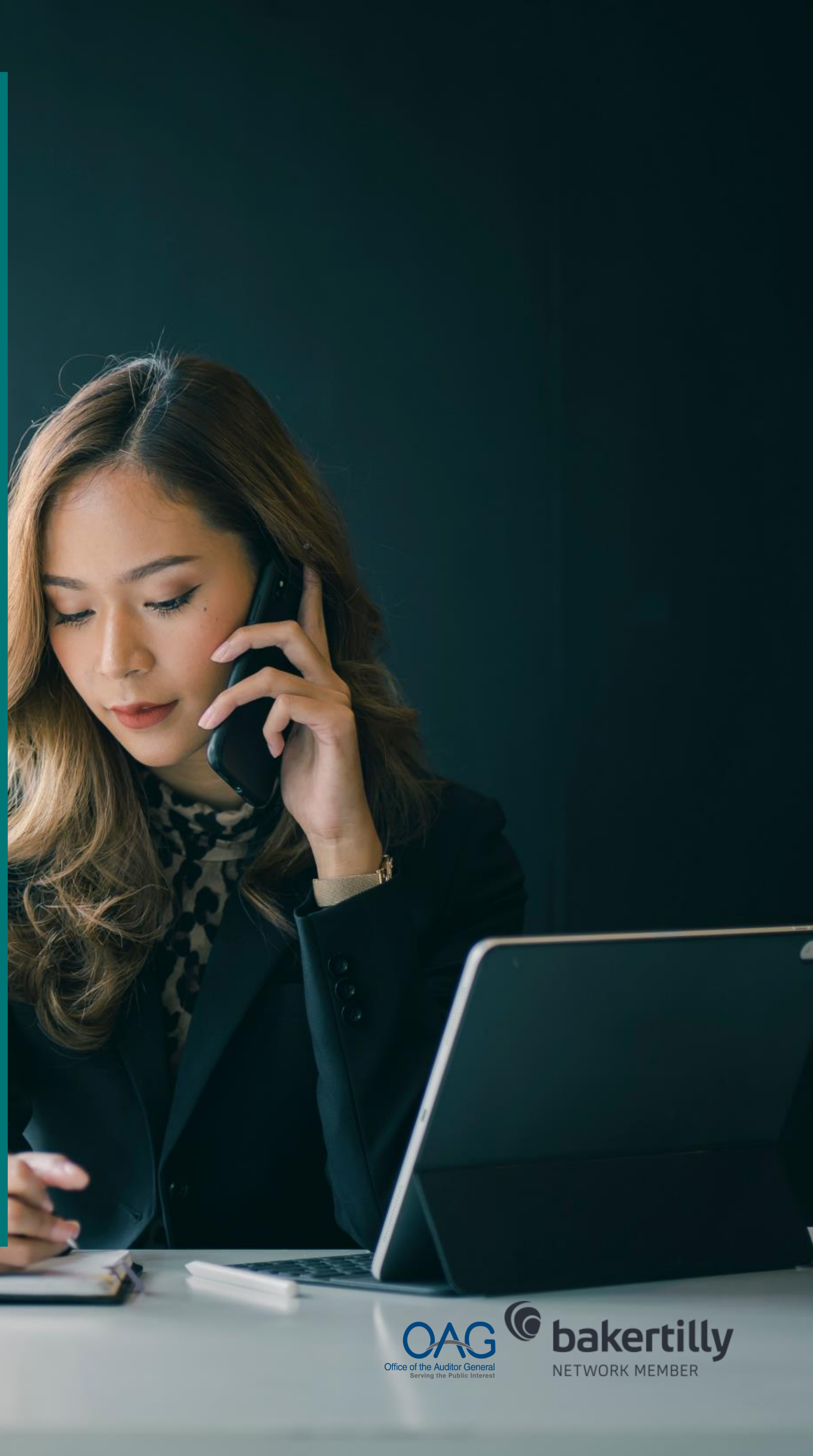
Shire of Irwin

Report to the Audit Committee

For the year ended 30 June 2024

3 December 2024



PITCHER PARTNERS

Level 11
12-14 The Esplanade
Perth
WA 6000

Tel: +61 8 9322 2022
Fax: +61 2 9223 1262

Private & confidential

3 December 2024

The Audit Committee
Shire of Irwin
11-13 Waldeck Street
Dongara WA 6525

Dear Audit Committee (the “AC”) members

We have substantially completed our audit of The Shire of Irwin (the “Shire”) financial report for the year ended 30 June 2024.

The audit has been conducted in accordance with Australian Auditing Standards and practices, to enable the:

- Formation of opinions by the Auditor General;
- Reporting of audit findings, significant control weaknesses and other relevant matters; and
- Auditor General to report on any matter which may affect the Auditor General’s responsibilities under the Auditor General Act 2006.

We anticipate that our auditor’s report will be unmodified upon finalisation of the outstanding items as included on page 4 of the attached report.

We have set out in this report certain matters in respect of our audit. The information in this report is not intended as a detailed commentary on the results and activities of the Shire during the year.

We would like to take this opportunity to express our appreciation for the professional assistance provided by Shane Ivers and the team at the Shire during the course of the audit.

If you wish to discuss this matter further, or require more detailed information, please contact me on +61 8 9322 2022.

