FINANCIAL TIMES

WINTER 2021

Thomas Noble & Russell
Accountants | Auditors | Business Advisers

IN THIS ISSUE

TOP EMERGING RISKS FOR ORGANISATIONS

KAPIL KUKREJA
Director, Risk, Assurance & Advisory
MELBOURNE

Research conducted by business risk and insurance firm, Aon, in 2019 identified that economic slowdown, business interruption, rapidly changing market forces, and failure to innovate were among the top ten risks feared by organisations.

Interestingly, a pandemic or health crisis was at the very bottom of the list.

The world scenario over the past year has been very different to what was being predicted. The economic and human cost of COVID-19 has been very high. Organisations, governments and industries have had to work together to respond to the crisis.

At present, there are countries which are on the road to recovery, some are still struggling to kick start the economy, and there are countries which are facing a second or the third wave of the pandemic.

There is no question the COVID-19 pandemic has changed the way companies operate forever. However, as companies focus on reshaping their future, they are facing a number of challenges and risks, and how they address these will be deeply intertwined with their approach to risk and resilience.

Some of the key emerging organisational risks include:

Digitalisation: Expanding the digitalisation of human interaction, e-commerce, online education and remote work will transform society. Increase in the digital gaps can be detrimental to the success of any organisation and undermine prospects of the economic recovery.

cont. on page 2...

cont. from page 1...

Legacy IT infrastructure, lack of digital IQ in the workforce and insufficient embrace of digital thinking and capabilities can lead to slow organisational recovery.

Skills: Skill shortages are becoming a significant barrier, particularly for the businesses attempting to make a recovery out of the pandemic. Australian Prime Minister Scott Morrison has highlighted workforce skills as the “single biggest challenge facing the Australian economy”. The Committee for Economic Development of Australia (CEDA) has stressed the urgency of increased and more flexible temporary and permanent migration as global competition for skills and talent intensifies in the post-pandemic recovery. The ability to attract and retain talent in these times may limit the ability of the organisations to achieve their goals.

Geopolitical risks: The geopolitics of COVID-19 will shape the global operating environment for companies for the remainder of 2021 and beyond. The export/import sanctions and restrictions on cross-border people movement of the pandemic will create political risks in markets around the world. The pandemic therefore underpins the need to re-evaluate supply chains, talent decisions and approaches to building enterprise resilience.

Cyber security: The acceleration towards greater digitalisation and remote working driven by the pandemic is also further intensifying IT vulnerabilities. The ransomware incidents are becoming more damaging, increasingly targeting large companies with sophisticated attacks and hefty extortion demands, as highlighted in the recent Allianz Global Corporate and Specialty cyber risk trends report. Employers and employees must work together to raise awareness and increase cyber resilience.

Contact the author: kkukreja@hlbvic.com.au

STRATEGIC PLANNING: WHERE AND HOW TO COMPETE

SIMON JAMES
Partner, Corporate Advisory
SYDNEY

Whether you are a start-up, growth stage, well-established, public, private, SME or a not-for-profit organisation, there is no denying that long-term success in today’s ever-changing economic landscape begins with a strong foundation. In other words, a solid strategic plan is key to making informed business decisions.

An effective strategic plan is a living document with a framework of defined values, vision, short term and long-term goals, action plans to achieve these goals, and an understanding of the organisation’s current situation and foresight into the future.

A well formulated strategic plan should align everyday operations and decision-making process with the bigger picture of the organisation while empowering staff to make informed decisions in response to business opportunities and challenges. It also mobilises various departments within an organisation to work towards a shared vision and goal.

Most business owners, although aware of the importance of a good strategic plan, don't focus on long-term strategies. They often have preconceived notions of the strategy planning process to be time consuming and beneficial to only large corporations or are fearful of taking the company in the wrong direction.

Regardless of the size of the organisation, it's important to understand the strategic planning document is backed by thorough research and detailed discussions with management, employees and various stakeholders.

