



INSTITUTE OF
**PUBLIC
ACCOUNTANTS®**

**Submission to AASB:
Revised Conceptual Framework – Phase 1**

August 2018

8 August 2018

The Chairperson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Kris

Invitation to Comment 39: Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statements Problems – Phase 1

Thank you for the opportunity to comment on the Invitation to Comment 39 *Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statements Problems* (phase 1).

Failure of the reporting entity concept

The Institute of Public Accountants (IPA) believes the centre-piece of the current differential reporting framework, the reporting entity concept, has been a failure in its application.

The reporting entity concept as applied by many preparers and auditors does not support transparency and comparability of financial reporting. The application of reporting entity concept represents a long-standing audit and regulatory failure for which there appears to have been inadequate redress and which may have prolonged the issues and concerns.

No rational basis for two conceptual frameworks

The IPA is of the opinion that there is no reasonable basis for having two conceptual frameworks in place after 1 January 2020 when the IASB's revised conceptual framework (RCF) becomes operative.

The IPA believes the operative date of any RCF should coincide with that commencement date. It is unacceptable that the AASB proposes to have two conceptual frameworks in place after that date with an indeterminate date for the replacement to become operative.

The IPA further believes that any revised differential reporting requirements should be operative from 1 January 2020. For most Australian companies this would mean that the first operative date for applying any new differential reporting requirements would be 30 June 2021. The IPA does not believe that if the differential reporting requirements were finalised in the 4th quarter of 2019, this would provide more than sufficient time to implement the reporting requirements.

On this basis while the IPA supports the adoption of the RCF, we reject the existence of two reporting frameworks beyond the operative date of the RCF.

Our comments and responses to the questions in the Invitation to Comment are set out in the Appendix to this letter.

If you would like to discuss our comments, please contact me or our technical advisers Mr Stephen La Greca (stephenlagreca@aol.com) or Mr Colin Parker (colin@gaap.com.au) (a former member of the AASB), GAAP Consulting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Stylianou', written in a cursive style.

Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 80 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) on issues affecting our members, the profession and the public interest. The IPA merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

Appendix

Specific matters for comment on Phase 1

Question 1

Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF in Australia?

IPA response

No. The IPA is of the view that the AASB should not operate two conceptual frameworks once the RCF becomes operative.

The IPA believes a revised reporting regime (and abandonment of the Special Purpose Financial Reporting concept) for non-publicly accountable entities should be operative from 1 January 2020 to coincide with the operative date of the RCF. This would mean for most Australian entities the first date under the new RCF and reporting regime would be 30 June 2021. As such, the IPA does not support the proposal.

Question 2

Do you agree that the short-term approach should be made applicable to both publicly accountable for-profit private sector and public sector entities?

IPA response

As stated above the IPA is of the view that only a single conceptual framework should be operative from 1 January 2020 and this should apply to all entities.

Question 3

Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach?

IPA response

The IPA is of the view that entities operating over-the-counter markets are of the view that they are not listed and therefore not publicly accountable.

The IPA is also aware of a similar view taken in regards to entities (often structured entities) with "compliance" listing in overseas markets, are not considered reporting entities and as such prepare SPFS.

Further, the IPA is also aware of the view that non-corporate financial service licensees not having to prepare consolidated financial statements as they are not considered reporting entities.

Question 4

Do you agree with the AASB's amendments to the definition of "public accountability" in AASB 1053 per IFRS for SME's Standard (refer to Appendix A)?

IPA response

As stated in previous submissions, the IPA has the view the current scope of the definition of "public accountability" is too narrow. The IPA is of the view that public accountability extends to those entities that have received government funding, been granted significant government contracts, licences or service concessions as they have either benefited from taxpayer funding or have been contracted or licenced to undertake activities which have public interest implications.

The IPA is also aware of the view that not all financial service licensees (particularly non-corporate entities) are not reporting entities and by implication not publicly accountable. The IPA believes the proposed elements of the public accountability definition relating to fiduciary duty do not address this.

Question 5

Do you agree with the proposed amendments to SAC 1 Definition of a Reporting Entity and the following Australian Accounting Standards, as set out in Appendix A?

IPA response

As the IPA believes there should be a single conceptual framework from 1 January 2020, the IPA does see the future relevance of SAC 1.

General matters for comment on Phase 1**Question 6**

Whether "The AASB's Standard-Setting Framework for For-Profit and Not-for-Profit Entities" has been applied appropriately in developing the proposals in Phase 1?

IPA response

The IPA is of a view that the proposal to have two conceptual frameworks (one of which is in conflict with IFRS) is inconsistent with the Standard-Setting Framework.

Question 7

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.

IPA Response

The IPA notes many entities may have to produce consolidated accounts for the first time and depending on transitional provisions this may include comparatives. As a result, there may be resultant modified audit opinions as a result of group and opening balance issues. The IPA is unaware of any other regulatory or other issues that may impact these proposals.

Question 8

Whether overall, the proposals would result in financial statements that would be useful to users.

IPA response

The IPA is of the view the proposals would enhance financial statements prepared by users as the IPA believes the current differential reporting regime has resulted in financial statements that are neither comparable or transparent. However, the IPA believes the proposals would be enhanced by adopting a broader definition of public accountability.

Question 9

Whether proposals are in the best interest of the Australian economy.

IPA Response

The IPA believes the proposal would be in the best interests of the Australian economy as the proposals would enhance the comparability and transparency of financial reports and therefore their usefulness to users. The IPA believes the proposals would be further enhanced by adopting a broader definition of public accountability.

Question 10

Unless already provided in the response to specific matters for comment above, the costs and benefits of the proposals relative to the current requirements whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

IPA Response

While the IPA is not in the position to comment on the quantitative cost of the proposal, the IPA notes that there will likely be an increase in audit costs on an ongoing basis as many entities that did not prepare group accounts will be required to have group audits for the first time.
