



Heads Up

ASIC releases information sheet on the role of directors and audit committees in relation to impairment of non-financial assets

(INFO 203 Impairment of non-financial assets: Materials for directors)

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"In summary"

- Impairment of non-financial assets, such as goodwill, identifiable intangible assets and property, plant and equipment is a significant focus area for ASIC and a number of companies have made restatements in this area as a result of ASIC's Financial Statement Surveillance Programme.
- ASIC has issued an information sheet to address the role of directors and audit committees in assessing whether the asset values in the balance sheet continue to be supportable.
- The information sheet sets out questions that directors are encouraged to ask management in relation to the need for impairment testing, the adequacy of the entity's processes for assessing impairment, common issues with impairment calculations and the adequacy of disclosures.
- Management should be prepared to respond to each of these questions, and, where appropriate, consider addressing the matters raised as part of the papers presented to the board or audit committees.
- The information sheet also provide a useful cross check to ensure that the common issues identified in practice have been addressed as part of the entity's impairment testing and are appropriately documented.

Background

High quality financial reporting is important. Impairment continues to be the most common area of concern identified by ASIC's Financial Statement Surveillance Programme (FSSP). To date there have also been four press releases issued by ASIC where companies have made adjustments to the prior or current financial reports as a result of the inquiries made by ASIC.

ASIC has therefore issued this information sheet to assist directors in understanding their responsibilities in determining whether the assets values in the balance sheet continue to be supportable and the adequacy of the related disclosures.

The information sheet considers matters that directors may wish to discuss with management as well as with the auditor.

Impact for management

We would expect that the issue of this information sheet will increase the focus of directors in this area and result in more questioning of both management and auditors. Management should ensure that sufficient and appropriate resources are available to commit to responding to the increased focus.

Management should also understand and be prepared to respond to any matters that the directors may ask as a result of the issue of this information sheet and the entity's working papers should be updated to document, where appropriate, the matters identified in this information sheet.

Matters to discuss with management

The information sheet sets out the questions that directors are encouraged to ask management in relation to:

- 1. The need for impairment testing, the presence of indicators of impairment and management's assessment of the indicators.**
- 2. The adequacy of the entity's processes for assessing impairment** including the culture of the entity, the level of scepticism exercised by management, the planning process, timing of performing the work and the extent to which auditors are given sufficient time to review the impairment testing, the source and reliability of the information used, benchmarking of key assumptions against industry or other external sources, review processes, accountability for quality financial reporting, the use of external experts and the adequacy of the documentation.
- 3. Common issues with impairment calculations** including the identification of cash-generating units, reasonableness of forecast cash flows and the consistency of these cash flows with historical performance, the appropriateness of support for key assumptions, cross checking valuations with alternative valuation methodologies, the appropriateness of fair value methodologies and the congruency between the cash flows and related assets being tested for impairment.
- 4. The adequacy of disclosures including the disclosure** of key assumptions, and whether assumptions reflect past experience, and disclosure of reasonably possible changes in assumptions that could lead to an impairment.

How can we help?

Deloitte has developed template impairment testing work papers that may assist you in documenting your impairment testing and the compliance with Australian accounting pronouncements.

Should you require access to templates, training, guidance in relation to technical accounting or valuation issues or any other assistance, please reach out to your designated Deloitte contact.

If the directors or audit committee require assistance in understanding any matters that are raised by the information sheet, or would like our views on the responsibilities of the directors in relation to impairment of assets, our accounting and valuations team members who specialise in the area are able to meet with them.

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