Yours faithfully
PITCHER PARTNERS BA&A PTY LTD

Michael Liprino
Executive Director

OFFICE OF THE AUDITOR GENERAL

Mark Ambrose
Senior Director

Table of contents

Making business *personal*

Report purpose

This report has been prepared for communication purposes and as a basis for discussion with the Audit Committee of the Shire of Irwin ("Shire"), which includes specific auditing standard requirements and other relevant matters pertaining to our audit for the year ended 30 June 2024. This report is to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

Audit Scope

We were engaged to perform an audit of the financial report of the Shire for the year ended 30 June 2024 in accordance with Australian Auditing Standards with the objective of expressing an opinion on the financial report.

Outstanding Items

At this point in time, we have substantially completed our audit with the following items outstanding and still to be finalised:

- *Receipt of signed Management Representation Letter*
- *Completion of review of subsequent events*
- *Signed Financial Statements*

Going concern

During the audit, we obtained managements assessment on going concern and concluded that, managements use of the going concern basis of accounting in the preparation of the financial statements was appropriate.

Significant difficulties encountered

During our audit, we received full cooperation from management and had no unresolved disagreements overs the application of accounting principles, the scope of our review or disclosures to be included in the financial statements.

Audit differences

A summary of our adjusted and unadjusted audit differences is set out on page 19 of this report.

Written Representations

We have requested a letter of representation from management. A copy of the letter is available on request.

Over the horizon

We have highlighted the key accounting and regulatory updates which will have an impact on the Group in future periods

Audit Opinion

Subject to finalisation and satisfactory resolution of the outstanding items noted and after approval of the financial report by the Audit Committee, we expect to sign our auditor's report which will be unmodified. A copy of the draft audit report is attached.

Checklist
✓ Independence
✓ Fraud considered
✓ Review of board minutes
✓ Going concern
✓ Compliance with laws and regulations
✓ No significant difficulties encountered during the audit
✓ Significant accounting estimates

Audit completion process and timeline

Key
- Planning
- Fieldwork
- Completion

1	2	3	4	5	6
April	May	October (Early)	October (Late)	November (Early)	November (Late)

Planning

Approach

Understand your business, including impacting external factors

Document our understanding of system processes and internal controls

Identify, assess and document audit risks

Identify audit procedures to be performed

Confirm timetables

Allocate resources

Determine client information required for the audit

Perform tests on key controls and determine audit reliance (where applicable)

Deliverables

Audit plan

Client assistance package

Timetable

Fieldwork

Approach

Verify transactions and balances

Perform analytical and data analysis

Address risk areas identified throughout the planning process and interim visit

Perform audit procedures on year end balances

Perform tests of details

Deliverables

Financial report/statements template

Completion

Approach

Perform audit completion procedures

Discuss and agree audit findings and adjustments

Review and finalise procedures on the financial report/statements

Report findings to management/the Audit Committee

Attend audit close out meeting

Provide auditor’s report

Provide updated management letter and obtain feedback prior to finalisation

Deliverables

Audit Findings Report

Independence declaration

Receipt of signed financial report/statements

Signed auditor’s report

Management letter

Auditor Independence

We are satisfied that the provision of other services has not compromised our independence in our audit of the Shire.

Independence declaration

Independence is fundamental to our ongoing relationship with the Shire. We believe that we have complied with all professional regulations relating to auditor independence including those outlined in:

- APES 110 Code of Ethics for Professional Accountants (including independence standards).

Audit and non-audit services

During the year ended 30 June 2024, we did not provide any non-audit services.

Safeguards

- Compliance with the Quality Management Standards:
  - ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*
  - ASQM 2 *Engagement Quality Reviews*
  - APES 320 *Quality Management for Firms that provide Non-Assurance Services*
- Independence Policy
- Prohibited Securities Policy
- Conflict of Interest Policy
- Acceptance & Continuance of Client Relationships

Our services have not involved partners or staff acting in a managerial or decision –making capacity, or being involved in the processing or originating of transactions;

We are not aware of any relationships between Pitcher Partners or other firms that, in our professional judgment, may reasonably be thought to bear on independence.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that the Audit Committee consider the facts of which you are aware and come to a view.

Areas of Audit Focus

As part of our planning procedures, we identified a number of key areas of focus for our audit of the financial statements of the Shire. This report sets our perspective in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the “Areas of audit focus” section of this report.