Often, starting the process of strategic planning sparks insights into the inner workings of the organisation while driving innovation and creativity during the brainstorming process. At the very least, the strategic plan is most effective when it's being reviewed and updated yearly. This serves as a reminder for management and employees to align goals and work towards a common vision while remaining agile and adaptive.

Strategic planning begins with setting a clear vision and goals for the business – by asking the question 'where we want to be?' It's then often followed by a reflection of 'where are we now'. A SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis helps with this process.

The strategic plan then takes the shape of 'how do we get there', a map to get from where we are now to where we want to be. This journey inevitably includes a growth strategy by exploring new markets, deciding whether to invest in research and development to develop new products or services, competitor analysis, implementation funding, HR and employee needs analysis, and governance.

We often find companies strategic plans are underweight in three critical elements:

1. **Where to compete** – what are our target markets, are they big enough to support our growth, and who are the competitors we'll be competing against

2. **How to compete** – how do we differentiate ourselves in our chosen markets (price vs. service, for example)

3. **A robust business model** that has flexible assumptions allowing "what if" scenarios to be assessed.

As much as lessons from the past and the current state of affairs help with implementing strategy, it is equally important to look at the business with a future lens such that opportunities are not lost in the process.

Having a clear vision for the future helps to unlock potential opportunities while also enabling the business to be better positioned to deal with uncertainties and future dynamics. The final steps involve communicating the strategy to employees and implementing it across the organisation.

Eventually the strategy needs to be measured and evaluated for its success. As tedious as this may sound, a business aware of its current situation is the one that ultimately has an edge over its competitors.

A strategic plan for not-for-profit organisations will have the same key components, usually with a focus on organisational strategy designed to maximise the benefits or impact they provide to stakeholders.

Standardising policies and structures help employees navigate their way, leading to operational efficiency while also enabling management with clearer performance targets to achieve. Planning, identifying, documenting and sharing best practices also ensures that knowledge does not walk away with key people as they leave a company.

Clearly articulating cultural values in job descriptions helps to attract the right talent and to sustain culture within the organisation. Breaking down goals to outcomes as inputs, activities, outcomes and impact also makes it easier for impact measurement in the future.

Access to an excellent strategic plan enables organisations to set up orderly operations and predictable performances which becomes crucial when the world around us is in a state of flux. This is best evidenced by the recent COVID shutdowns and unpredictable lockdowns threatening businesses locally and abroad.

Contact the author: sjames@hlbnsw.com.au

"Regardless of the size of the organisation, it's important to understand the strategic planning document is backed by thorough research and detailed discussions with management, employees and various stakeholders."

PAYMENT TIMES REPORTING SCHEME – IS YOUR BUSINESS REQUIRED TO PARTICIPATE?

MICHAEL GUMMERY
Partner, Audit & Assurance
MELBOURNE

The Payment Times Reporting Scheme (PTRS) was introduced by the Australian Government and commenced on 1 January 2021. It requires large businesses and large government enterprises to report certain details of their payment times and terms with small business (a small business is defined as a business with turnover of less than $10 million per annum).

The PTRS is intended to increase transparency regarding how large businesses deal with their smaller suppliers and to assist small businesses and the public in making decisions about which companies to deal with.

The PTRS applies to:

- Large businesses and certain government enterprises with a total annual income of over $100 million
- Controlling corporations where the combined total annual income for all members is more than $100 million, or
- Businesses with a total annual income greater than $10 million and that are part of a group headed by a controlling corporation with a collective income greater than $100 million

If a business falls into any of the above categories, reporting under the PTRS is required in respect of transactions with small business suppliers.

Payment times reports are required to be submitted twice a year via an online portal, with the first report due on 30 September 2021 for the six-month period to 30 June 2021.

The scheme is administered by the Payment Times Reporting Regulator, and there is a 12-month transition period before enforcement measures begin to apply.

