Technical Accounting Alert

ASIC financial reporting surveillance – June 2009

Introduction

The purpose of this alert is to summarise matters arising from ASIC's review of 31 December 2008 financial reports and to provide guidance to entities with 30 June 2009 reporting dates on areas for ASIC focus in the future.

ASIC expects to release review results every six months to encourage timely improvements in financial reporting.

Source: ASIC media release 09-115

Overview

ASIC noted that they did not reveal any significant non-compliance with financial reporting obligation; however they urged companies to continue focussing on appropriate recognition and measurement of assets and liabilities and providing appropriate disclosures and explanations in their financial reports.

Many of the areas identified in ASIC's June 2009 media release are the same as those identified by ASIC in January 2009; however some additional issues have been noted.

The following is a summary of the key findings of the review of 31 December 2008 financial statements as well as supplemental issues:

1 Going concern

In light of current market conditions, directors should continue to focus on whether the use of the going concern assumption is still appropriate as a basis for preparing the financial report. With this in mind, directors should also be considering the effects of reduced liquidity and whether the entity has the ability to refinance debt or raise new funds, as well as compliance with any related lending covenants.

When the ability of a disclosing entity to going concern is subject to renegotiation with financiers; the market should be kept informed under the continuous disclosure reporting regime.

Where going concern is in doubt, entities should consider the recoverability of deferred tax assets.

Where an entity is not a going concern, assets should be shown at realisable values less cost to sell.

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2 Impairment of assets

The writedown of goodwill and indefinite life intangibles has increased from 1% for the 12 months to 30 June 2008 to 5.8% of the total assets value.

Further write downs may be expected at 30 June 2009, directors should focus on asset values, particularly for more recently acquired assets.

The review found that some entities had not followed methods required by accounting standards for impairment testing or used cash flow information or discount rates that did not appear reasonable having regard to historical cash flows, market information and future expectations. Directors may not have the in-house expertise to be able to perform these calculations and may need to consider the use of specialists.

3 Determining fair values

Assets held at fair value include financial assets and investment properties. Fair value less costs to sell may also be relevant in impairment testing of assets in held at amortised cost.

ASIC have reminded Directors about the following assets, in particular:

- Available for sale financial assets – where an impairment loss has occurred
- Investment properties – value must reflect current market conditions
- Movement in fair values of assets of defined benefit superannuation funds.

Considerations should be given to whether financial assets are traded in active markets and the use of valuation models where the market in active.

4 Off balance sheet arrangements

It has again been noted that some entities indicated in their financial reports and other public information that off balance sheet arrangements existed.

Directors should reassess the risks and benefits associated with any off-balance sheet arrangements, particularly in view of changed economic circumstances and possible future adverse conditions.

The financial reports need to ensure explanation regarding the nature and scale of these arrangements or reasons why these arrangements were not recognised on the balance sheet are included.

Further, ASIC will be seeking explanations from certain entities where equity accounting has been applied rather consolidation where the ownership interest is close to 50 per cent and other ownership interests are diversely held.

5 Financial instrument disclosures

When preparing the financial instrument disclosures entities need to consider user information needs and provide meaningful disclosures.

At times generic financial instrument disclosures were provided; and disclosures did not provide sufficient insight on how an entity managed risks specifically related to their financial instruments.

It was noted that certain financial instrument disclosures were unclear in relation to the extent of use of financial instruments by entities. Some examples include the omission of quantitative measure of risk disclosures, the provision of risk and hedging disclosures on a net basis rather than a gross basis, and hedging arrangements were sometimes poorly disclosed.

6 Other matters

Further focus areas for those responsible for preparing the financial reports are:

- Disclosures of specific information for significant accounting policies and sources of estimation uncertainty
- Current / non-current classification of assets and liabilities taking into account any agreements and lending covenants
- Classifying instruments as debt or equity based on the substance
- Revenue recognition policies
- Deferral of expenses and interaction with intangible assets
- Disclosure of related party transactions
- Treatment and disclosure of events after balance date, including asset value changes.

Source reference:

ASIC media release 09-115

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au