



## New accounting standards for for-profits

The effective dates of three new accounting standards are fast approaching; these standards are referred to as NZ IFRS 9 Financial Instruments, NZ IFRS 15 Revenue from Contracts with Customers, and NZ IFRS 16 Leases.

These new standards will bring significant changes to how these items are recognised and disclosed in a for-profit entity's financial statements. We have summarised the changes below. We recommend reading the International Organisation of Securities Commissions' Statement on Implementation of New Accounting Standards and discussing with your accountant how these changes will impact you.

### **NZ IFRS 9 Financial Instruments – effective periods beginning 1 January 2018**

This standard specifies the requirements for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

It introduces changes as to how financial assets are measured on an ongoing basis to align with the asset's cash flow characteristics and the business model in which the asset is held.

The standard will affect hedge accounting, investment impairment assessments, bad debt provisions, and financial statement disclosures.

### **NZ IFRS 16 Leases – effective periods beginning 1 January 2019**

The new leases standard changes the previous lease accounting model in that a lessee will now show assets and liabilities arising from its leases on its balance sheet. Accounting for lessors is unchanged.

A lessee is to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

### **NZ IFRS 15 Revenue from Contracts with Customers – effective periods beginning 1 January 2018**

This standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts and insurance contracts) and will replace all current accounting pronouncements on revenue. As a result, this standard could significantly change an entity's timing for its recognition of revenue.

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## WELCOME

With the dates of the new accounting standards all but upon us, we outline the changes of three for you in this issue. We also share ways to scam-proof your business in these days where there is an increasing number of serious threats, many of them now global and with hugely negative impacts.

Within our group there have been some interesting developments as our audit firms continue to grow and strengthen. It's an exciting time in the audit and assurance world, we trust you are keeping up with the play.

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# TEAM NEWS

## Annual conference upskills our team

In February, our teams from around New Zealand converged on Wellington for our annual Moore Stephens New Zealand conference. This was a great time for us to discuss and learn about changes in the audit and financial reporting world, and touch base with our colleagues from Australia.

## Auckland

In Auckland, we welcomed Stuart Hansen. Stuart, who joined us late last year, qualified with one of the big four firms before embarking on a career with St John Ambulance before rejoining audit.



Richard Ineson

## Christchurch

After almost 30 years as partner, Richard Ineson retired from Moore Stephens Markhams at the end of March. This has led to the opportunity of amalgamating the Christchurch and Auckland audit practices as of 1 April. The current audit team in Christchurch will still be based in the Christchurch office and will continue to be led by Desere Arbuthnot and Craig Hemphill. We will shortly be joined by two new team members.

## Wellington

We're currently in the busy season with auditing over 50 schools and colleges on behalf of the Auditor General. We have recently acquired two Wellington-based audit practices. This is testament to our commitment to being a dedicated audit and assurance practice. We are finding that in the assurance industry, with the ongoing changes in standards and legislation, you should get serious or get out.

Daniel Trail recently joined us as an auditor.



## New accounting standards for for-profits

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The new Standard requires entities to adopt a five-step model for recognising revenue from contracts with customers:

Steps	Items to consider
1. Identify the contract(s) with the customer	Does the contract meet the criteria in the standard? Are there any modifications to the contract? Is the entity a principal or an agent for each specified good or service promised to the customer?
2. Identify the distinct performance obligations	What are the goods / services promised to the customer and are they distinct or a series / bundle of goods / services? Are the promises in the contract a series of distinct goods or services that are substantially the same?
3. Determine the transaction price	The nature, timing and amount of consideration promised by a customer affects the estimate of the transaction price. When determining the transaction price, consider effects of all of the following: variable consideration; constraining estimates of variable consideration; the existence of a significant financing component in the contract; non-cash consideration; and consideration payable to a customer.
4. Allocate the transaction price to the performance obligations	Allocate the transaction price to each performance obligation (or distinct good or service) identified in the contract. Should a discount be allocated for selling a bundle of goods / services?
5. Recognise revenue when (or as) a performance obligation is satisfied.	Revenue recognition as a performance obligation is satisfied at a point in time or over time.



## Performance reports from Charities Services

Many small to medium sized charities have filed performance reports with Charities Services for the first time. In its newsletter, Charities Services said that "Around 60 percent of charities in a sample checked have given the new standards a go."

