

7 October 2010

Mr Kevin Stevenson  
The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Dear Mr Stevenson,

**ED 200A PROPOSALS TO HARMONISE AUSTRALIAN AND  
NEW ZEALAND STANDARDS IN RELATION TO ENTITIES  
APPLYING IFRSs AS ADOPTED IN AUSTRALIA AND NEW ZEALAND**

**ED 200B PROPOSED SEPARATE DISCLOSURE STANDARDS**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Drafts referred to above.

Overall, ACAG supports the changes proposed but would like to bring to the AASB's attention some concerns related to the introduction of the true and fair over-ride principle.

The views expressed in this submission represent those of all Australian members of ACAG.

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

Yours sincerely



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

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**ED 200B PROPOSED SEPARATE DISCLOSURE STANDARDS**

ACAG provides the following comments in response to specific questions raised by the AASB.

**QUESTIONS APPLICABLE TO ALL PROPOSALS**

- (a) Do you agree with the concept of harmonising the reporting requirements in Australia and New Zealand in relation to for-profit entities applying IFRSs as adopted in Australia and New Zealand?**

Yes. ACAG believes harmonisation will improve the comparability of financial information between Australian and New Zealand entities and will encourage trans-Tasman operations.

- (b) Should the retained additional disclosures be contained in a separate disclosure standard (as proposed) or contained with each Standard relevant to the topic of the disclosures (which is the current practice)?**

ACAG supports the relocation of Australian-specific definitions to a separate disclosure standard. However, the relocation of other Australian requirements, whilst reasonable in the short term, may result in decreased usability of accounting standards in the longer term. While the volume of information re-allocated at this stage is not significant, further harmonisation could result in the separate disclosure standard becoming a piecemeal collection of information from a variety of areas. This would affect the preparers' ability to quickly identify all reporting requirements for a specific type of transaction or class, in particular not-for-profit entities where all country-specific requirements have been relocated.

- (c) Do you agree with the specific proposals in this Exposure Draft regarding alignments, deletions, relocations and relocation and harmonisations? Please provide reasons supporting your response.**

ACAG supports the majority of changes proposed, subject to the matters detailed below. While the vast majority of changes result in less disclosure, we do not believe this to be of detriment to financial statement users.

*True and fair over-ride*

ACAG acknowledges that at a conceptual level, the true and fair over-ride permits entities to prepare financial statements which present a true and fair view in all circumstances. ACAG also notes the proposed changes have significant merit in promoting harmonisation with New Zealand and IFRS. However, ACAG would like to draw the AASB's attention to the following matters that may arise if the changes are implemented as outlined in the exposure draft:

- The proposed changes do not promote the goal of sector-neutral standards. While not-for-profit and public sector entities will be subject to the true and fair over-ride, a similar requirement will not exist for entities reporting under the *Corporations Act 2001* ('Corporations Act'). Country-specific exemptions would still exist for a large

number of entities, including Australian entities reporting under the Corporations Act. Separate exemptions exist in New Zealand standards for entities reporting under the *Financial Reporting Act 1993*. Such exemptions create an opportunity where similar entities may have access to the true and fair over-ride based solely on which country they are incorporated.

- While the inclusion of the true and fair over-ride helps to align Australian accounting standards with IFRS, it is not apparent to ACAG which entities will use this option in practice. It appears those entities most likely to wish to express full compliance with IFRS, being disclosing entities under the Corporations Act, will not have that option available under this proposal.
- Inclusion of the true and fair over-ride would increase the potential for diversity in financial reporting. Determination of what is considered ‘misleading’ is subject to judgement and interpretation, of which little explanatory guidance currently exists to support entities and auditors in the decision making process. ACAG believes the current additional disclosure requirements set out in AASB 101 *Presentation of Financial Statements* paragraph 23 are sufficient to address true and fair issues that may arise in application of an Australian accounting standard.
- The footnote approach proposed appears to be inconsistent with the objective to isolate all country-specific requirements to a separate standard.

Given the above concerns, ACAG proposes an alternative approach would be to consider removing the true and fair over-ride principle from both the Australian and New Zealand standards. This will ensure consistent application across all Australian and New Zealand entities while preserving the concept of sector neutrality. Although this would result in a potential departure from IFRS, it appears the majority of entities who could benefit from full IFRS compliance are already excluded under the changes proposed.

