

FINANCIAL REPORTING — ISSUES, RECOMMENDATIONS AND SUMMARY OF OBSERVATIONS

REPORT BY FINANCIAL REPORT TASKFORCE

Purpose

The purpose of the FRTF is to provide policy advice to the FRC in respect of the following:

To examine how the current financial reporting regimes for the various types of reporting entities in Australia can best be understood and, if needed, make recommendations regarding rationalisation of the regimes (for example, through better regulation of who needs to report and/or providing a vehicle for co-ordinating existing and new legislation).

Terms of Reference

The Terms of Reference were drawn to clarify the aims of the Taskforce. This helped shape the Taskforce's work plan. Terms of Reference was drafted by the Chair with comments and inputs from members. The document was finalised by the Secretary of the Task Force. Attachment A is the approved Terms of Reference.

Methodology

In order to examine the existing financial reporting requirements of the various types of reporting entities in Australia, the task force agreed to map out the various reporting schemes applicable to entities. These include requirements under the *Corporations Act 2001*, cooperatives financial reporting requirements, not for profit reporting requirements etc. The Secretary received information on the various reporting requirements that the members were aware of and consequently a mapping study of the various regulators, reporting regimes, and how they interrelate was undertaken. PricewaterhouseCoopers voluntarily assisted the work of the task force by undertaking the mapping exercise and reporting on progress during the project.

While undertaking the mapping study, it was noted that the various regulatory regimes often imposed overlapping reporting requirements on entities, which may or may not be tailored for the entities they apply to. It was suggested that one way to deal with this is to establish a platform which they can consult, prior to imposing reporting requirements on entities.

PricewaterhouseCoopers (PwC) also shared their observations relating to the mapping work being undertaken on reporting requirements, namely that there were divergent:

- reporting requirements across the different layers of Government;
- assurance requirements, especially in relation to the use of Registered Company Auditors; and
- accounting standard requirements, especially in relation to General Purpose Financial Reporting (GPFR);

... with no consistent justification, in terms of either entity risk profile or accountability.

The Taskforce agreed that addressing the complexity of financial reporting requirements would require long term action; however it remained important that the Taskforce consider how to streamline reporting requirements, such as:

- Managing complexity within legislation, such as through having a centralised reference point for guidance for legislators when they wish to include accounting and auditing requirements, to minimise the likelihood of inappropriate or inconsistent references;
- Streamlining existing reporting requirements; and
- Developing a framework for new regulation, defining appropriate reporting requirements depending upon an entity's risk profile and public accountability and the likely users of an entity's financial reports.

AASB's research findings: The Taskforce considered how it should recommend that the FRC respond to the AASB's research findings into the use of Special Purpose Financial Reporting (SPFR). The Committee was advised that ASIC has also done some research into this matter. A wide range of views were expressed about the nature, extent and significance of the problem relating to the use of accounting standards.

Key issues identified by the Financial Reporting Taskforce

There is often no clear basis for the divergent reporting requirements, particularly where legislative requirements differ between states and different types of organisations:

- There are a range of different size thresholds, across different entity types, with inconsistent reporting and audit requirements. Differences in these thresholds and reporting requirements do not appear to be the result of different risk characteristics, or public interest in the accounts of entities.

Assurance requirements are similarly divergent between entity type:

- Some reporting requirements may call for an audit or review by a Registered Company Auditor, others only an audit or review by a member of the Chartered Accountants ANZ, CPA Australia, or IPA.

It was often a complex task to draw out the relevant reporting requirements from legislation:

- Sometimes, reporting requirements are outlined in regulations, and it is not always easy to get an overview of the different requirements that apply to different tiers of entities required to report.

Legislative reporting requirements may be internally inconsistent:

- One instance was identified where legislation required GPFRs to be prepared, but prescribed reporting under a non-IFRS GAAP (Trade Unions whose income <\$100,000). Here, the legislation refers to GPFRs, but did not require compliance with AASBs, and set out an alternative set of accounting principles. These principles permit accrual or cash basis accounting to be adopted.

Government reporting legislation on its own does not always require accounts to be prepared in accordance with the accounting standards: sometimes, it is the treasurer's directives that enforce accounting standards.