There are material financial penalties for failing to report under the PTRS or for producing a false or misleading report. The regulator will also maintain a public payment times reports register, showing how reporting entities are paying their small business suppliers.

Businesses required to report under the PTRS can use the Small Business Identification (SBI) tool to identify which of their suppliers are classified as small businesses.

It's an important development in ensuring transparency for small businesses at a time of such uncertainty.

Contact the author: mgummery@hlbvic.com.au

ESG AND IMPACT INVESTING – WHAT'S THE DIFFERENCE?

ANDREW BUCHAN
Partner, Wealth Management
BRISBANE

For many people, the value of an investment is no longer just about returns. An increasing number of investors are also demanding their money makes a positive impact on society and the world at large.

A preference for responsible investing is increasing in younger age groups in particular. Millennials, those currently aged 26 – 40 years old, value responsible or ethical investing. As this cohort moves into more senior roles, this trend is expected to accelerate.

In addition, there is an increasing focus on how companies contribute to collective public priorities such as the United Nations Sustainable Development Goals.

ESG investing

ESG is a term that has become more common in recent years, and its use has increased during the COVID-19 pandemic. ESG refers to environmental, social, and governance factors.

Fund managers are increasingly incorporating these factors into investment analysis and portfolio construction. The approach is to identify non-financial risks that may have a material effect on an asset's value.

ESG factors include:

Environmental:

- Climate change and carbon emissions
- Water and waste management
- Waste management and recycling
- Renewable energy use
- Pollution.

Social:

- Commitment to diversity and gender equality
- Human rights
- Community relations
- Employee engagement
- Workplace health and safety.

Governance:

- Board composition, diversity, and independence
- Remuneration and incentive structures
- Anti-bribery and corruption policy
- Regulatory compliance
- Shareholder and stakeholder management.

ESG factors are more difficult to measure than financial data such as earnings, and profit and loss results. A common ESG approach is to negatively screen out of the portfolio companies believed to do harm. Common exclusions include fossil-fuels, tobacco, weapons, gambling and pornography.

Other ESG approaches target companies or industries with good or improving ESG performance, or investments that specifically target sustainability themes such as clean energy or green property.

Impact investing

In impact investing, positive outcomes are the priority. Impact investors look to help a business or organisation complete a project, develop a program or produce an outcome that has a positive effect on society.

Impact funds report on financial performance, but also try to generate and quantify a positive impact such as number of schools built, number of jobs created, or reduction in carbon footprint.

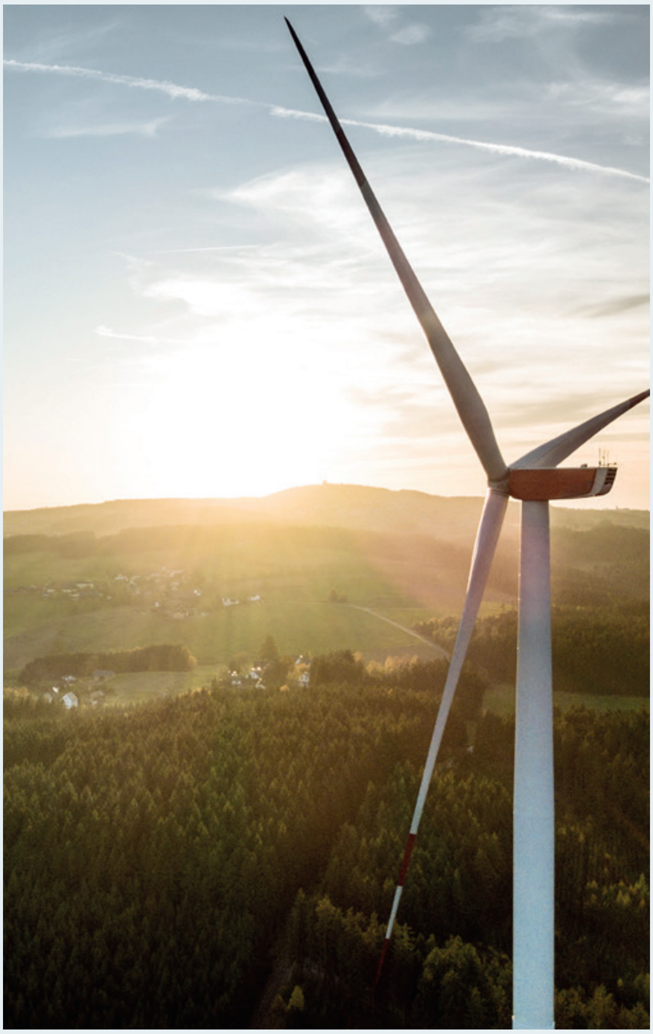
Impact investments often aim to solve societal issues such as poverty or inequity. They are more likely to access opportunities via private markets than ESG funds, which typically invest in public markets.