We request that you review these, and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues;
- You concur with the resolution of the issue; and
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Council and the Audit Committee.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Revenue recognition for government grants and contributions, rates and fees and charges *Key Judgements:* *Timing of revenue recognition* *Relevant accounting standards:* *AASB 15 Revenue from contracts with customers ("AASB 15")* *AASB 1058 Income of Not-for-Profit Entities ("AASB 1058")*	Included in the Statement of Comprehensive Income for the year ended 30 June 2024 is an amount for $2.13 million (2023: $2.60 million) relating to operating and non-operating grant, subsidies and contributions, an amount for $6.84 million (2023: $5.99 million) relating to rates revenue, and an amount for $2.58 million (2023: $2.43 million) for fees and charges. **Audit procedures performed to ensure compliance with accounting policies and Australian Accounting standards.** We have performed the testing surrounding the control environment for the recognition of revenue to ensure that income relating to all key material revenue streams is being recognised in accordance with *Australian Accounting Standards* and the terms of the source of income. We have performed substantive tests of details utilising our sampling methodology as well as year end analytical review procedures to add to the level of assurance obtained. We have worked with management to assess the contractual nature of any new revenue streams identified in the year to assess and conclude on the appropriate revenue recognition.	Based on the audit procedures performed, we concur with management's conclusion that government grants, contributions, rates and fees and charges have been appropriately accounted for in accordance with AASB 1058 and AASB 15.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Property, plant and equipment and infrastructure assets *Key Judgements:* Valuation techniques used to determine the fair value of property, plant and equipment and infrastructure assets Useful lives of property, plant and equipment and infrastructure assets and depreciation rates *Relevant accounting standards:* AASB 116 Property, Plant and Equipment ('AASB 116") AASB 136 Impairment of Assets ("AASB 136") AASB 13 Fair Value Measurement ("AASB 13") *Relevant other regulations:* *Local Government (Financial Management) Regulations 17A(2)* (the "LGR")	Included in the Statement of Financial Position for the year ended 30 June 2024 is an amount for $41.83 million (2023: $41.64 million) relating to property, plant and equipment and $64.12 million (2023: $65.76 million) relating to infrastructure assets. No revaluations of any Property, Plant & Equipment and Infrastructure were performed during the 2023-24 period. Management has performed multiple assessments towards the value of the property, plant and equipment and infrastructure assets. An impairment trigger analysis was performed and concluded that no impairment triggers noted. As part of our audit procedures, we have performed the following: • We documented the key controls around property, plant and equipment and infrastructure balances and assess accounting policies associated with fair value assessment to ensure it is in accordance with Australian Accounting Standards. • We reviewed the capitalisation threshold required by Local Government (Financial Management) Regulation 17A(5) and test samples of additions and disposals. • We reviewed management's assessment for impairment indicators and ensure fair value disclosures are properly disclosed in accordance with AASB 13. • We documented the depreciation policy applied and perform depreciation recalculations factoring in management's assessment of the useful life of property, plant and equipment, and infrastructure to ensure reasonableness.	Based on the audit procedures performed, we concur with managements conclusion that property, plant and equipment and infrastructure assets have been accounted in accordance with AASB 116, AASB 136 and AASB 13.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Employee benefits provision *Key Judgements:* *Inflation rate, discount rate and probabilities applied for the long service leave calculation* *Relevant accounting standards:* *AASB 137 Provisions, Contingent Liabilities and Contingent Assets ("AASB 137")* *AASB119 Employee* *Benefits ("AASB119")* *Relevant Regulatory requirement:* *Long Service Leave Act 1958 ("LSL Act")* *Local Government (Long Service Leave) Regulations ("LG LSL Regulation")*	Included in the Statement of Financial Position for the year ended 30 June 2024 is an amount for $0.85 million (2023: $0.77 million) relating to employee benefit provisions. As part of our audit procedures, we have performed the following: • We documented the key controls around the fortnightly payroll process and assessed the accounting policies associated with the rates and probabilities used in the provision calculations to ensure the balance is in accordance with Australian Accounting Standards. • We obtained provision reconciliation workings that reconciled to the trial balance. Employee samples were then further selected, and their calculation inputs were vouched to supporting contracts, pay slips and leave forms to ensure calculations were appropriately performed. • We reviewed management's policies for the classification between current and non-current employee provisions for both annual leave and long service leave accruals to ensure was in accordance with Australian Accounting Standards.	Based on the audit procedures performed, we concur with managements conclusion that employee benefit provisions have been accounted in accordance with AASB 137 and AASB 119.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Existence and completeness of expenditure *Key Judgements:* *Timing of expense recognition* *Relevant Regulatory requirement:* *LocalGovernmentAct1995* *(the "LGA")*	Included in the Statement of Comprehensive Income for the year ended 30 June 2024 is an amount for $4.45 million (2023: $3.97 million) relating to employee costs, an amount for $4.68 million (2023: $4.35 million) relating to material and contracts, an amount for $4.86 million (2023: $4.55 million) relating to depreciation, and an amount for $1.33 million (2023: $1.19 million) relating to other expenditure items. **Audit procedures performed to ensure compliance with accounting policies and Australian Accounting standards.** We have performed the testing surrounding the control environment to ensure appropriate quotations, purchase orders, approvals, and reviews have been performed in accordance with the Shire's adopted purchasing policy for required expenditure items. We have performed substantive tests of details utilising our sampling methodology as well as year end analytical review procedures to add to the level of assurance obtained.	Based on the audit procedures performed, we concur with managements conclusion that existence and completion of expenditure have been accounted in accordance with Australian Accounting Standards.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Provision for rehabilitation *Key Judgements:* Inflation rate, discount rate and probabilities applied for the long service leave calculation *Relevant accounting standards:* AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (“AASB 137”)	Included in the Statement of Financial Position for the year ended 30 June 2024 is an amount for $0.00 million (2023: $0.00 million) relating to rehabilitation provision. The Shire of Irwin is licensed by the Department of Water and Environmental Regulation (“DWER”) to operate the Dongara Transfer Station, a waste management facility until 14 December 2024. The Shire of Irwin’s licence has been issued under Part V of the Environmental Protection Act 1986 (WA) (“EP Act”),which allows prescribed waste of more than 20, but less than 5,000 tonnes per annum to be disposed of at these sites. Under the EP Act (or associated regulations), there is no legal requirement to rehabilitate the landfill site whilst it is registered and in use. Should the landfill site be closed, or be classified as “contaminated” by DWER, a legal obligation to remediate the land may arise. The Shire has applied for an extended license from the 15 December 2024, which has been obtained post year end.	Based on the audit procedures performed, we concur with managements conclusion that provision for rehabilitation have been accounted in accordance with Australian Accounting Standards.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Quality Delivery of Financial Reporting	Quality and timeliness of financial reporting is key for sound financial management, public accountability and effective decision making. Absence of an effective project plan for year end financial reporting can result in delays, errors, poor quality and increased costs.	Based on the audit procedures performed, we are satisfied that there is no significant deficiency in the quality delivery of financial reporting that would impact the issuance of the audit opinion.

