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Heads Up
ASIC's findings from 30 June 2015 financial reports

Contents

"In summary"

- 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 31 December 2014 required material restatement as a result of ASIC's review.
- Since July 2014 ASIC has publicly announced when a company makes material changes to information previously announced to the market following inquiry from ASIC.

Background

ASIC has released the findings from its review of 30 June 2015 financial reports of 240 listed and other public interest entities.

During the review, ASIC made enquiries of 35 entities about 48 matters requiring explanations of accounting treatments. The majority of ASIC findings continue to relate to impairment of non-financial assets and inappropriate accounting treatments. These inquiries will not necessarily lead to material restatements. Matters involving seven of the entities have been concluded without any changes to their financial reports.

ASIC's review for reporting periods 30 June 2010 to 31 December 2014 has led to material restatements to 4% of financials statements reviewed by ASIC for those periods.

While ASIC is still in process of finalising all of its reviews, since 1 July 2014, when a company makes material changes to information previously announced to the market subsequent to ASIC's inquiry, ASIC has publicly announced the results as part of its risk-based surveillance on entities. This is to ensure that directors and auditors are more aware of ASIC's concerns so that they can avoid similar issues.

This Heads Up provides an overview of ASIC's findings from their review of 30 June 2015 financial reports. Preparers of financial statements should carefully consider the findings below and also ASIC's area of focus for 31 December 2015 when preparing financial reports for the December 2015 reporting season.

Inquiries made by ASIC relate to the following matters:

1. Accounting estimates:

Impairment testing and asset values – assessments of the recoverability of the carrying amounts of assets such as goodwill, exploration and evaluation expenditure and property, plant and equipment. The largest number of ASICS's enquiries at 30 June 2015 relate to assets in the extractive industries. Findings noted by ASIC include:

- cash-generating units (CGUs) identified at an inappropriate level, and assets and liabilities were inappropriately included/excluded in the determination of the recoverable amount of CGUs;
- cash flow assumptions from external sources were not assessed for consistency and relevance, and forecast cash flows did not appear reasonable and exceeded actual cash flows for a number of reporting periods;
- fair value assessments of recoverable amounts were not in accordance with AASB 13 *Fair Value Measurement* requirements;
- impairment indicators were not appropriately assessed; and
- insufficient disclosure of sensitivity analysis 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, key assumptions including discount rates and growth rates, and the valuation techniques and inputs used for fair values.

In July last year, ASIC issued Information Sheet 203 *Impairment of non-financial assets: Materials for directors (INFO 203)* to assist directors and audit committees in considering the impairment of non-financial assets.

2. Accounting policy choices

- Appropriateness of accounting for income tax includes:
    - 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.
- Revenue recognition, including the recognition of construction contract income as a result of claims, the treatment of deferred income and the timing of recognising revenue.
- Classification of debt as non-current where there are indicators the borrowing may meet the definition of a current liability.

3. Key disclosures

- Improvements are needed on the quality and completeness 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. This should be considered in the context of the new auditing standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, which means that auditors will be required to disclose information on key audit matters in future audit reports. Directors should ensure that relevant information is disclosed in the financial report and in the operating and financial review to avoid inconsistent disclosures.

Deloitte publications

- Heads Up: ASIC's focus areas for December 2015 year ends
- Heads Up: ASIC releases information sheet on the role of directors and audit committees in relation to the impairment of non-financial assets

External Links

- ASIC media release (15-380MR) Findings from 30 June 2015 financial reports
- Information Sheet 203 *Impairment of non-financial assets: Materials for directors (INFO 203)*