Impact investments may target market rate financial returns or may intentionally deliver below market rate returns in order to deliver on their impact objectives. Investing in an organisation involved in the research and development of clean energy, regardless of whether success is guaranteed, is one example. Providing affordable housing to low-income tenants at below market rental rates is another.

Impact investing is characterised by a direct connection between values-based priorities and the use of investors' capital. Values are deeply personal, and there are increasing opportunities for investors and advisors to customise a portfolio to suit individual priorities.

There has been a long-held view that in order to invest responsibly it's necessary to give up financial performance. There is increasing evidence this is not the case. In its 2020 Benchmark Report, the Responsible Investment Association of Australia reported, based on Morningstar Direct research, that Australian equity and multi-sector responsible investment funds outperformed mainstream funds over one, three, five and 10-year timeframes. Global responsible funds also outperformed across all but the one-year timeframe.

Contact the author: abuchan@hlbqld.com.au



IDENTIFICATION CHANGES FOR COMPANY DIRECTORS

KEITH ROBINSON
Director - Tax Consulting
SYDNEY

There are important changes for Australian company directors with the introduction of a director identification number (DIN) requirement which was passed into law during April 2021.

First announced in September 2017, the DIN forms part of a broader regulatory strategy to deter and penalise illegal phoenix activity. DINs are one such initiative in response to the issue of phoenixing - where controllers of a company deliberately avoid paying liabilities by shutting down indebted companies and transferring assets to another company.

The DIN will require each person – including current and future directors - to confirm their identity, with each being issued a unique identifier, which remains with the person indefinitely, even if/when they cease to be a director.

The aim is to provide traceability of a director's relationships across companies and prevent fraudulent and fictitious identities, and to support regulators and external administrations in uncovering illegal phoenix activity.

For the new DIN requirement to apply to a person, the person must be a director of a registered body. Directors must also have their identity verified and apply for a DIN within a prescribed period, and are only permitted to have one DIN, even if they are directors of multiple companies. Importantly, failure to comply with the requirements risks infringement notice and civil and criminal penalties.

The Commissioner of Taxation has been appointed as the Commonwealth Registrar (the Registrar).

The Australian Business Registry Services is currently testing the DIN system with a controlled number of existing directors. Testing is expected to be completed by 31 October 2021, at which time, the transitional period will begin and be in place until 30 November 2022.

Existing directors are required to obtain a DIN before the end of the transitional period (30 November 2022). Directors of Indigenous corporations will have until 30 November 2023.

Directors appointed during the transitional period will be required to obtain a DIN within 28 days of being appointed a director. After the transitional period, any person intending to become a director must obtain a DIN prior to being appointed as a director (or as directed by the Registrar).

Individuals requiring a DIN can apply through the electronic platform provided by the Registrar and should sign in using their myGov ID app or in a form approved by the Registrar.

An application must not be made by another person on behalf of the individual, unless the Registrar is satisfied the individual is unable to make the application on their own behalf. For example, if a director suffers some incapacity, such as a disability, injury or is illiterate.