Areas for management consideration	Relevant for Shire	Management response
Financial report being delivered as "audit ready"	Yes	The financial report was received on 30 September 2024, in a form and manner to which we believe constitutes as "audit ready" with minimal changes required as a result of audit procedures undertaken and our review of the financial report as a whole.
Assessing the impact of material, complex and one-off significant transactions	No	Management concluded no impact relating to complex transactions.
Assessment of fair value of property, plant and equipment and infrastructure assets	Yes	Management has performed an impairment indicator analysis and noted no impairment indication.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
Quality Delivery of Financial Reporting		

Areas for management consideration	Relevant for the Shire	Management response
• Engagement with the Audit Committee early in the financial reporting process to review the project plan and impact on the financial statements of judgments and estimates such as: • useful lives of assets; • deprecation; • expected credit loss (ECL); • revenue recognition; • compliance with contract terms; • use of restricted funds; • terms of lease agreements; and • capitalisation of interest for qualifying assets.	Yes. Below is relevant for the Shire: • Useful lives of assets • Depreciation • Revenue recognition; and • Use of restricted funds	Revenue recognition assessment has been performed for each material source of income. The Shire has monitored the use of the restricted funds in accordance with its approved budgets.

Other Areas of Audit Focus

Other Areas of focus included in the audit plan	Relevant to the Shire	PP Perspective
AASB 1059 *Accounting for Service Concession Arrangements – Grantors*	No	No agreements were noted during the course of the audit that would fall under the requirements of AASB 1059 *Accounting for Service Concession Arrangements – Grantors.* Based on the assessment performed, AASB 1059 has no impact on the financial statements.
Leases	No	Lease calculations and the inputs used in the calculations were reviewed. Based on the audit procedures performed, no deficiencies were noted.
IT General control	Yes	The effectiveness of logical access and program change controls was assessed using Pitcher Partners' IT work programs. Based on the audit procedures performed, no deficiencies were noted.
Specific Local Government ("LG") General Purpose Financial Reporting requirements	Yes	The general purpose financial statements were reviewed as part of the audit procedures performed to ensure compliance with local government and Australian Accounting Standards requirements. Based on the audit procedures performed, no disclosure deficiencies were identified.
Existence of cash and cash equivalents	Yes	Cash balances were agreed to bank statements and confirmations and it was ensured that restricted funds are being appropriately accounted for by the Shire.
Related party transactions	Yes	Related party transactions and disclosures were tested and reviewed as part of audit procedures performed. Based on the audit procedures performed, no deficiencies were noted.
Employee expenses, superannuation contributions	Yes	Walkthroughs and tests of key controls of the payroll process were performed to ensure key controls have been adhered to. Substantive testing has been performed on representative samples. Based on the audit procedures performed, no significant control deficiencies were identified

Other Areas of Audit Focus

Other Areas of focus included in the audit plan	Relevant to the Shire	PP Perspective
Others:		
• Recognition and recoverability of receivables;	Yes	Audit procedures performed did not identify any specific deficiency matters.
• Completeness and classification of borrowings;	Yes	Audit procedures performed did not identify any specific deficiency matters.
• Completeness of creditors, accruals and provisions; and	Yes	Audit procedures performed to identify unrecorded liabilities did not identify any specific deficiency matters.
• Treatment of associated borrowing costs including capitalisation to any qualifying assets.	Yes	Audit procedures performed did not identify any specific deficiency matters.

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
30 June 2024 Management Findings	Management findings that have been identified and presented to the Shire of Irwin's management team during the 30 June 2024 audit engagement. The Management Letter findings are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. The audit has given consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).	Based on the audit procedures performed, we are satisfied that there is no significant management findings to report during the 30 June 2024 engagement.

Matters Identified During 30 June 2024 Audit	Ratings	Status
1) Excessive leave balances	Moderate	On-going

Areas of Audit Focus

Areas of focus	Background	Conclusion reached
30 June 2023 Management Findings	The Management Letter findings are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. The audit has given consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).	

Matters Identified During 30 June 2023 Audit	Ratings	Status
1) IT security plan and disaster recovery plan	Moderate	Resolved
2) Monthly fixed assets reconciliation review	Moderate	Resolved
3) Review of Monthly Debtor Reconciliations	Minor	Resolved
4) Long Outstanding Trade and Rate Debtors	Moderate	Resolved
5) Review of Monthly Council Meeting Minutes	Minor	Resolved
6) Fair Value of Infrastructure Assets – Frequency of Valuations	Moderate	Resolved

Identified misstatements

The following tables summarizes the adjustments that were identified during the year that have been corrected and also not corrected by management.

