ASIC media releases are point-in-time statements. Please note the date of issue and use the internal search function on the site to check for other media releases on the same or related matters.

Friday 25 January 2019

19-014MR Findings from 30 June 2018 financial reports

ASIC today announced the results from a review of the 30 June 2018 financial reports of 215 listed and other public interest entities.

Arising from the review, ASIC has made inquiries of 55 entities on 79 matters, seeking explanations of accounting treatments.

Inquiries made by ASIC from reviews of the 30 June 2018 financial reports relate to the following matters:

Matter	Number of inquiries
Impairment and other asset values	28
Revenue recognition	18
Tax accounting	11
Consolidation accounting	4
Business combinations	3
Expense deferral	3
Other matters	12
Total	79

ASIC Commissioner John Price said: 'ASIC's concerns continue to relate to impairment of non-financial assets and inappropriate accounting treatments. Directors and auditors should focus on values of assets and accounting policy choices in preparing their December 2018 financial reports.'

ASIC issued Information Sheet 203 *Impairment of non-financial assets: Materials for directors* (INFO 203) in June 2015 to assist directors and audit committees in considering whether the value of non-financial assets, shown in the company's financial report, continues to be supportable.

Our risk-based surveillance of public interest entities' financial reports for reporting periods ended from 30 June 2010 to 31 December 2017, has led to material changes to 4% of the financial reports of public interest entities reviewed by ASIC. The main changes related to impairment of assets, revenue recognition and expense deferral.

Public announcements of material changes

From 1 July 2014, ASIC has publicly announced when a company makes material changes to information previously provided to the market following inquiries by ASIC. In addition to improving the level of market transparency, these announcements are intended to make directors and auditors of other companies more aware of ASIC's concerns so that they might avoid similar issues.

Since the last release on findings in July 2018, ASIC has issued media releases in relation to changes by Kazakhstan Potash Corporation Limited (18-242MR) and Premier Investments Limited (18-310MR). The total adjustments to profit was approximately $40 million.

Enhanced audit reports

Auditors were required to issue enhanced audit reports for listed entity audits for 30 June 2017 that describe key audit matters requiring the most attention in the audit. ASIC continues to find that some key audit matters were described in general terms rather than being specific to the circumstances of the entity. In some cases, the audit procedures performed were not clearly described.

Background

Inquiries of individual entities will not necessarily lead to material restatements. Matters involving 13 of the entities have been concluded without any changes to their financial reporting.

ASIC generally does not pursue immaterial disclosures that may add unnecessary clutter to financial reports.

More information about the findings from ASIC's recent reviews of the financial reports of listed entities and of unlisted entities with larger numbers of users is provided below.

ASIC's focus areas for 31 December 2018 financial reports highlight the need to focus on new requirements that can materially affect reported assets, liabilities and profits, and can be found in ASIC's media release: 18-364MR.

Attachment to 19-014MR: Findings from 30 June 2018 financial reports

1. Asset values and impairment testing

ASIC continues to identify concerns regarding assessments of the recoverability of the carrying values of assets, including goodwill, exploration and evaluation expenditure, and property, plant and equipment.

Findings include:

(a) *Reasonableness of cash flows and assumptions:* There continue to be cases where the cash flows and assumptions used by entities in determining recoverable amounts are not reasonable or supportable having regard to matters such as historical cash flows, economic and market conditions, and funding costs.

In particular, we found cases where:

i. assumptions derived from external sources were not assessed for consistency and relevance; and
ii. the entity's forecast cash flows did not appear reasonable and had exceeded actual cash flows for a number of reporting periods.

(b) *Determining the carrying amount of cash generating units:* There are cases where entities appear to:

i. have identified cash generating units (CGUs) at too high a level despite cash inflows being largely independent, resulting in cash flows from one asset or part of the business being incorrectly used to support the carrying values of other assets;
ii. have not include all assets that generate the cash inflows in the carrying amount of a CGU, such as inventories and trade receivables and tax balances; and
iii. have incorrectly deducted liabilities from the carrying amount of a CGU.

(c) *Use of fair value*: We still see entities using discounted cash flow techniques to estimate fair value where the calculations are dependent on a large number of management inputs. Where it is not possible to reliably estimate the value that would be received to sell an asset in an orderly transaction between market participants, the entity may need to use the asset's value in use as its recoverable amount.

(d) *Impairment indicators:* Some entities are not having sufficient regard to impairment indicators, such as significant adverse changes in market conditions, and reported net assets exceeding market capitalisation.

(e) *Disclosures:* We still find that there a number of entities not making necessary disclosure of:

i. sensitivity analysis where there is limited excess of an asset's recoverable amount over the carrying amount and where a reasonably possible change in one or more assumptions could lead to impairment;
ii. key assumptions, including discount rates and growth rates; and
iii. for fair values, the valuation techniques and inputs used.

These disclosures are important to investors and other users of financial reports given the subjectivity of these calculations/assessments. They enable users to make their own assessments about the carrying values of the entity's assets and risk of impairment given the estimation uncertainty associated with many asset valuations.

This item includes matters arising from the finalisation of impairment matters identified in our reviews of 30 June 2017 and 31 December 2017 financial reports.

2. Revenue recognition

ASIC is following up 17 matters concerning the recognition of revenue, concerning the recognition of revenue on contracts that involve the provision of goods or services in the future, or multiple deliverables (i.e. both goods and services).

3. Tax accounting

ASIC is making inquiries of 10 entities concerning their accounting for income tax, including the adequacy of tax expense and whether it is probable that future taxable income will be sufficient to enable the recovery of deferred tax assets relating to tax losses.

4. Consolidation accounting

We have made enquiries of several entities on the non-consolidation of other entities, including an entity that has treated an apparent loan securitisation arrangement as off-balance sheet.

5. Business combinations

We have made enquiries of three entities in relation to business combinations. In one instance, the transactions have been treated as under common control which may not be appropriate.

6. Expense deferral

We have made enquiries of three entities to ascertain whether amounts deferred as assets should have been charged to the income statement as expenses. In one instance, costs incurred have been capitalised in anticipation of recovery under an insurance claim.

7. Estimates and accounting policy judgements

We observed instances where entities needed to improve the quality and completeness of disclosures in relation to estimation uncertainties, and significant judgments in applying accounting policies. The disclosure requirements are principle-based and should include all information necessary for investors and others to understand the judgements made and their effect. This may include key assumptions, reasons for judgements, alternative treatments, and appropriate quantification.

Last updated: 25/01/2019 12:00