Your HLB Mann Judd adviser will be in contact with you to talk you through your specific requirements closer to the start of the transitional period.

Contact the author: krobinson@hlbnsw.com.au

AGED CARE SECTOR RECEIVES WELCOME BOOST

MELINDA MEASDAY
Director, Personal Wealth Management
SYDNEY

The 2021-22 Federal Budget announcement included some positive developments in much-needed funding of the aged care sector.

The Government will provide $698.3 million over five years from 2020-21 as part of the $17.7 billion response to the recommendations of the Royal Commission into Aged Care Quality and Safety to improve safety and quality and the availability of aged care services.

According to the Budget papers, the allocation of funding will include:

- $630.2 million to improve access to quality aged care services for consumers in regional, rural and remote areas including those with Indigenous backgrounds and special needs groups
- $26.7 million over four years to develop a new aged care Act to replace both the Aged Care Act 1997

and the Aged Care Quality and Safety Commission Act 2018

- $21.1 million over four years from 1 July 2021 to establish the National Aged Care Advisory Council to provide advice to Government on the aged care sector including implementation of the aged care reforms and a Council of Elders to provide advice to Government on quality and safety in the aged care sector
- $13.4 million in 2021-22 to establish regional offices as a first phase of a nation-wide rollout to improve advice to Government on issues impacting the delivery of aged care in regional and rural areas
- $6.8 million over three years from 2021-22 for information and engagement with the aged care sector, aged care users and their families about aged care reforms.

Importantly, the package includes funding to re-design the home care program and hopefully improve the method in which this program can be delivered.

Currently, it is difficult to understand what care seniors are entitled to, how much it costs, who can provide that care, and how much of the home care package is allocated to actual care vs administration costs.

Unfortunately, for many older Australian's, the waiting list for the home care program is implausibly long, so any funding will go some way in alleviating some of the weaknesses in the system for at-risk seniors.

There was also an absence of measures in the Budget that specifically addresses the complexity of the funding model for residential aged care. The only suggestion of it being addressed was in the form of "additional investment in digital and face-to-face assistance to make it easier to navigate". The sector is currently awaiting further clarification on this, but we hope it can be addressed in a practical and tangible way for the benefit of those that need it most.

Contact the author: mmeasday@hlbnsw.com.au

CONTACT

The HLB Mann Judd Australasian Association comprises a number of independent accounting firms in Australia, New Zealand and Fiji.

MEMBER FIRMS

ADELAIDE
T: (0)8 8133 5000
E: mailbox@hlbsa.com.au

AUCKLAND
T: +64 (0)9 303 2243
E: mailbox@hlb.co.nz

BRISBANE
T: (0)7 3001 8800
E: mailbox@hlbqld.com.au

FIJI
T: +679 670 2430
E: info@hlbnadi.com.fj

MELBOURNE
T: (0)3 9606 3888
E: mailbox@hlbvic.com.au

PERTH
T: (0)8 9227 7500
E: mailbox@hlbwa.com.au

PERTH INSOLVENCY WA
T: (0)8 9215 7900
E: mailbox@hlbinsol.com.au

SYDNEY
T: (0)2 9020 4000
E: mailbox@hlbnsw.com.au

WOLLONGONG
T: (0)2 4254 6500
E: mailbox@hlbw.com.au

REPRESENTATIVE FIRMS

HOBART / LORKIN DELPERO HARRIS
T: (0)3 6224 4844
E: mail@ldh.com.au

LISMORE / THOMAS NOBLE AND RUSSELL
T: (0)2 6621 8544
E: enquiries@tnr.com.au

NEWCASTLE / CUTCHER & NEALE ASSURANCE
T: (0)2 4928 8500
E: cnmail@cutcher.com.au

WINNER
2021
CLIENT
CHOICE
AWARDS

CLIENT SERVICE REWARDED WITH FIRM, PARTNER WINS

As partner and head of HLB Mann Judd Perth's well-established business services division, Litsa Christodoulou believes her many accolades can be attributed to one key feature: responsiveness.

