



## **FRC Managing Complexity Report (October 2012)**

Follow up actions on the report's recommendations for the 13 June 2013 FRC meeting

### **RECOMMENDATIONS AND RESPONSE**

- Examine how the current financial reporting regime for the various types of reporting entities in Australia can be best explained and understood, and if needed, seek rationalisation of the regime (for example, through further deregulation of who needs to report).

**The FRC has established the Financial Report Task Force to follow up on this recommendation. The Task Force is currently in the process of mapping out the various financial reporting regimes for Australian reporting entities.**

**The Australian Charities and Not-for-profits Commission (ACNC) is establishing a number of working parties, including the Social Services Reporting Duplication Working Party, to identify and recommend practical strategies to resolve unnecessary duplications in reporting requirements that may already exist and which may arise through the establishment of the ACNC. These working parties will be chaired by the ACNC and will provide advice to the ACNC and other relevant not-for-profit government committees, such as the Removing Not-for-profit Regulatory Duplication Working Group which is co-chaired by the ACNC and the Department of Prime Minister and Cabinet.**

- Support the Australian Accounting Standards Board's ongoing review and consideration of further enhancements to the reduced disclosure regime, including ongoing monitoring of developments in the International Financial Reporting Standards for Small and Medium-sized Entities standard.

**The Institute of Public Accountants has established an SME Research Partnership with Deakin University to inform the Institute and the profession on issues of relevance to the financial reporting framework; the development of international standards and trends. The FRC has been offered the opportunity to be a non-financial partner.**

**The FRC Financial Report Task Force is considering this issue as part of its work.**

**HoTARAC has been considering options to introduce a relevant and appropriate reduced disclosure regime for public sector entities. As part of this, HoTARAC has been collaborating with Curtin University to undertake research on this matter. In parallel to this, both Victoria and the Australian Government have initiated projects to further consider rationalisation of reporting requirements for public sector entities in those jurisdictions.**

The FRC Public Sector Committee (PSC) will undertake to engage with HoTARAC on their project of looking at a reduced disclosure regime for smaller public sector entities, and will provide updates to the FRC. The PSC will act as a conduit to engage with the FRC if HoTARAC requires any authoritative input from the FRC to assist with the implementation of a coordinated approach.

- Encourage a more coordinated approach between different agencies of government when considering accounting disclosure requirements.

The Australian Government has (i) moved reporting on 'special accounts' (information not required by statute) from the financial statements to web-based reporting; and (ii) planning to produce a summary of the key points from the financial statements in graphical form for use by the general public.

Further, the Government is planning a comprehensive review of its Consolidated Financial Statements in 2013 to eliminate information that is not required to provide a true and fair view, recognising the limits imposed by accounting standards. A Position Paper 'Sharpening the Focus: A Framework for Improving Commonwealth Performance' was released in late November 2012. One of the proposals is greater use of tiered reporting to simplify reporting for lower-risk entities.

HoTARAC has continued its ongoing efforts to monitor and provide submissions to both local and international standard setters and other bodies on the topics of integrated reporting, disclosures relating to management discussion and analysis, and the development of a principles based presentation and disclosures framework.

The FRC Financial Report Task Force is considering this issue as part of its work.

In 2011 the Australian Department of Finance and Deregulation issued a [circular](#) to provide guidance to all Australian Government entities on the use of the terms *audit* and *assurance*. The AUASB has now commenced a project to prepare a Guidance Statement possibly titled "Composite Auditing and Assurance Engagements (Including Grant Acquittals). The objective will be to re-publicise to agencies and departments the limitations to expectations for auditor certification requirements outside the AUASB framework.

- Encourage preparers to make better use of developments in information technology in the delivery of financial reports.

The ASX Corporate Governance Council announced on 4 December 2012 that it would be consulting on a third edition of its Corporate Governance Principles and Recommendations. The Council will be looking at ways to streamline governance disclosures and to give ASX listed entities greater flexibility to disclose their governance practices on their websites rather than in their annual report (picking up a recommendation of the FRC Managing Complexity Task Force).

The Standard Business Reporting Program, now fully part of the Australian Business Register, is considering ways that preparers of financial reports might be encouraged to use Standard Business Reporting for the lodgement of financial reports.

- Encourage the Australian Securities and Investments Commission to emphasise that, under accounting standards, only material disclosures are required (especially in communications such as the regular commentary about their areas of focus when reviewing financial reports).

**ASIC has confirmed that its financial reporting surveillance program focuses on the importance of material disclosures and its latest media release on this topic (27 November 2012) emphasized, inter alia, that directors and auditors should focus on disclosures of useful and meaningful information for investors and other users.**

- Reinforce the need for board education on financial reporting.

**Ongoing – refer to the follow up comments for the Board Education Task Force report**

- Continue to monitor integrated reporting.

**Ongoing**

**The FRC Integrated Reporting Task Force is reviewing and preparing a submission to the Draft Integrated Reporting Framework released by the International Integrated Reporting Council on 16 April 2013.**

**The AUASB held a roundtable with KPMG mid-May 2013 looking at assurance issues in integrated reporting, and will also make a submission on the IIRC's Draft Framework.**

- Continue to influence the International Accounting Standards Board to undertake reforms including rationalisation of disclosures.

**The IASB has hosted a public Disclosure Forum to consider the challenging area of disclosure overload. The Forum, held in London on 28 January 2013, is intended to foster dialogue between preparers, auditors, regulators, users of financial statements and the IASB about how to improve the usefulness and clarity of financial disclosures. Output from the Forum will inform the IASB's work on its Conceptual Framework. The FRC Managing Complexity Report was part of the background provided for this Forum.**

**The AASB has commenced active work on the IASB's conceptual framework project which recommenced in January 2013. Part of that work involves the topics of disclosure and presentation where the AASB is of the view that there is a great deal of room for rationalisation. This project is expected to be active for quite some time. The AASB is actively engaged through the Accounting Standards Advisory Forum (ASAF) in debates about the need for a rationalised disclosure framework and aims to publish a paper on the topic mid-2013. The AASB is continuing to contribute to the IPSASB conceptual framework work which involves similar opportunities.**

- Continue to monitor the work of other jurisdictions in addressing the issue of complexity in financial reporting.

**Ongoing**