Corrected misstatements

Misstatements arising during the audit that were corrected by management in the financial report are detailed as follows:

Description	Asset Increase/ (Decrease) $AUD	Liability (Increase)/ Decrease $AUD	Profit/(loss) Increase/ (Decrease) $AUD
Comprehensive loss per draft financial statements			(3,253,314)
N/A – No Adjustments Identified	-	-	-
Comprehensive Loss per financial statements	**-**	**-**	**(3,253,314)**

Uncorrected misstatements

Accumulated misstatements arising during the audit that have not been corrected in the financial report are detailed as follows:

Description	Asset Increase/ (Decrease) $AUD	Liability (Increase)/ Decrease $AUD	Equity (Increase)/ Decrease $AUD	Profit/(loss) Increase/ (Decrease) $AUD
Opening comprehensive loss before (after adjustments taken up)				(3,253,314)
N/A – No Adjustments Identified	-	-	-	-
Comprehensive Loss per financial statements if adjustments were recorded	**-**	**-**	**-**	**(3,253,314)**

Regulatory matters

- ***ASIC updates, including focus areas***
- ***Future financial reporting developments***

Regulatory matters

ASIC focus areas for 30 June 2024 financial reports

ASIC have outlined its focus areas for 30 June 2024 financial reports of listed entities and other public interest entities [24-101MR].

Asset values

- Impairment of non-financial assets considering assets (such as goodwill and intangibles with indefinite lives) that must be tested annually and assessing indicators of impairment for other assets.
- Appropriateness of key assumptions used, and the valuation method used in supporting the recoverable amount of non-financial assets.
- Disclosure of estimation uncertainties, changing key assumptions and sensitivity analysis or information on probability-weighted scenarios.
- Other considerations include the value of property assets, expected credit losses (ECLs) on loans and receivables, financial asset classification and other asset values (i.e., net realisable value of inventories, value of investments in unlisted entities and deferred tax asset recoverability).

Provisions

Consideration should be given to the need for and adequacy of provisions for matters such as onerous contracts, leased property make good, mine site restoration, financial guarantees given and restructuring.

Subsequent Events

Events occurring after year-end and before completing the financial report should be reviewed as to whether they affect assets, liabilities, income or expenses at year-end or relate to new conditions requiring disclosure.

Disclosures

General considerations

- When considering the information to be disclosed it should focus on what investors would want to know.
- Disclosures should be specific to the entity's business and circumstances.
- Changes from the previous period should be considered and disclosed.

Disclosures in the financial report

- Estimation uncertainties, key assumptions and sensitivity analysis. Also, explanation where uncertainties have changed since that previously reported.
- The appropriate classification of assets and liabilities between current and non-current categories.

Disclosures in the Operating and Financial Review (OFR)

- Should complement the financial report and tell the story of how the entity's business, results and prospects are impacted by economic and market conditions and changing circumstances.
- Explains the underlying drivers of the results and financial position, as well as risks, management strategies and future prospects.
- The most significant business risks at whole-of-entity level should be provided, including a discussion of environmental, social and governance risks.
- Climate change risk that could have a material impact on future prospects of the entity should be disclosed.
- Cyber security risks that could have a material impact should be disclosed.

Other Matters

- Non-IFRS financial information should not be presented in a potentially misleading manner.
- The scope of ASIC's review will expand to cover:
  - Large proprietary companies previously 'grandfathered' that are required to lodge financial reports for years ending on or after 10 August 2022; and
  - Superannuation trustees' lodgement of audited financial reports for most registrable superannuation entities (RSE's) for years beginning on or after 1 July 2023.

Regulatory matters

Climate-related financial disclosures in Australia

Guidance

AASB announcement of the Exposure Draft

Treasury Legislation

Treasury legislation and AASB Exposure Draft

In March 2024, landmark climate reporting legislation was introduced into the House of Representatives in Schedule 4 to the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Cth).

What entities are impacted and when?

The legislation proposes that all entities subject to mandatory climate-related financial disclosures would be phased in three groups, over a four-year period, based on size or level of emissions, as set out below.

Entities that are exempt from lodging financial reports under Chapter 2M of the *Corporations Act 2001* (the Act) are not required to make the disclosures.

First annual reporting period starting on or after:	Large entities and their controlled entities meeting at least two of three criteria:			National Greenhouse and Energy Reporting (NGER) Reporters	Registered scheme, registrable superannuation entity or retail CCIV
	Consolidated revenue	EOFY consolidated gross assets	EOFY employee numbers		
1 January 2025 Group 1	$500 million or more	$1 billion or more	500 or more	Above NGER publication threshold	N/A
1 July 2026 Group 2	$200 million or more	$500 million or more	250 or more	All other NGER reporters	$5 billion or more of assets under management
1 July 2027 Group 3	$50 million or more	$25 million or more	100 or more	N/A	N/A

Entities outside the thresholds interacting with in-scope entities

Whilst the timing outlined in the table is the latest date for mandatory adoption, businesses may early adopt or have trial runs prior to this date. Further, many businesses will be part of supply chains where their customers may have to report and will potentially be asking for information from their suppliers to complete their own disclosures. Therefore, businesses (even those below the Group 3 thresholds) should consider whether they are in a supply chain where they are likely to be asked to provide information by their customers on climate emissions; and if they are, when that is likely to occur and whether they have sufficient systems and expertise to collate and report this information on a timely basis as it may be required to continue to do business with entities in category Groups 1 to 3.

