



THE END IS NIGH

By Zilla Efrat

Preparing for the fast-approaching end of financial year on 30 June can be daunting for directors. Whether it's about signing off on financial statements or ensuring your business is well placed for the coming year, here's an EOFY checklist to help you stay on track.



THE BIG PICTURE

While financial statements and budgets are crucial for EOFY preparedness right now, there's also a need to focus on the big picture to ensure your business remains resilient in the face of economic and political headwinds.

"The banking Royal Commission after-effects and declining house prices add uncertainty to the Australian economy," says Jerry Kleeman, chair of The Executive Connection (TEC) and a business coach and mentor.

"The global economy remains uncertain for a variety of reasons including US-China trade relations, Brexit and the Chinese economy."

Gerard Dalbosco, EY Melbourne managing partner and leader of EY's non-executive director program, agrees, adding technology to the list.

"Digital disruption has not only impacted the way our businesses work, but also how we work as individuals," says Dalbosco. "Cyber hackers have more power than ever and consumer expectations have skyrocketed. Technology is also making business increasingly complex. On one hand, there's an unprecedented wealth of information that allows businesses to operate with a previously unimagined amount of

precision and market insight. On the other, it's up to directors and business leaders to remain ethically sound by constantly challenging how they're using that data and technology, such as AI, to sell to consumers. Almost every facet of how we do business and the markets we operate in is evolving. For the first time in a long time, the traditionally resilient Australian economy is facing flat economic growth."

In light of the possible economic challenges ahead, Karen Percival GAICD, a chartered accountant who sits on several boards, including West Beach Community Bendigo Bank, says directors should be ensuring that their management teams have strong relationships with their financial partners.

"It is important that organisations have sources of funding secured in a time of uncertainty, particularly when banks are still dealing with the fallout from the Royal Commission," says Percival. This uncertainty means that ensuring adequate cash flows and cash flow forecasts are in place is vitally important. For medium and large organisations this seems fairly standard, but smaller businesses often neglect this critical area."

THE ELECTION

The financial year's end is unusual as it follows a federal election, which may well herald in a new government and subsequent tax and other policy changes. "Even the existing government, if returned, has unresolved tax policy issues for consideration by directors," says Dalbosco. That means the regular suite of year-end tax planning issues could be overlaid by the election outcomes. In light of this, Dalbosco says you should:

- **Examine** whether the business has sufficient tax payments to fully frank its dividends. In some cases, businesses wanting to pay fully franked dividends to investors will want to increase their taxable income.
- **Distinguish** between deductible amounts, and provisions that are not yet deductible.
- **Consider** whether unrealised losses should be realised in order to be immediately deductible.

FINANCIAL STATEMENTS

As EOFY approaches, directors should be able to understand if the results they are presented

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with show a true and fair view of operations as well as how the business is performing against its competitors. The Federal Court in the Centro case (*ASIC v Heuley* 2011) made it very clear that in approving financial statements, directors must bring their own knowledge of the company's situation to bear and cannot simply rely on auditors or management. If in doubt about anything in the financial statements, directors must ask questions.

To be on top of this task, Lisa Cook, founder and managing director of Get on Board Australia and a non-executive director of several boards, says directors should:

- **Avoid surprises** If the organisation is not meeting targets, this should already be known and remediation plans put in place.
- **Not assume** (and spend) surpluses until they are actually recognised. EOFY adjustments may change your projections.
- **Make sure there is timely preparation** and audit of accounts and consider what effect any new accounting standards or regulations may have on results.
- **Ensure there is rigorous** and timely budget preparation for the year ahead if not already using rolling forecasts.
- **Check processes are in place** to manage business risks. Risk matrices should be updated and any gaps addressed.
- **Ensure insurances have been reviewed** and appropriate cover is in place for key risks.

In addition, the Australian Securities and Investments Commission (ASIC) says you should access its coming media release advising what directors, auditors, audit committees and those involved in the preparation of financial reports should consider before end of financial year. It is expected out in late May or early June.

ACCOUNTINGS CHANGES


Changes in accounting standards affect not only presentation in financial statements, but can also have a tax impact. Dalbosco says two changes are particularly relevant this year:

- **AASB 15**, dealing with revenue recognition especially on long-term contracts, which may impact not only financial statement presentation but also the flow-on into income tax.
- **AASB 16** lease recognition, which may result in the recognition of additional liabilities and assets on the balance sheet, with implications for M&A structuring under tax consolidation,

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Adam Gee, KPMG superannuation advisory



corporate restructures and thin capitalisation outcomes.

SUPERANNUATION

Adam Gee, a partner in KPMG's superannuation advisory, warns there's a heightened focus on employers' Superannuation Guarantee (SG) compliance. Penalties have also been introduced for directors for non-compliance.

"This approaching financial year is an opportune time for directors to ensure the companies they sit on the board of have made the necessary contributions to superannuation for their employees during the year."

INSTANT ASSET WRITE-OFF

The instant asset write-off was increased from \$30,000 and extended to 30 June 2019 in this year's federal budget. It now also applies to businesses with a turnover between \$500,000 and less than \$50m. Businesses can deduct up to \$30,000 for the business portion of each asset (new or second-hand), purchased, first used or installed ready for use from the date of the budget announcement.

In working out the amount you can claim, you must subtract any private use proportion. The balance (that is the proportion used in earning assessable income) is generally the taxable purpose proportion. While only the taxable purpose proportion is deductible, the entire cost of the asset must be less than the threshold.

WHISTLEBLOWER PROTECTIONS

Enhanced protection for whistleblowers, including covering disclosures in relation to tax affairs, begin on 1 July 2019. Dalbosco says the new law requires companies to have policies in place to deal with whistleblowers raising issues and the appropriate escalation and management of such disclosures. ■

► Some companies mentioned in this special feature have advertised in *Company Director*, but have had no involvement in or influence on actual editorial content. Views and opinions expressed in this special feature are not necessarily those of the Australian Institute of Company Directors.