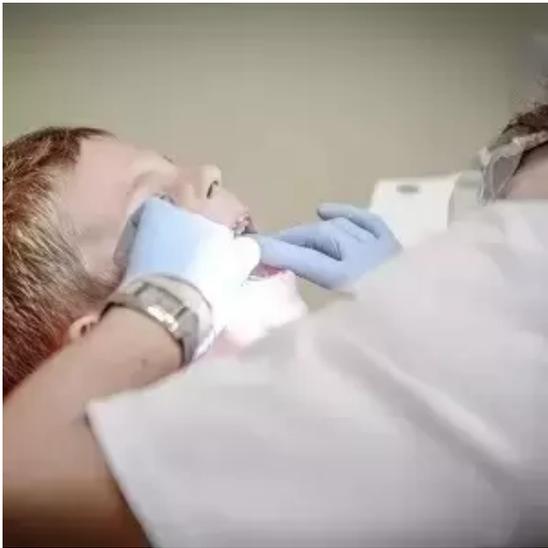


Smiles finally releases December 2019 half year report, but auditor not convinced



29 October 2020, Written by David Simmons

After Australia's corporate watchdog [took Smiles Inclusive \(ASX: SIL\) to court](#) over its inability to produce an audited financial report for the December 2019 half, the company has finally produced the elusive document.

It tells a story of a company with ballooning net losses, at \$13.6 million on 31 December 2019, but the auditor isn't fully convinced the company can continue to operate on a going concern.

According to KPMG's Independent Auditor's Report the firm said it did "not express a conclusion on the accompanying Interim Financial Report of the Group".

"Because of the significance of the matters described in the Basis for Disclaimer of Conclusion we have not been able to obtain sufficient

appropriate evidence to provide a basis for review conclusion on the Interim Financial Report," said KPMG.

The auditor goes on to describe how Smiles is "critically dependent" upon achieving a number of assumptions to continue as a going concern.

However, the firm says many of these assumptions are not at a stage where counterparties have committed to the course of the action Smiles proposes, are not sufficiently secured at this time, or evidence is not available for KPMG to perform its obligations.

"The status of these assumptions have material and pervasive negative impacts on our ability to gather evidence to form a conclusion, in particular in testing the existence of plans the Group has put in place, the existence of other mitigating factors, the feasibility of these plans, and whether the outcome of these plans will materialise to support going concern, as and when needed," said KPMG.

The auditor highlights a number of concerns, in particular with Smiles' [rescheduled repayment of a \\$12 million debt to National Australia Bank \(ASX: NAB\)](#).

According to KPMG, the auditor was unable to see the agreement signed by NAB and Smiles, nor was it able to communicate with NAB on the matter.

"Accordingly, we consider to have not gathered sufficient appropriate evidence regarding the implications of this on whether the going concern basis of preparation is appropriate," said KPMG.

Further, the auditor says it was unable to see any evidence Smiles is going to be able to execute its [proposed \\$7.6 million raise with Angus Aitken and John Murray-led Aitken Murray Capital Partners \(AMCP\)](#).

"Additionally, there is uncertainty in relation to the Group's ability to successfully raise the minimum funds required to complete the capital raising," said KPMG.

Finally, the auditor said it was not able to see whether Smiles' proposed turnaround plan is going to work, especially considering how the COVID-19 pandemic has impacted the group's operations.

"As a result of all these matters, we are unable to form a conclusion whether the going concern basis of preparation is appropriate, whether the Directors Declaration statement regarding the reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable is appropriate, and whether adjustments are required to the recorded values of assets and liabilities in the Interim Financial Report, are complete and accurate," said KPMG.

"Given the material and pervasive impacts of this to the Interim Financial Report as a whole, we are therefore unable to conclude on the Interim Financial Report."