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Technical Accounting Alert

ASIC's financial statement review and areas of focus for 31 December 2009

Introduction

The purpose of this alert is to provide details of the ASIC media release regarding the reviews performed on 30 June 2009 financial statements and suggested areas of focus for entities preparing 31 December 2009 financial statements.

Overview

ASIC reviewed 30 June 2009 financial reports for 250 listed and 100 unlisted entities; it is the first time that unlisted entities have been included in the review and the sample concentrated on entities that have a larger number of potential non-shareholder financial report users.

Based on this review and consideration of the current economic and business climate; ASIC has identified a number of key areas for continued focus for entities.

These have been summarised in this alert and further detail can be found by clicking on the link to the ASIC media release in the source reference section.

Focus areas

Going concern

Findings

There were a significant number of audit reports which included emphasis of matter paragraphs included in the audit reports reviewed; common reasons being:

- Negative or minimal net assets or net current assets
- Uncertainty over the recoverability of the value of assets and
- A debt refinancing requirement.

Focus areas

- Reduced liquidity
- Ability to refinance debt
- Compliance with lending covenants.

Where the ability of a listed entity to continue as a going concern is subject to refinancing, the entity must keep the market information about the status of finance negotiations.

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Asset impairment

Findings

Writedowns were 11% of thte total value of indefinite life intangible assets (including goodwill) for the 12 months to 30 June 2009.

Common issues identified:

- Unrealistically optimistic discount and growth rates.
- Cash flows were projected for more that five years in value in use calculations without any explanation justifying the longer period.
- Cash-generating units used for testing goodwill impairment, were not chosen at a sufficiently low level.
- The failure to disclose carrying amounts allocated to each CGU and the basis for determining recoverable amount.
- Flawed discounted cash flow (DCF) calculations, including pre-tax discount rates being applied to post-tax cash flows or vice versa.
- No sensitivity analysis disclosed for changes in key assumptions and
- A lack of disclosure of assumptions used in DCF calculations.

Focus

Ensure:

- there is a reasonable basis for cash flows and assumptions used
- impairment is considered at CGU's at the lowest levels
- cash flows are relevant to the assets being assessed
- the same cash flows should not be used to support different assets covered by different calculations.

Fair value of assets

Investment property

Writedown of investment properties accounted for 12% of the carrying value of the properties; ASIC is contacting some entities to better understand the basis for the writedowns as disclosure of the methods used and significant assumptions applied were not sufficient.

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Financial assets

ASIC's review highlighted wide variations in interpretations of when an available for sale (AFS) asset is impaired.

Intangible assets

ASIC's review indicated some entities were carrying intangible assets at fair value in circumstances where it may not have been appropriate to do so.

Entities that are carrying intangible assets at fair value should review the basis for that treatment as ASIC has not yet seen intangible assets in Australia that would meet the criteria for fair value.

Off balance sheet exposures

ASIC recently identified a couple of cases where entities should have consolidated other entities.

Directors should carefully review any off-balance sheet arrangements to ensure that they are correctly treated – where arrangements remain off balance sheet, the nature and scale of the arrangements should be disclosed, together with the reason why they are not on balance sheet.

Financial instrument disclosures

ASIC expects companies to provide full disclosure of the significance of financial instruments, the associated risks and how the entity manages those risks, notwithstanding the complexity of the financial instrument.

Common shortcomings identified by ASIC's review were:

- insufficient disclosure to enable users of financial reports to evaluate the nature and extent of risks arising from financial instruments

- the failure to disclose sensitivity analysis to market risks

- lack of ageing analysis of financial assets past due but not impaired, and analysis of impaired financial assets and

- the failure to separately disclose material gains and losses arising from a group of similar transactions, as required by AASB 101 *Presentation of Financial Statements*.

Other issues related to current market conditions

These include:

- failure to disclose significant judgements in applying accounting policies
- failure to disclosure key assumptions and sources of estimation uncertainty
- incorrect classification of debt as non-current when it should be current.

Entities should also focus on appropriate revenue recognition, expense recognition and debt v equity classification, as well as related party disclosures and disclosure of subsequent events.

Revised accounting standards

ASIC have noted that the 31 December 2009 reviews will include a focus on compliance with revised accounting standards including:

- AASB 101 Presentation of Finanicial Statements
- AASB 8 Operating Segments
- AASB 127 Consolidated Financial Statements
- AASB 3 Business Combinations (applicable for 31 December half years only)

Source reference

ASIC media release 10-04

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