims experience.

Question 2 - safeguards for Orbit Health's audit

Imagine **Orbit Health Ltd**, a listed company. The same firm has audited it for 12 years, with the same lead partner for the last 7. Consulting fees paid to the firm are triple the audit fee. The chief financial officer negotiates the fee, and the auditor reports to the chief financial officer. The chief executive sits on the audit committee. Recommend safeguards.

Question 3 - Coastal Animal Rescue

Imagine **Coastal Animal Rescue Ltd**, a registered charity and company limited by guarantee. It hasn't lodged its annual information statement for two years. A director's spouse is its main veterinary contractor, and the director votes on that contract. Donations have paid for a director's personal car. It hasn't held an annual general meeting in two years. Which obligations and governance standards are at risk, and what should change?

Worked answers

MODULE 4 | PART A.4 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Kestrel Furniture

- **(a) Earnings management.** The goods were delivered after year-end, so the revenue belongs to next year.
- **(b) Earnings management (or at least an error).** The cost relates to June, so it should be accrued this year.
- **(c) Earnings management.** The rebate relates to next year's purchases, so recognising it now brings income forward.
- **(d) Legitimate judgement.** The estimate uses current, supportable evidence.

Question 2 - Orbit Health

- Move the auditor's reporting line to the audit committee, and let the committee own appointment, fees and evaluation.
- Remove the chief executive from the audit committee; it should consist of non-executive directors, mostly independent.
- Restrict non-audit services so fees no longer dwarf the audit fee.
- Rotate the lead partner, who has served too long, and consider putting the audit out to tender after 12 years.
- Hold private sessions between the committee and the auditor without management present.

Question 3 - Coastal Animal Rescue

Issue	Obligation or standard at risk	Fix
No annual information statement for two years	Ongoing ACNC reporting obligations; registration is at risk	Lodge overdue statements and diarise deadlines
Director votes on spouse's contract	Duties of responsible persons (conflicts of interest)	Declare the interest, step out of decisions, keep a conflicts register
Donations used for a director's car	Not-for-profit purposes; duties of responsible persons; possibly the law	Recover the money, investigate, tighten payment approvals
No annual general meeting	Accountability to members	Hold an AGM and report to members

Common slip: assuming charities are too small or too well-meaning for governance failures. The same controls that protect a company protect donated money.