ASIC LOOKS CLOSER

The Australian Securities and Investments Commission is querying the financial statements of 31 companies to determine whether further action is required following its largest ever financial reporting surveillance program in recent years.

Those companies were among 1000 entities examined by financial statement reviewers on behalf of the commission in order to see whether the accounts of Australian companies showed signs of replicating the US accounting malaise of the past two years.

Issues focused on by the commission include the way companies said they recognise revenue, whether companies capitalised expenses inappropriately and whether there were issues related to accounting for off-balance-sheet special-purpose entities such as those used by companies like Enron.

Chief accountant Greg Pound said the 31 companies have been approached by the commission with queries about their financial statements.

"They may well have a good reason for what we are asking them to explain. We are asking them to give us an explanation on those specific matters," said Mr Pound, a former director of auditing standards at the Australian Accounting Research Foundation.

The new chief accountant said the commission found that the general quality of financial reporting has been good and that company directors and auditors are doing their best to comply with the provisions of the Corporations Act.

PricewaterhouseCoopers partner Jan McCahey said the extensive nature of the review conducted by the commission was welcome because it confirmed the quality of financial reporting was high in Australia at a time when market confidence in audit and accounting has been low.

ASIC has taken the step of naming companies that have received qualifications or 'emphasis of matter' opinions on its web site. The commission named Diamond Rose NL, DSG Australia Limited, IXLA Limited, Koala Corporation Limited, Sabina Corporation Limited, and Worldwide Technology Group Limited as companies into which it is making further inquiries because of the qualifications relating to their ability to be going concerns.

There were another 160 companies, according to the commission, that had emphasis of matter paragraphs related to solvency and, in addition, 10 companies failed to lodge their financial statements.

Ernst & Young partner John O'Grady said it was pleasing to see the reports of auditors being highlighted by the review.

ASIC also found 107 companies failed to lodge financial statements on time with 42 of those being subject to enforcement action.

"That is a disappointing result. Some company boards appear to not give high priority to financial reporting as a part of their governance obligations," Mr Pound said.

"Our challenge now is to ensure the heightened focus on appropriate financial reporting doesn't stop at this point, but is sustained in the future with the kinds of regulatory change proposed under CLERP 9."

Stockford Limited's head of accounting policy, Colin Parker, said the positive nature of the findings related to the role of directors and auditors in fulfilling their financial reporting obligations should lead to a questioning of proposed government reforms to audit regulation.

This article was supplied by Tom Ravlic. Tom is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.