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ALERT

ASIC reveals focus areas for financial reports under COVID-19 conditions

With the 2020-2021 financial year closed, now is time to turn our minds to financial year reports.

Here, Partner Emma Donaghue highlights ASIC's focus areas for those reports and provides a summary of the extended reporting deadlines following the impacts of the COVID-19 pandemic.

KEY FOCUS AREAS

ASIC expects directors and those preparing and auditing financial reports to pay attention to—

- asset values
- provisions
- solvency and going concern assessments
- events occurring after year end and before completing the financial report
- disclosures in the financial report and operating and financial review.

Some examples of matters that may impact asset values include:

- Annual impairment testing of non-financial assets such as goodwill, indefinite useful life intangible assets and intangible assets not yet available for use. Entities adversely impacted by the current environment should consider impairment testing for other non-financial assets.
 - Commercial and residential property values given change in office work practices and online shopping, financial condition of tenants, and impacts of any restructuring of agreements.
 - Currency and appropriateness of any information and assumptions used in determining expected credit losses, particularly as past models and experience regarding recovery may not be realistic in the current environment.
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SOME DETAILS AND GUIDANCE

ASIC recognises there can be significant changes between reporting periods due to changes in the circumstances of companies and their operative environments. This can significantly affect assessments of asset values and financial position.

Preparers and auditors involved in the reporting and audit process should have the appropriate experience and expertise and take caution when working in more difficult and complex areas, such as asset values and other estimates.

Assumptions underlying estimates and assessments for financial reporting purposes should be realistic, reasonable, and able to be supported. Assumptions should not be overly optimistic or pessimistic.

Directors and preparers of financial reports should put themselves in the shoes of investors and consider what information investors would want to know. Disclosing uncertainties about future economic and market conditions and the potential business impact is vital and may have bearing on estimates and asset values. Entities must disclose each type of support and assistance from government, lenders, landlords, and others (eg JobKeeper, land tax relief, loan deferrals and restructuring, and rent deferrals and waivers).

Directors and auditors should be permitted sufficient time to consider reporting issues and to challenge assumptions, estimates, and assessments. Directors should make the relevant enquiries to determine whether key processes and internal controls have operated effectively during periods of remote work. If possible, auditors should be permitted to attend on-site, including for stock counts and system walk-throughs.

EXTENDED REPORTING DEADLINES

The deadline to lodge financial reports under the Corporations Act has been extended for both listed and unlisted entities. Balance dates from 23 June 2021 to 7 July 2021 inclusive is extended by one month. Directors should consider the information needs of shareholders, creditors, and other financial reports users, as well as any borrowing covenants or other obligations before deciding whether to rely on this reporting extension.

A FINAL REMINDER

As a final reminder, ASIC Commissioner Cathie Armour confirms 'the quality of financial reports and related disclosures remain more important than ever for keeping investors informed'.

We can help with your queries about what these reporting requirements mean for your business.

Authors



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