It is clear that there is still some way to go before all Charities meet their legal requirements. Our audit teams have been busy ensuring all our clients are compliant with the new standards, and we congratulate you on meeting the new requirements.



# Scam-proof your business

Scams and scammers become more sophisticated every day. No surprises there. They rely on keeping a jump ahead of people. As businesses step up their investment in new technology and media platforms, scammers find new ways to worm their way in.



## FYI... Social engineering

Many scams fall under the umbrella term 'social engineering'. These techniques aim to gain people's trust and con them into letting their guard down to leave themselves (or potentially your business) open to fraud. You might have the most high-tech security system in the world but it's useless if a human is conned into propping the door open.

Social engineering approaches want you to act without thinking, to click the link, open the attachment, to be helpful and friendly and open the door. Social engineering manipulates people into giving away valuable information or unwittingly giving a scammer system access.

It is often the first opening that exposes a business to a security breach. These techniques have emerged as security risks. Brief your team to minimise the risk of cyber-attack or fraud.

## Blocking scammers

Because there are so many variations on scams, brainstorm examples with your team. Role play scenarios so that you maintain good security for your business but don't accidentally enrage genuine customers and business contacts by being obstructive:

- Be alert to any requests for credit card or bank numbers, but be equally suspicious of requests for other business information such as contact details for the business' directors, for personal identifying information such as birth dates or other clues to

## Types of scams to be aware of

**Phishing:** the email from the bank or a supplier asking us to click this link or open that attachment or reply with our account details.

**SMiShing:** short for 'SMS phishing', it uses text message technology to fool you. It can trick a user into downloading malware such as a virus or Trojan horse, onto his or her mobile phone or other device. If the device is set up to synch with your office system, you can see the problem. SMiShers can use text messages to obtain financial data from users for identity theft or fraud.

**Scareware:** this involves convincing the user that their computer has been hacked or infected with malware or they have inadvertently made an illegal download. Predictably the problem can be fixed by clicking on the enclosed link. And then of course, the user's computer really has been infected with malware.

**Baiting:** who doesn't like free stuff? Baiting plays on this by leaving around USB flash drives infected with malware. A user reaches for a handy flash drive and then unwittingly infects their computer and potentially the network.

**Vishing:** short for 'voice phishing'. This scammer fools the victim into thinking that he or she is assisting a genuine business contact. Some can display a fake number or caller ID on your phone. Automated recordings may direct you to call a given number or enter account details. Vishers may intercept your follow up call to confirm the call was genuine. A common trick is for the scammer not to hang up so they stay on the line on your phone and impersonate a genuine contact.

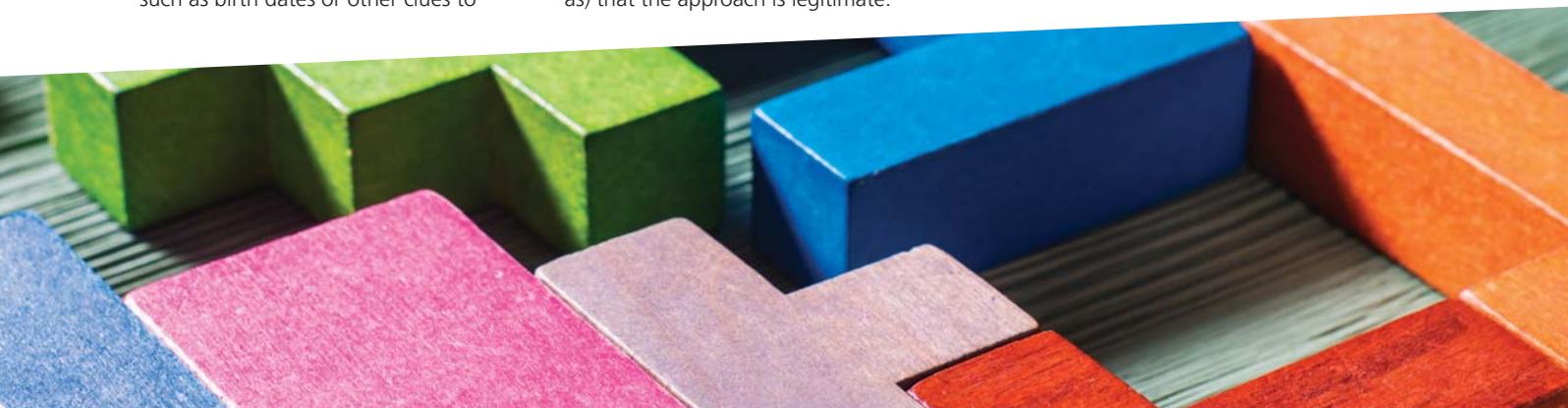
**Ransomware:** a user inadvertently downloads malware that locks up the computer or the whole network. The firm literally is held to ransom as it must pay the extortionist to be able to access its data, or else all files will be deleted, permanently encrypted or otherwise impossible to access. The recent Wannacry global attack is a scary example of Ransomware.