Reporting location and timing

Climate disclosures would be required to be included in an entity's annual report, within a separate annual sustainability report containing climate statements, notes and a directors' declaration about the statements and notes.

Timing for lodgement will be consistent with the current requirements under s319 of the Act in respect of the lodgement of annual reports.

What will need to be reported?

The Australian Accounting Standards Board (AASB) issued an exposure draft in October 2023, based on international sustainability disclosure standards, outlining the reporting proposals. This standard will be finalised later in 2024. The focus of the Australian requirements is climate-related financial reporting disclosures, rather than broader sustainability disclosures which is the focus internationally.

The high level summary of the AASB proposals is:

- Qualitative scenario analysis to inform disclosures;
- Climate resilience assessment against at least two possible future states;
- Transition plans, including information about offsets, target setting and mitigation strategies;
- Information about any climate-related targets (if relevant) and progress towards these targets;
- Information about material climate-related risks and opportunities as well as how the entity identifies, assesses and manages these risks; and
- Scope 1 and Scope 2 emissions, with material Scope 3 emissions from the second reporting year.

Assurance

Assurance requirements will be subject to similar requirements to those currently in the Act, which will be phased in from 1 January 2025.

An assurance report will be required from the entity's financial auditors, who will use climate and sustainability experts where required.

The Australian Auditing and Assurance Board will likely issue their assurance standard later in the year, based on the International Auditing and Assurance Standards Board's equivalent standard.

Regulatory matters

Financial reporting development reminders

"Greenwashing" Financial Products/Services

In June 2022 ASIC issued INFO 271 on "How to avoid Greenwashing when offering or promoting sustainability related products". In relation to investments, 'greenwashing' is the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical.

Subsequent to this, ASIC issued a media release in May 2023 identifying 35 interventions as part of its greenwashing surveillance activities 23-121 MR, other ASIC articles – Redlight for greenwashing, What is greenwashing?

Consequently, any disclosures in relation to sustainability in particular, should comply with existing requirements such as the prohibitions against misleading and deceptive statements and conduct as well as disclosure requirements.

To avoid misleading or deceptive greenwashing practices, consider the following questions when preparing communications and disclosures about sustainability-related products.

- Is your product true to label?
- Have you used vague terminology?
- Are your headline claims potentially misleading?
- Have you explained how sustainability-related factors are incorporated into investment decisions and stewardship activities?
- Have you explained your investment screening criteria? Are any of the screening criteria subject to any exceptions or qualifications?
- Do you have any influence over the benchmark index for your sustainability-related product? If you do, is your level of influence accurately described?
- Have you explained how you use metrics related to sustainability?
- Do you have reasonable grounds for a stated sustainability target? Have you explained how this target will be measured and achieved?
- Is it easy for investors to locate and access relevant information?

Consistent with RG 65, these questions are designed to facilitate:

- Truth in promotion: using clear labels and defining sustainability-related terminology
- Clarity in communication: providing clear explanations of how sustainability-related considerations are factored into investment strategies.

Those charged with governance (i.e., directors and responsible entities) should carefully consider whether their disclosures are complying with these requirements and guidelines. This continues to be an area of regulatory focus.

Regulatory matters

Other standards issued and effective within the next 12 months

New Pronouncement	Effective Date	Application
AASB 2022-5 *Lease Liability in a Sale and Leaseback*	1 January 2024	All entities
AASB 2023-1 *Supplier Finance Arrangements*	1 January 2024	All entities
AASB 2023-5 Lack of Exchangeability	1 January 2025	All entities

Regulatory matters

Future financial reporting developments – AASB 18

Presentation and disclosure in financial statements

AASB 18 replaces AASB 101 *Presentation of Financial Statements.* A number of requirements in AASB 101 will be carried forward to AASB 18 along with new requirements, to help achieve comparability of the financial performance of similar entities.

Further, some content in AASB 101 will be relocated to AASB 108 *Accounting policies, Changes in Accounting Estimates and Errors*, and AASB 108 renamed to *Basis or Preparation of Financial Statements.*

Amendments are also made to AASB 107 *Statement of Cash Flows* to:

- remove the option for classifying interest and dividend cash flows as operating activities; and
- require the new sub-total 'Operating Profit' to be the starting point for the reconciliation to the net cash flows from operating activities.

Who is impacted?

All entities preparing Tier 1 general purpose financial statements will be initially impacted, including for-profit and not-for-profit entities.

In the coming months, the AASB will consider the impact for Tier 2 entities preparing financial statements in accordance with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities.*

Application and impact

AASB 18 includes:

- Revised structure of the statement of profit or loss. This incorporates two new sub-totals and three new categories of income and expenses depending on an entity's main business activities.
- Disclosure of management-defined performance measures ("MPMs") or non-GAAP measures in the notes to the financial statements. This will include disclosures such as how the measure is calculated, how it provides useful communication and a reconciliation to the most comparable sub-total in AASB 18 or other accounting standards.
- Additional guidance on aggregating and disaggregating information in the financial statements, which focuses on grouping items based on their shared characteristics.

