

ASIC Areas of Focus

ASIC review a sample of financial statements after each reporting season, looking for areas of non-compliance with the accounting standards. If they have concerns after looking at a company's financial report, they'll send a letter to the company asking for more information. It's really important that directors take these letters seriously and get some assistance from their auditor or an accounting firm when replying. While the letters often ask more about the business, ASIC does expect the response to outline how the company has complied with the accounting rules. A well planned, plain English and collaborative response will usually speed up the resolution process.

How much focus is there on new accounting standards this reporting season?

This reporting season ASIC will focus on the new accounting standards and how they've been applied. If a company has made a decision that the impact of one of the new standards is material or not material, or if they've quantified the impact with a dollar figure, ASIC can ask the company to show how they've arrived at that decision. They can also ask details about the accounting policies that have been applied under the new accounting standards and request supporting documentation. Companies need to make sure they have their reasonings and documents prepared in case they're asked such questions by the regulator.

ASIC has also reminded directors of their continuous disclosure obligations where the impact of new standard on reported results could affect the company's share price, for example. Companies also need to consider the impact of new standards on forecasts and other forward-looking information in transaction documents.

What else will ASIC be focusing on?

The other areas of ASIC's focus are consistent with prior years and include:

- Revenue recognition – has revenue been recognised in the right accounting period?
- Expense deferral – have some expenses been deferred when they should have been recognised now?

- Impairment testing and asset values – should any of the company's assets be impaired?
- Tax accounting – are the tax disclosures right?
- Off-balance sheet arrangements – should the item be on-balance sheet? Are the risks clear?
- Disclosure of estimates and accounting policy judgements – what are the key assumptions that have been made and are they clear?

Do organisations need to disclose non financial information (eg. in relation to risks that may affect performance)?

The operating and financial review also needs to discuss key risks and other matters that could affect a company's future financial position and performance. Companies could consider discussing risks arising from digital disruption, new technologies, climate change, Brexit or cyber security.

What's the new conceptual framework?

Director's may have heard there's a new conceptual framework internationally that could change our financial reporting requirements. For listed companies, we're not expecting a change as they will basically be applying the new international conceptual framework immediately along with other listed companies around the world. The conceptual framework will not change what companies need to provide in a listed company report. However, we do need to look at the changes for other entities within Australia as the definition of 'reporting entity' has been updated.

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What are the changes to the definition of a reporting entity?

The changes will affect, not-for-profit entities, subsidiaries of foreign companies and private companies, particularly those that currently prepare special purpose financial reports (SPFR) and lodge them with ASIC. SPFRs will no longer be allowed under that new framework. The reason being SPFRs won't fit with the new global definition of what is a reporting entity. So that definition will need to be changed in Australia, and we expect the definition will provide for two levels of reporting: full listed accounts for large listed entities and a smaller area of reporting for the next level down (ie. a small foreign company). Under the changes it will be very clear what needs to be lodged with ASIC as companies will no longer be able to self-assess what they provide to the regulator. There may be another tier in the not-for-profit sector for very small charities as it's questionable whether all of the information in a general purpose report is required for such entities.

This conceptual framework is a positive development as it will remove the concept of self-determining who is or is not a reporting entity, which is not accepted globally, and ensures all unlisted large companies provide comparable financial information.

What questions should directors ask to ensure their company is ready to respond to ASIC enquiries?

- Has management explained the work performed and their analysis of the impact of the new standards to the board?
- Have the auditors reviewed this assessment?

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