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Sent: Thursday, 12 June 2014 12:25 PM
To: AASB Mailbox; commentsletters@ifrs.org
Subject: Disclosure Initiative - AASB ED 249; IASB ED/2014/1

Sirs,

We are a firm specialising in the preparation of Annual Financial Statements for local governments in Australia. In particular, for the past 9 years we have been contracted by the South Australian Local Government Association to prepare the Model Statements used as a presentation and disclosure guide by the local government sector in that State. SA Councils are required to comply with the Australian Accounting Standards as they apply to not-for-profit entities (i.e. IFRSs plus specific "Aus" paragraphs for not-for-profits).

Due to the specific characteristics of the local government sector, there are a number of areas where the accounting standards are difficult to apply, have limited applicability to the sector or are mandated by legislative or other requirements.

One example relates to the requirement in AASB 13 (IFRS 13) paragraph 94(h)(i) for sensitivity analysis of fair value hierarchy level 3 valuations of infrastructure assets such as roads, footpaths, stormwater drainage and the like. There being no market for such assets, and being non-revenue earning, they are valued at depreciated replacement cost. An example wording included in the Model Statements is as follows:

"There is no known market for these assets and they are valued at depreciated current replacement cost. This method involves:

The determination of the cost to construct the asset (or its modern engineering equivalent) using current prices for materials and labour, the quantities of each being estimated based on recent experience of this or similar Councils, or on industry construction guides where these are more appropriate.

The calculation of the depreciation that would have accumulated since original construction using current estimates of residual value and useful life under the prime cost depreciation method adopted by Council.

This method has significant inherent uncertainties, relying on estimates of quantities of materials and labour, residual values and useful lives, and the possibility of changes in prices for materials and labour, and the potential for development of more efficient construction techniques."

The editorial committee supervising the preparation of the Model Statements considers that a wording similar to the above expresses the uncertainties in the valuation process sufficiently well that the addition of a formal sensitivity analysis could not provide meaningful information. The editorial committee considers that it has complied with the intent of the Standard, although perhaps not strictly complying with the minimum disclosures included in paragraph 94.

The editorial committee for a number of years has also recommended the disclosure of accounting policies for financial instruments in the relevant Note rather than in the Statement of Significant Accounting Policies, this giving early effect to the proposed change to paragraph 117.

Accordingly, we strongly support the intention of the Exposure Draft. We suspect, however, that minor wording changes may be required in future years as practitioners manage to misinterpret the wording proposed – although we ourselves are unable to improve on it.

However, we do take issue with the proposed new paragraph 139N relating to *Transition and effective date*.

We regard the Exposure Draft as not making changes to the existing suite of Accounting Standards, but as clarifying these in areas where misinterpretations have developed over a number of years.

We regard the action that the editorial committee has taken in the above example as being entirely in accordance with the existing suite of Accounting Standards, albeit that this will not be made explicit until the changes proposed in the Exposure Draft are made. We consider that it would be entirely inappropriate for the Model Statements to be required to report that we have adopted the amended standard early.

As the Basis for Conclusions makes clear, neither the definition nor concept of **materiality** is proposed to be changed. The purpose of the Exposure Draft is entirely to correct misconceptions existing within the profession as to how the existing definition and concept is applied.

We therefore recommend that the effective date be the date that the amendments to the Standard are made, and that the last two sentences of paragraph 139N be deleted.

That said, there will continue to be practitioners who continue to misinterpret the amended Standard. Assessing the materiality of an item is a matter of professional judgement, and both professional judgement and professional skills do vary.

We shall be pleased to supply any further information that you may require.

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