AASB 18 does not impact the recognition and measurement of amounts in the financial statements, including net profit numbers.

However, it will make certain 'non-GAAP' measures part of the audited financial statements, which traditionally may have been presented outside of the financial statements.

Applying the new standard will enable entities to better communicate their story and focus on the result from main business activities. Consistency of presentation in the statement of profit or loss and cash flows will be improved, especially between entities within the same industry.

Effective date

AASB 18 applies to entities as follows, with earlier application permitted:

- for-profit entities (other than superannuation entities) for annual reporting periods commencing on or after 1 January 2027, including for interim (or half-year) financial statements.
- not-for-profit entities and superannuation entities for annual reporting periods commencing on or after 1 January 2028.

Retrospective application will be required, so comparative information needs to be presented and disclosed in accordance with AASB 18.

Guidance

Financial Reporting Guide

AASB 18 Presentation and disclosure in financial statements – June 2024

Other matters

Other matters

Changes to the Unfair Contract Terms (UCT) regime

Applicable to standard form contracts that are either consumer or small business contracts

The UCT regime under the Australian Consumer Law and the ASIC Act* became effective from 10 November 2023.

Under the UCT regime it is ***unlawful to include or rely on an unfair term*** in a standard form contract that is either a consumer contract or small business contract.

Small business** contracts are contracts whereby the contracting party is a business:

- with fewer than 100 employees; or
- that had a turnover below $10 million for the previous income year.

In addition, if the ASIC Act applies the upfront price of the contract must be no greater than $5 million.

Certain categories of contracts are excluded from the UCT provisions, including the operating rules of licensed financial markets such as ASX Limited and licensed clearing and settlement facilities. In addition, certain life insurance contracts are excluded.

Does the contract include unfair terms?

To be unfair, a term must:

- cause significant imbalance in the parties' rights and obligations;
- not be reasonably necessary to protect a party's legitimate interests; and
- cause financial or other detriment to the other party if relied on.

Terms that are required or expressly permitted by law, or included by operation of law are exempt to the UCT provisions.

Example terms that may be considered unfair include:

- a term that limits one party's liability and not the other party's liability
- broad indemnities imposed on one party but not the other
- a term allowing one party to terminate the contract (but not the other party)
- a term allowing one party (but not the other party) to vary the terms of the contract.

Impact of using unfair terms

Unfair terms under the existing regime are ***void***, whereas under the new regime they are ***unlawful***.

The consequences of using unfair terms can include:

- Significant civil penalties (for companies this can be up to $50 million or more)
- Other enforcement actions and court remedies
- Reputational damage.

Effective date

The new UCT provisions came into effect from 10 November 2023.

The UCT regime to be applied is based on the date of when the contract was entered into, varied or renewed.

Guidance

Amending legislation - Treasury Laws Amendment (More Competition, Better Prices) Act 2022

* The UCT regime operates under the *Competition and Consumer Act 2010 (Cth)* and the *Australian Securities and Investment Commission Act 2001 (Cth)*.
** The definition of 'small business' is expanded under the UCT regime.

Other matters

Artificial intelligence (including machine learning)

Increased focus due to associated risks

Artificial intelligence (AI) is increasingly becoming part of the business landscape. The release of ChatGPT and other similar AI tools has placed further focus on this area, including the associated business risks.

Machine learning, a type of AI, adapts itself through iterative training using large amounts of data. Each new piece of data refines the system, automatically adjusting network settings for accuracy based on underlying mathematical equations. Machine learning systems lack broader knowledge beyond their trained model. As a result, the quality of the data input into the system, drives the output quality. The model doesn't retain training data; it generates answers from its complex, trained model.

Generative AI, built on foundation models, creates content that rivals human creation which are often deployed via cloud services. This introduces additional risks, such as where the data input is stored and who has access to it.

Common AI-related business risks

Input risk

AI tools are dependent on the input information, which has two broad risk areas: the skill and capability of the user and the training data used to build the AI tool.

Execution / Output risk

AI tools are based on the specific training data, and so there is no guarantee the output is correct. Businesses using AI need to have appropriate processes and controls in place to make sure the AI output is factually correct. This can be especially challenging if using open-source models (which may use irrelevant data to build a response) or inhouse tools (which may use incomplete or insufficient training data).

Confidentiality/Privacy risk

The information input to an AI tool may not be as secure and private as required, particularly if open-source systems are being used. Businesses need to consider what information is used, where and how it is stored and who has access to it.

ESG reporting risk

Looking forward with the focus on ESG reporting, climate and sustainability information related to AI tools may be included in the consideration factors. Businesses will need to have in place the appropriate systems, processes, and controls to obtain the relevant data for reporting purposes.

Considerations

Some of the key points to consider are:

- What, where and how AI is used in your business and supply chains
- Whether an enterprise approach to AI is an option and preferable to open-source AI
- The training required to make the best use of AI in your business
- Whether you may need to seek legal advice in using AI
- The level of assurance (if any) to be obtained on your AI systems

References

Osborne Clarke - What risks need to be considered by a business using artificial intelligence?

