

AUSTRALASIAN COUNCIL OF AUDITORS- GENERAL

PO Box 275, Civic Square, ACT 2608 Australia

Phone & fax 1800 644102

Overseas: Phone & fax +61 2 9262 5876

E-mail: mike.blake@audit.tas.gov.au

ABN 13 922 704 402

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
Victoria 8007
E-mail: standard@aasb.com.au

Dear Sir

Invitation to Comment

Proposed Interpretations Model for Australian Accounting Standards

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the following response to the Invitation to Comment referred to above.

This letter brings together the views of the Australian members of ACAG with the exception of the Auditor-General for South Australia, who reserves his right to respond separately to auditing and accounting Exposure Drafts and Invitations to Comment where he deems it appropriate, rather than as a member of ACAG.

ACAG believes that the proposals in this Invitation to Comment to the changes in the financial reporting environment are appropriate and timely, and will permit Australian standard setters to respond to the emerging needs in an efficient, effective and timely manner. Our responses to the specific issues for comment are enclosed in the attachment to this letter.

Yours sincerely



Mike Blake
Chairperson
ACAG Financial Reporting Group
19 January 2006

ATTACHMENT

Submission by the Australian members (except for the Auditor-General for South Australia) of the Australasian Council of Auditors-General on the AASB Invitation to Comment: Proposed Interpretations Model for Australian Accounting Standards

We believe that the proposals in this Invitation to Comment to the changes in the financial reporting environment are appropriate and timely, and will permit Australian standard setters to respond to the emerging needs in an efficient, effective and timely manner.

Our comments on the specific issues are:

- (a) We support the proposal to establish advisory panels on issues and believe this approach is a more flexible and adaptive approach than having a formally established body. Our main concern with this proposal is that it may be more difficult to staff the panels compared to obtaining membership to an ongoing established body. The difficulties, as we see them lie in being able to conscript the appropriate people to an advisory panel within reasonable periods of time or, alternatively, being able to maintain a pool of appropriate individuals from which panel members can be drawn. While the panels offer the potential for flexibility, they also risk a loss of skills and knowledge (at least during the short to medium term until a sufficient number of potential panel members reach the required level of attainment) which may hinder the process.

In submitting this view we are starting from the presumption that there is a learning curve during which an individual's ability to consider an issue critically and work through the process in arriving at an acceptable compromise takes a bit of time. The advantage of the existing arrangements is that the experience and know how of producing a working interpretation (consensus view) is retained, compared to recruiting membership to a one-off short-term commitment to a specialist panel, who may not have the background and experience to deliver on an accounting interpretation. This, we believe, is an attribute that is additional to technical competence in the area being considered. The risk is that by the time an individual starts to achieve the desired level of contribution the task may be at an end and that person's skills in the area being considered may no longer be required. This should not prove to be an insurmountable problem, provided that the AASB is ever mindful of the essential need to support each new panel member.

- (b) We support the proposed size and composition of the advisory panels and believe that appointment on the basis of professional competence and relevant experience is preferable to appointment on the basis of representation. However, the AASB may wish to consider retaining a core group of panellists to provide a more efficient process and greater understanding. The objective of appointment on the basis of representation is an attempt to ensure that a range of perspectives is "brought to the table" on a particular issue, the solution to which, should be a

practically achievable outcome with its basis relating to the principles underlying accounting including the conceptual framework. Having just specialists addressing the issue may produce an interpretation which is a technically correct response comprehended by only the specialist group producing the solution, but not necessarily in the best interests of all stakeholders who wish to understand the issue. However, when the recommended interpretation is duly considered by the AASB, this possible short-coming should be overcome, as the perspectives of a much wider audience will have been brought to bear on the interpretation before it has been issued.

- (c) We support the formation of an Interpretations Agenda Committee and believe that the role and manner in which requests for guidance are dealt with will facilitate more timely responses to issues. Hopefully, with the sector neutral approach to standard setting and to the delivery of interpretations, the new arrangements will deliver appropriate and useful responses in a timely manner. The issue of the timely recruitment of members to the IAC addressed above, will be critical to the achievement of the timely delivery of interpretations.
- (d) We support the proposed manner of interaction with the IFRIC and believe the processes to be appropriate. We support the AASB in its approach to ensuring that the AASB Staff continue to work closely in supporting the IASB and the IFRIC in developing appropriate and timely Interpretations.