



AUSTRALASIAN  
COUNCIL OF  
AUDITORS-GENERAL

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23 April 2010

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
AUSTRALIA

Dear Mr Stevenson

**Exposure Draft ED 192 “Revised Differential Reporting Framework” and Consultation Paper  
“Differential Financial Reporting – Reducing Disclosure Requirements”**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft and the Consultation Paper referred to above.

The views expressed in this submission represent those of all Australian members of ACAG. Our response focused on the Exposure Draft rather than the Consultation Paper.

ACAG supports this initiative and commends the Board for recognising the need for reform in the area of financial reporting, and for developing the Consultation Paper and Exposure Draft.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S O'Neill', with a horizontal line underneath.

Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

**Australasian Council of Auditors-General**  
**Response to Exposure Draft ED 192 “Revised Differential Reporting Framework” and**  
**Consultation Paper**  
**“Differential Financial Reporting – Reducing Disclosure Requirements”**

**General Comment**

ACAG supports the development of a differential reporting regime and acknowledges that an appropriate regime is likely to achieve cost savings in the areas of preparation and assurance as well as reduced complexity both from a preparer’s and a user’s perspective.

**Specific Matters for Comment**

- (a) **Whether you agree with the introduction of a second tier of reporting requirements for preparing general purpose financial statements (GPFSs) for:**
- (i) **for-profit private sector entities that do not have public accountability;**
  - (ii) **not-for-profit private sector entities; and**
  - (iii) **public sector entities other than those required by the AASB to apply Tier 1?**

**If not, and you support differential reporting, what other classifications of entities do you think would be more appropriate for differential reporting and why?**

The tier system is supported by ACAG and the identification of two complying tiers is a logical delineation to make – the first denoting full compliance, and the second, compliance with the Reduced Disclosure Regime (RDR).

- (b) **Whether you agree that entities within the second tier should be able to apply the proposed reduced disclosure regime, which retains the recognition and measurement requirements of full IFRSs or would you prefer another approach (e.g. IFRS for SMEs)? If you prefer the IFRS for SMEs, what do you consider to be the specific advantages of the individual differences of recognition and measurement requirements in the IFRS for SMEs compared with full IFRSs?**

ACAG agrees that the RDR should retain the recognition and measurement elements of the full IFRS. Any alternative arrangements may potentially see governments use different measurement and recognition arrangements for each tier thus reducing the effect of savings in the context of public sector audit and consolidation arrangements.

- (c) **The definition of public accountability (which is used to identify those for-profit entities that must apply Tier 1) and whether there are categories of entities in the Australian environment that should be cited as examples of publicly accountable entities other than those already identified in paragraph 26;**

ACAG considers that the term “public accountability” is not clear from a public sector prospective. While part of the definition in paragraph 24 specifically refers to for-profit private sector entities, it is recommended that:

- (i) as part of the definition and in paragraph 25, it be made clear that the definition only applies to the for-profit sector. It may also be useful to explain that because all not-for-profit and public sector entities are publicly accountable, the concept of “public accountability” is not used to determine whether a not-for-profit or public sector entity should apply Tier One or Tier Two reporting requirements.
- (ii) the definition, or the role of the reporting entity concept in paragraphs 33 to 35 of the Exposure Draft, reflect the current SAC 1 guidance on reporting entities in the public sector to make it clear that there can be non-reporting entities in the public sector.

**(d) Whether you would require any other classes of public sector entities, such as Government Departments, Government Business Enterprises or Statutory Authorities, to be always categorised as ‘Tier 1’ reporting entities and, if so, the basis for your view;**

No, ACAG considers that the current drafting is appropriate to all jurisdictions in that it allows regulators in each jurisdiction to make determinations as to which entities below the Whole of Government reporting level ought to be identified as Tier One organisations.

**(e) The clarification of the meaning of GPFs and modifying the way the reporting entity concept is used;**

ACAG considers that the paragraphs dedicated to making this clarification do not put a strong case in terms of why the use of the reporting entity concept is being modified. Further, we believe that the discussion is poorly constructed. Accordingly, subject to our comments in (c)(ii) above, we would support the continued use of the reporting entity concept for determining whether an entity should prepare general purpose financial reports (be it Tier 1 or Tier 2), as the concept is well understood, recognisable and accepted in our public sector jurisdictions.

**(f) The extent and nature of the proposed disclosures under the RDR (Tier 2), including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFs;**

Overall, ACAG believes that the RDR arrangements as currently presented should serve to reduce costs of preparation sufficiently.

**(g) Any particular disclosure requirements that:**

**(i) have been retained in the RDR that you consider should be excluded from the RDR, and your reasons for exclusion;**

ACAG has not identified any particular disclosure requirements that should be excluded from the RDR.

**(ii) have been excluded from the RDR that you consider should be retained, and your reasons for retention;**

It is considered that those elements that have been excluded are appropriately excluded.

**(h) Transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers;**

ACAG is satisfied that the transitional provisions as described are appropriate.

- (i) **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;**

There are no regulatory or other issues to report.

- (j) **Whether, overall, the proposals would result in reducing the costs of preparing GPFSS that would remain useful to users; and**

ACAG believes that the proposals as they are currently presented will reduce the costs of preparing GPFSS.

- (k) **Whether the proposals are in the best interest of the Australian economy.**

ACAG has no comment to make at this time as this matter has not yet been properly evaluated.

### **Other Comments**

- (i) Overall, the Exposure Draft appears to be unclear as to where the application, definitions, transitional provisions and application guidance will appear in any proposed Standard for this topic i.e. is it intended that there be a separate Standard, or will there be modifications to existing Standards or some variation of this?
- (ii) ACAG recommends that the term “public sector” be defined to remove any ambiguity.
- (iii) In the table at paragraph 21 of the Exposure Draft, we note that Universities have been included in Tier 1 under the heading “for-profit and not-for-profit public.” It is unclear as to whether University subsidiaries will also be subject to Tier 1 reporting requirements.
- (iv) ACAG believes that paragraph (c) on page 201 of the Exposure Draft should appear under the heading “AASB Standards excluded from the RDR” on page 200, rather than under the heading “AASB Standards applicable to Tier 2 entities without amendment,” as AASB 8 has been excluded from the RDR.
- (v) ACAG is of the view that paragraph IN5 on page 203 of the Exposure Draft is not as clearly expressed as paragraphs IN2 and IN3 on page 202.