MEDIA RELEASE (21-354MR)

ASIC review of 30 June 2021 financial reports

Published **15 December 2021**

ASIC's latest review of the financial reports of 150 listed entities for the year ended 30 June 2021 has resulted in inquiries of 29 entities on 53 matters.

The largest numbers of matters relate to impairment of assets, disclosure of business risks in the Operating and Financial Review, and revenue recognition.

Asset values and disclosures of business risks in the COVID-19 environment

While acknowledging that many companies have continued to make useful and meaningful disclosures as COVID-19 conditions evolve, ASIC identified some entities that did not appear to give sufficient attention to the reporting of asset values and the disclosure of business risks in the Operating and Financial Review.

ASIC Commissioner Sean Hughes said, 'Many entities face uncertainties about the future economic and market conditions due to COVID-19. We continue to raise inquiries where the assumptions about future cash flows appear unsupportable, and where the impacts of COVID-19 conditions on the business were not clearly disclosed.'

'The findings of this review emphasise that directors and auditors should continue to focus on impairment of assets, particularly as some businesses may be adversely affected in a post-COVID environment or by continuing pandemic impacts in overseas markets', Mr Hughes said.

For information on focus areas for 31 December 2021 financial reports, refer to 21-342MR (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-342mr-asic-highlights-focus-areas-for-31-december-2021-financial-reports-under-covid-19-conditions/) *ASIC highlights focus areas for 31 December 2021 financial reports under COVID-19 conditions*.

ASIC's inquiries

Following its 30 June 2021 reviews, ASIC made inquiries of 29 entities about the following matters:

Matter	Number of inquiries
Impairment and expected credit losses	14
Operating and Financial Review	10
Revenue recognition	6
Tax accounting	6
Expense deferral	6
Business combinations	2

Matter	Number of inquiries
Borrowings	2
Leases	2
Non-IFRS profits	2
Other matters	3
Total	**53**

Making inquiries of individual entities does not necessarily lead to material restatements in every case. Matters involving six of the entities have been concluded without any changes to their financial reporting. Inquiries of the remaining 23 entities are continuing.

Material changes

When a company makes material changes to information previously provided to the market following inquiries made by ASIC, ASIC makes a public announcement. In addition to improving the level of market transparency, these announcements are intended to make directors and auditors of other companies aware of ASIC's concerns so they can avoid similar issues.

Since the last release of ASIC findings on 16 June 2021, we have made public announcements about:

- Jayex Technology Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-243mr-jayex-technology-writes-down-goodwill/)
- Academies Australasia Group Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-254mr-academies-australasia-group-records-property-make-good-provision/)
- Mosaic Brands Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-255mr-mosaic-brands-increases-lease-make-good-provision/)
- Earlypay (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-328mr-earlypay-announces-change-to-classification-of-debt/) Limited (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-328mr-earlypay-announces-change-to-classification-of-debt/)

The total negative adjustments to profit were $1.93 million for Jayex, $452,000 for Academies, and $2.7 million for Mosaic. Earlypay incorrectly classified $19.9 million of debt as non-current.

ASIC's reviews are conducted as part of ASIC's ongoing risk-based reviews of financial reports.

More information about the findings from the review of financial reports ending 30 June 2021 is provided in the attachment to this media release.

Attachment to 21-352MR *ASIC review of 30 June 2021 financial reports*

1. Impairment

ASIC's inquiries on assessments of the recoverability of the carrying values of assets, including goodwill, other intangibles, and property, plant and equipment 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 trading results and the impact of and uncertainties due to COVID-19 conditions.

(b) *Disclosures*: ASIC still finds some entities that are not making the necessary disclosure of:

- key assumptions, including discount rates and growth rates;
- for fair value less costs to dispose, the valuation techniques and inputs used; and
- the events and circumstances leading to a reversal of previous impairment losses, including key assumptions.

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 31 December 2020 financial reports.

2. Expected credit losses on loans and receivables

ASIC made three inquiries in relation to expected credit losses (ECLs) on loans and receivables. In one case, we have inquired into the entity's approach to estimating ECL on its portfolio of invoice finance receivables. This includes the treatment of reassignment arrangements, and how forward-looking assumptions address the impacts of COVID-19.

3. Operating and financial review

ASIC raised several inquiries with entities about the adequacy of disclosure of risks to a company's strategy and future financial prospects outlined in their operating and financial review (OFR) (refer to 21-354MR).

4. Revenue recognition

ASIC made inquiries of six entities about revenue recognition. In one instance, we inquired about the timing of revenue recognition for the online sale of goods and whether control had passed to the customer at the time of dispatch. In another case, ASIC made inquiries about the nature and recognition of various fees for providing finance.

ASIC also inquired of an entity about whether labour hire services were provided as principal or agent. This matter was resolved with no changes to the financial report following further information and explanations from the entity.

5. Tax accounting

ASIC made inquiries of six entities on their accounting for income tax, including whether it is probable that future taxable income will be sufficient to recover deferred tax assets for tax losses. In one case, it appears that the use of tax losses relies on longer-term forecasts. In another case, there is a deferred tax asset for tax losses, despite a history of losses and a small current year profit supported by COVID-19 government assistance.

6. Expense deferral

ASIC made an inquiry about an entity's treatment of prepaid costs under an agreement for certain expenditure over a five-year period. The amount of prepaid costs increased significantly from the prior year and there was minimal disclosure about the arrangement. The company has committed to improving its disclosure of the arrangement in future financial reports.

ASIC also made inquiries of three entities on their response to the March 2021 IFRS Interpretations Committee agenda decision related to cloud computing costs for customers under Software as a

Service arrangements. In one matter, the entity had increased software intangible assets but did not disclose whether the agenda decision could result in a material amount of capital costs being derecognised.

7. Business combinations

ASIC made inquiries into two matters related to acquisition accounting. In one instance, most of the consideration paid was attributed to goodwill and we are inquiring about the nature of the business that has been acquired. The other instance was resolved with no changes to the financial report following further information and explanations from the company.

8. Borrowings

ASIC made inquiries of two entities about their borrowing arrangements. Earlypay had erroneously classified unsecured debt maturing within 12 months of year end as non-current. Earlypay has addressed our concerns by disclosing to the market the error, which will be changed in its next financial report. The other inquiry relates to the classification of a convertible note as a liability, despite terms of the instrument indicating that there may be an equity component.

9. Provisions

ASIC made inquiries of two entities on the adequacy of make good provisions for leased properties in their 30 June 2020 financial reports. Both entities made adjustments in their June 2021 financial reports. (Refer: 21-254MR *Academies Australasia Group records property make good provision* (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-254mr-academies-australasia-group-records-property-make-good-provision/) and 21-255MR *Mosaic Brands increases lease make good provision).* (https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-255mr-mosaic-brands-increases-lease-make-good-provision/)

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