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# Heads Up
## ASIC's findings from 31 December 2013 financial reports

**Contents**



**"Talking Point"**

- ASIC continues to emphasise the importance of quality, useful and meaningful information provided in financial reports.
- 4% of the financial statements reviewed by ASIC for reporting periods ended 30 June 2010 to 30 June 2013 required material restatement as a result of ASIC's review.
- ASIC has stated that it will publicly announce when a company makes material changes to information previously announced to the market following inquiry from ASIC.
- ASIC also challenged entities for preparing special purpose financial statements where it is reasonable to expect that the company has users dependent on general purpose financial reports.

### Background

ASIC has released the findings from its review of 31 December 2013 financial reports of 135 listed and other public interest entities. At the same time ASIC has also issued findings from its review of 30 June 2013 financial reports of 100 proprietary companies.

During the review, ASIC has contacted 23 companies about their financial reports, including matters such as apparent inadequate impairment of assets and inappropriate accounting treatments. These inquiries will not necessarily lead to material restatements. Matters involving six of the entities were resolved without any changes to their financial reports.

While ASIC is still in the process of finalising all inquiries of its review of the 31 December 2013 financial reports, ASIC's review for reporting periods 30 June 2010 to 30 June 2013 has led to material restatements to 4% of financials statements reviewed by ASIC for those periods.

As part of the media release Deloitte noted that from 1 July 2014 onwards, when a company makes material changes to information previously announced to the market subsequent to ASIC's inquiry, ASIC will publicly announce the results as part of its risk-based surveillance on entities. This will ensure that directors and auditors will be "more aware of ASIC's concerns and hopefully can avoid similar issues", as John Price, ASIC Commissioner has pointed out.

This Heads Up provides an overview of ASIC's findings of 31 December 2013 financial reports. Preparers of financial statements should carefully consider the findings below and also ASIC's area of focus for 30 June 2014 when preparing financial reports for the June 2014 reporting season.

**Inquiries made by ASIC relate to the following matters:**

<u>Accounting estimates:</u>

- Impairment testing and asset values – assessments of the recoverability of the carrying amounts of assets such as goodwill, other intangible assets and property, plant and equipment. Several entities have made significant impairment write-downs and will improve their disclosures on matters such as key assumptions due to ASIC's inquiries. Findings noted by ASIC include:
    - CGUs identified at an inappropriate level, assets and liabilities were inappropriately included/excluded in the determination of the recoverable amount of CGUs;
    - cash flows for value in use calculations included cash inflows or outflows expected to arise from future restructuring or development plans and assumptions were not consistent and relevant;
    - forecasts extended beyond five years for value in use calculations despite having a poor history of making forecasts;
    - fair value assessments of recoverable amounts were not in accordance with AASB 13 *Fair Value Measurement* requirements;
    - impairment indicators were not appropriately assessed; and
    - disclosure of sensitivity analysis was not made where there is limited excess of an asset's recoverable amount over the carrying amount and where a reasonable possible change in assumptions could lead to impairment.

<u>Accounting policy choices</u>

- Off-balance sheet arrangements and impact of new standards such as:
    - non-consolidation of some entities, including some majority-owned entities; and
    - appropriateness of accounting for a joint arrangement.
- Appropriateness of accounting for income tax includes:
    - where tax expense disclosed is low having regard to reported profit, and related disclosures were not made;
    - temporary differences and deferred balances appeared to have arisen from non-ongoing transactions;
    - tax benefits arise from unusual reconciling items between accounting profit and tax expense/benefit; and
    - recoverability of deferred tax assets relating to tax losses.
- Expense deferral where the criteria for deferral do not appear to have been met.
- Disclosure of revenue policies are not specific to the entity.

<u>Key disclosures</u>

- Improvements are needed on the quality of disclosures about estimates and accounting policy judgements to allow users of the financial report to assess the reported financial position and performance of the entity.
- Significant improvements in the quality of operating and financial review (OFR), however ASIC continues to remind entities to refer to ASIC Regulatory Guide 247 *Effective disclosure in an operating and financial review* when making OFR disclosures.
- Segment reporting not in accordance with the principles in AASB 8 *Operating segments.*

## Findings for financial reports of proprietary companies

Matters relating to large proprietary companies included the following:

- whether the reporting entity concept has been appropriately assessed when an entity prepares special purpose financial reports, while it is reasonable to expect a large number of users dependent on general purpose financial reports;
- non-write down of impaired assets;
- misclassification of financial instruments, i.e. equity vs debt classification;
- expenses inappropriately deferred as an asset;
- gains/losses on available for sale financial instruments included in the profit or loss rather than other comprehensive income; and
- companies relied on ASIC's relief from auditing requirements without meeting the financial or other conditions for that relief.

### Deloitte publication

- **Heads Up: ASIC's focus areas for June 2014 year ends**
- ***ASIC RG247 Effective disclosure in an operating and financial review***

### External Links

- ***ASIC media release (14-141MR) Finding from 31 December 2013 financial reports***