Christodoulou received her fifth consecutive nomination for Best Accountant in the 2021 Client Choice Awards, a national award she has now won three times - 2018, 2020 and again this year - making her the most nominated accountant in Australia within the category.

Having joined the firm in 1990, she has seen the client base grow and diversify, initially servicing parts of the medical sector, before expanding to include key Perth-based sectors including building and construction.

Initially only offering basic services such as indemnity insurance for doctors, clients then started requesting other business advice, and now offer the full suite of services, from back office, tax planning and assisting doctors on how to run their practices. As the practices of these initial clients grew, so did Litsa's career, becoming a Partner within the firm in 2003.

Getting to know clients and their businesses is critical to the service offering, and establishing a trusted advisor relationship.

Last year, it was all about keeping clients afloat, and reassuring them that they had sound professional advice on hand by communicating regularly. At the beginning of COVID, Christodoulou said there was much concern from doctors in particular who relied on their surgeries to survive, as well as panic within building and construction.

Of immediate priority were clients who could be eligible for the Federal Government's JobKeeper program, and she contacted these personally by phone, and emailed other clients who were interested in more information about legislative changes.

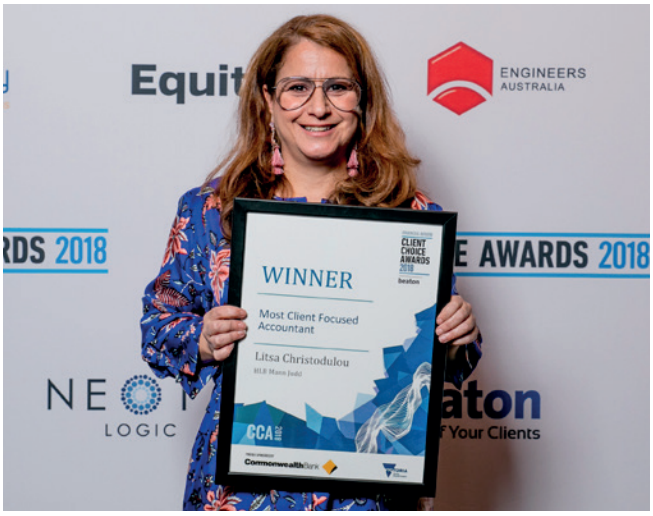
Other key client communications distributed by Litsa and her team, such as those distributed at the time of the Federal Budget, are tailored for each client with detail on how any measures introduced could impact on that particular business. Communication, she says, needs to be at more than just a superficial level, and has to be tailored and targeted.

In addition to taking out the Best Accountant category, Litsa also remains the only accountant in Australia to have personally received a Net Promoter Score of 100 by clients. The achievement was confirmed during the surveying period in June last year.

At a firm-wide level, HLB Mann Judd also won Best Professional Services Firm (revenue $50 - $200 million) and Best Accounting & Consulting Services Firm (revenue $50 - $200 million) at this year's Client Choice Awards.

The Awards are based on client votes for professional services firms in Australia and New Zealand, which rate firms' brands and performance in delivering services on a range of criteria. The client ratings are independently researched by Beaton Consulting + Research.

This is the seventh win as Best Accounting Firm for HLB Mann Judd, and the second time it has won Best Professional Services Firm which includes engineering, law and accounting firms in the category.



Litsa Christodoulou at the 2018 Client Choice Awards

CLIENT CHOICE AWARDS 2021 winner BEST ACCOUNTING & CONSULTING SERVICES FIRM $50-$200m

CLIENT CHOICE AWARDS 2021 winner BEST PROFESSIONAL SERVICES FIRM $50-$200m

CLIENT CHOICE AWARDS 2021 winner BEST ACCOUNTANT