#### *Other commitment disclosures*

The removal of Aus138.6 from AASB 101 creates the opportunity for certain commitments to remain undisclosed to financial statement users. While various standards still require disclosure of commitments (AASB 116 *Property, Plant & Equipment* and AASB 138 *Intangible Assets* for capital commitments, AASB 110 *Events after the Reporting Period* for significant post balance date events and AASB 117 *Leases* for operating and finance lease commitments), there is no such requirement for entities to disclose other significant commitments that may exist at year end.

Examples where major commitments could remain undisclosed in the financial statements of public sector entities include:

- **Grant commitments:** where an entity has committed to significant funding at year end which does not meet the criteria for liability recognition, there is no specific requirement for the entity to disclose this amount in their financial statements. An example would be where a grant agreement had been signed prior to year end but control of the contributions had yet to pass to the receiving entity. This type of commitment would fall outside the disclosure requirements and therefore could remain undisclosed. For not-for-profit entities, information about future commitments can explain to users how an entity intends to use their surplus resulting from non-reciprocal contributions being recognised as revenue in the current financial year.

- **Long-term service agreements:** public sector entities often enter into multi-year service agreements for the receipt of specialised services from a third party. These may include fixed components that must be paid by the entity regardless of the level of services received. In the absence of Aus138.6, there is no specific requirement for these types of commitments to be disclosed in the financial statements.
- **Remuneration commitments:** where an entity commits to long term fixed remuneration packages for executives and other staff there will be no requirement to disclose such amounts.

Disclosure of this information is often useful for users when interpreting financial statements of public sector and not-for-profit entities.

#### *Other matters*

ACAG believes the definition of ‘entity’ assists users and should be relocated to the proposed separate standard rather than deleted.

For specific commentary on related party disclosures refer to discussion under ‘Other Questions’ below.

**(d) Which of the disclosures proposed to be included in separate disclosure standards AASB ED 200B / FRSB ED 122 should be required of entities applying differential reporting requirements, namely:**

- (i) **in Australia, the proposed Reduced Disclosure Requirements for general purpose financial statements**
  - (ii) **in New Zealand, qualifying entities. Please provide reasons for your response.**
- (i) ACAG believes the following disclosure requirements should apply to entities reporting under the reduced disclosure regime:
- Statutory basis (paragraph 3)
  - General purpose basis of preparation (paragraph 4).

These disclosures provide users with important information which identify the basis of preparation.

**(e) Are there any regulatory issues or other issues arising in the Australian or New Zealand environment that may affect the implementation of the proposals? Please provide reasons for your response.**

ACAG is not aware of any regulatory or other issues that could impact the implementation of these proposals.

**(f) Do you consider that the proposed amendments are in the best interests of users of general purpose financial statements of entities in Australia and New Zealand? Please provide reasons for your response.**

Yes, subject to the comments highlighted under Question (c) above.

## **QUESTIONS APPLICABLE TO SPECIFIC PROPOSALS**

- (a) **The Boards note that the proposed auditor remuneration disclosure requirements in AASB ED 200B / FRSB ED 122 are simplified and do not include the existing requirement in AASB 101 *Presentation of Financial Statements* in respect of ‘related practice’. Do you agree with the Boards’ proposals?**

ACAG agrees with the proposal to reduce disclosure requirements as other mechanisms exist to ensure accountability of audit professionals. Mandated requirements within APES 110 *Code of Ethics* and Division 3 Part 2M.4 of the Corporations Act ensure auditor independence and objectivity. Material non-attest services and related practices would be identified at this stage to ensure no actual or perceived independence threats exist before undertaking the engagement.

- (b) **In relation to the proposed deletion of paragraph Aus7.1 of Interpretation 113 *Jointly Controlled Entities – Non-monetary contributions by Venturers*, if this causes an entity to change its accounting policy, do you agree that it should be applied retrospectively?**

Yes. ACAG believes that full retrospective application would provide the most relevant information to users.

## **OTHER QUESTIONS**

**Although not dealt with in this Exposure Draft, the AASB is taking the opportunity to seek constituent views on whether it should retain disclosure requirements (AASB 124 *Related Party Disclosures* paragraphs Aus25.2 to Aus25.6, Aus25.7.1 and Aus25.7.2) related to the compensation of individual key management personnel of managed investment schemes that are disclosing entities.**

ACAG support the retention of the disclosure requirements as detailed in the above Aus paragraphs.