McKinsey - Confronting the risks of artificial intelligence

Office of the Auditor General
Serving the Public Interest

Other matters

Cyber security

“Cyber criminals need to succeed only 1% of the time, while defenders must be right 100% of the time”

In November 2023, the Australian government released the Australian Cyber Security Strategy (2023-2030) with the vision of positioning Australia as a world leader in cyber security by 2030.

The focus is on improving cyber security, protecting Australians and Australian businesses, and managing risks.

The strategy introduces six “Cyber Shields” as follows:

- Strong businesses and citizens
- Safe technology
- World-class threat sharing and blocking
- Protected critical infrastructure
- Sovereign capabilities
- Resilient region and global leadership

Cyber threats are increasing both in their nature and frequency. They are no longer limited to larger entities but are a real and significant risk for all entities. Small to medium sized incidents are where the volume of cyber incidents occur.

Considerations

Those charged with governance may need to critically reflect on how to approach cyber security in the following areas:

- Cyber insurance adequacy
- Regulatory obligations
- Privacy breach risks
- Ransomware as a service*

* There are now entities who write ransomware and provide it as a service to criminal organisations for use.

Potential impacts

The impact and cost of a cyber breach is commonly extensive, including reporting obligations, brand damage, reparations, and fines.

As cyber attacks continue to be more complex and sophisticated, it is becoming increasingly important for those charged with governance to actively review the entity’s cyber capabilities and defences.

Having a backup and plan to restore data is no longer adequate protection as cyber criminals are no longer limiting their attacks to locking data down. Additionally, payment of a ransom may restore the data but does not remove the reporting requirements for an entity (such as the NSW Mandatory Notification of Data Breach Scheme) and the possible reputational costs.

Guidance

Australian Cyber Security Strategy (2023-2030)

Other matters

Wage underpayments and related matters

Wage underpayments and related employee benefits are currently an area where there has been significant legislative change or planned change.

Wage Underpayments

From 1 January 2025 as part of changes to workplace laws, intentional underpayment of wages by employers will become a criminal offence.

Employers will commit an offence if:

- they're required to pay an amount to an employee (such as wages), or on behalf of or for the benefit of an employee (such as superannuation) under the Fair Work Act, or an industrial instrument; and
- they intentionally engage in conduct that results in their failure to pay those amounts to or for the employee on or before the day they're due to be paid.

The new offence only applies to intentional underpayments that happen after these provisions take effect. This includes where the underpayments are part of a course of conduct that started before the provisions take effect.

Penalties

Some of the penalties are outlined below but there are a broad range of potential penalties.

For a company

The following penalties will apply:

- if the court can determine the underpayment, the greater of 3 times the amount of the underpayment and $7.825 million, or
- if the court can't determine the underpayment, $7.825 million.

For an individual

The following penalties will apply:

- maximum of 10 years in prison
- if the court can determine the underpayment, the greater of 3 times the amount of the underpayment and $1.565 million, or
- if the court can't determine the underpayment, $1.565 million.

Considerations

Those charged with governance should be alert to this topical issue and upcoming changes to workplace laws.

Consider what actions are appropriate, which may include:

- Review the applicable awards and industry agreements
- Review the configuration of payroll systems
- Consider whether controls over wage compliance are adequate.

Remember your obligations are for each employee's wages, and small errors can result in significant penalties even where most employees have been paid correctly.

Guidance

Fair Work Australia - Criminalising wage underpayments and other issues

Other matters

Wage underpayments and related matters (continued)

Compliance Notices

From 27 February 2024, a Fair Work compliance notice works in two ways.

The new laws state that compliance notices issued to employers can require the employer to:

- calculate the underpayment amount owed to an employee
- pay the amount owed to the employee

In addition, courts can order employers (who have been issued with a compliance notice) to comply, either wholly or partly, with its terms.

New Discrimination protections

From 15 December 2023, there are stronger protections against discrimination for employees experiencing family and domestic violence.

This means that it's unlawful for an employer to take adverse action (including dismissal) against an employee because the employee is (or has been) experiencing family and domestic violence.

Voluntary Small Business Wage Compliance Code

A Voluntary Small Business Wage Compliance Code (Voluntary Code) will be established by Fair Work Australia.

Compliance with the Voluntary Code means a small business won't be criminally prosecuted if they underpay their employees.

Considerations

Those charged with governance should be alert to these topical issues and consider how the business will ensure its ongoing compliance with these matters.

Guidance

Fair Work Australia - Criminalising wage underpayments and other issues

Contact us

Michael Liprino

Executive Director

p. +61 8 9322 2022
e. *liprinom@pitcher-wa.com.au*

Michael is an Executive Director within our Business Advisory and Assurance team at Pitcher Partners Perth. As a chartered accountant with over 13 years of experience within a professional practice environment, Michael provides his clients with extensive experience across a full range of business advisory services, bringing them a peace of mind that only comes from using a fully qualified and experienced professional.

Caden Manfield

Senior Accountant

p. +61 8 9322 2022
e. *manfieldc@pitcher-wa.com.au*

As a chartered accountant with nearly 4 years of experience within a professional practice environment, Caden provides his clients with extensive experience across a full range of business advisory services. Caden's focus and passion is on middle market private companies and not-for-profit organisations.

Pitcher Partners

Making business *personal*

OAG

Office of the Auditor General

Serving the Public Interest