- passwords paving the way for hackers
- Have a secure backup solution
- Think about whether to invest in a comprehensive mobile security application that includes SMS (text) filtering as well as anti-theft, antivirus and web protection
- Brief the team that, if a call seems suspect, they should take the caller's details, and confirm with a manager, your IT provider or the supplier in question (whoever the scammer has masqueraded as) that the approach is legitimate.

When calling to confirm, do so from a different phone.

It's better to be safe than sorry, and sadly we all need to be on our guard.

See our article: [Watching out for scams at the end of the financial year](#) for help with determining if an IRD communication is legitimate or not. On our website: [www.moorestephens.nz](http://www.moorestephens.nz)



# IN BRIEF

## Upcoming AML/CFT reform

The second phase of the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) legislation is currently being developed by the government, with a bill expected to be passed by parliament in mid-2017. The law will come into effect in stages for different sectors between July 2018 and July 2019. This legislation is likely to affect the following when they undertake certain transactions (eg real estate or business sales): lawyers, conveyancers, accountants, real estate agents, the gambling sector, and some businesses that deal in high-value goods.

According to the Ministry of Justice consultation paper, proposed compliance requirements include:

- Develop and maintain an AML/CFT risk assessment and compliance programme
- Conduct customer due diligence (that is, asking for and verifying customers' identification) in a wider range of circumstances
- Conduct enhanced customer due diligence (such as verifying source of funds) when conducting high-risk transactions
- Proactively monitor accounts to identify and where appropriate, report suspicious activity to the Financial intelligence unit of NZ Police
- Retain records of documents associated with transactions (including the nature, amount, currency, date, and parties involved) for not less than five years
- Report transactions or proposed transactions to the Financial intelligence unit of NZ Police if you reasonably suspect they involve money laundering or the proceeds of crime
- Meet audit and annual reporting requirements
- Be supervised by an appropriate authority.

We will keep you informed of any developments. We have experience in auditing and assisting clients to meet phase one audit requirements and would be happy to assist or provide guidance to those phase two clients that require it once the legislation comes out.

## Incorporated Societies Act

As discussed in previous editions of Audit News, the Incorporated Societies Act 1908 is being revised. Currently, proposed changes to financial reporting will require all Incorporated Societies prepare financial statements under the relevant tier of the Public Benefit Entity (PBE) standards issued by the New Zealand Accounting Standards Board of the External Reporting board.

The Ministry of Business Innovation and Employment is currently analysing submissions on the draft bill. By mid-2017, it will report to Ministers regarding any changes needed to the draft bill. At this stage, the bill will be introduced to Parliament in 2018, coming into force between 2021 and 2023.

We shall keep you up to date with once the new bill is out. In the meantime, we continue to recommend that Incorporated Societies adopt the new PBE standards.

## New MOE reporting requirements for ECEs

In its Early Learning Funding Update - April 2017, the Ministry of Education has said that ECE services, which receive Ministry income of more than \$80,000 and completed a full financial year in 2016, must send audited financial statements to the MOE by 30 June 2017. There is the option of either applying the new PBE financial reporting standards or continue to follow existing Ministry reporting requirements.

From the 2016/17 financial year (reporting due to the Ministry 30 June 2018), all services required to follow the new reporting standards will be expected to do so – this is essentially all registered Charities. The Ministry will advise those services not required to report under the new accounting standards for the year end 2017 what to do.

We have confirmed with the Ministry that ECEs with operating expenditure under \$500,000 are not required to have the Statement of Service Performance or Entity Information statement audited.

Should you have any questions about any of the articles in this newsletter, please contact your local audit team.

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