One particularly significant aspect of the current overarching reporting framework is that a very large range of entities is required to lodge financial reports on the public record. Those that are reporting entities must provide general purpose financial reports, complying with the appropriate accounting standards. Within this group, there are a large number which can use the reduced disclosure regime (for example, entities which are not listed or disclosing or governments), applying full recognition and measurement requirements with reduced disclosure. Other entities which do not regard themselves as reporting entities can lodge special purpose financial reports. There is currently confusion as to what measurement requirements must be followed, if any, in special purpose financial reports. There is another group of small entities specifically associations, charities and not-for-profit entities which are usually small in size and for which there is no clear accounting framework and for which general purpose financial reporting may be too onerous.

Recommendations to the Financial Reporting Council

1. That the Financial Reporting Council authorise the release of the mapping document and make provision for it to be kept up to date.
2. In order to provide consistency going forward to avoid the proliferation of even more complexity, that the Financial Reporting Council recommend that the Federal Government makes arrangements to establish an online one-stop-shop reporting requirements portal, including the mapping document, which outlines the possible reporting and assurance obligations to consider when determining requirements and which makes recommendations for different types of entities (including outlining tiers of reporting), and potentially cross-references back to current legislative requirements.
3. That the Financial Reporting Council perform a further exercise benchmarking the requirements of Australia against other jurisdictions; for example, New Zealand, Singapore, the US and Canada in determining reporting requirements for non-listed entities, to further inform the following recommendations.
4. As a short term project, to improve clarity and consistency of requirements, the Federal Government consider the current small/large thresholds with a view to determining the appropriate threshold level at which such entities should be required to lodge publicly available financial reports and would be required to prepare GPFRs.
5. As a longer term project in order to respond to the existing complexity of the financial reporting arrangements that the Federal and State Governments jointly (possibly through a COAG process) be asked to undertake a project to consider the following policy issues regarding entities which need to lodge financial reports on the public record.
 - (a) Who is required to lodge formal financial reports on the public record both in terms of the nature of the organisation and the size, and what is the reason for which these financial reports need to be publicly available, and what level of attestation is appropriate (for example, audit or review or none).

- (b) What is required to be reported on in these financial reports, with the expectation that those entities required to lodge publicly should lodge GPFRs. This would remove the application of the reporting entity concept at the user level, providing greater clarity and consistency. This is also likely to mean the criteria for public lodgement should be based on objective criteria such as size and type of entity. If financial reports do not need to be lodged publicly then the financial reporting should be specific to the purpose for which the information is required. In the rare circumstances where some form of financial information is considered necessary to be publicly available, but GPFRs are considered too onerous, what the reporting requirements might be.
 - (c) Where the appropriate level of assurance is a review who may perform such services.
6. The Financial Reporting Council thanks PricewaterhouseCoopers for its considerable pro bono assistance in furthering the work of the Financial Review Task Force.

ATTACHMENT A

TERMS OF REFERENCE

The key objective of the Taskforce is to provide policy advice to the Financial Reporting Council (FRC) in respect of the following:

To examine how the current financial reporting regimes for the various types of reporting entities in Australia can best be understood and, if needed, make recommendations regarding rationalisation of the regimes (for example, through better regulation of who needs to report and/or providing a vehicle for co-ordinating existing and new legislation).

The Taskforce may consider the following matters:

1. What are the financial reporting and assurance requirements that are currently in place in Australia as they apply to the different types of entities that are required to have publicly available reports (for example, companies, managed schemes, government departments and organisations, indigenous corporations, associations, unincorporated ventures, co-operatives, superannuation funds, trusts, charitable and not for profit organisations, trust funds etc.)?
2. How can these financial reporting and assurance requirements and the framework in which they rest be best categorised, understood and communicated?
3. Are there deficiencies and/or inconsistencies in the structure and content of these financial reporting and assurance obligations?
4. Are there any overlaps or duplication in the purpose or content of these financial reporting and assurance obligations?
5. Are there opportunities for improving and streamlining these financial reporting and assurance obligations to improve consistency and efficiency having regard to the objectives of financial reporting and assurance, as set out in the Australian Accounting Standards Board's Conceptual Framework underpinning general purpose financial reporting and the Auditing and Assurance Standards Board's explanatory framework for audit and assurance engagements?
6. Are there any improvements to policy and to the institutional oversight framework that can be recommended to ensure that changes to financial reporting and assurance obligations in the future take place consistently and efficiently, having regard to the Australian Accounting Standards Board's Conceptual Framework underpinning general purpose financial reporting and the Auditing and Assurance Standards Board's explanatory framework for audit and assurance engagements?

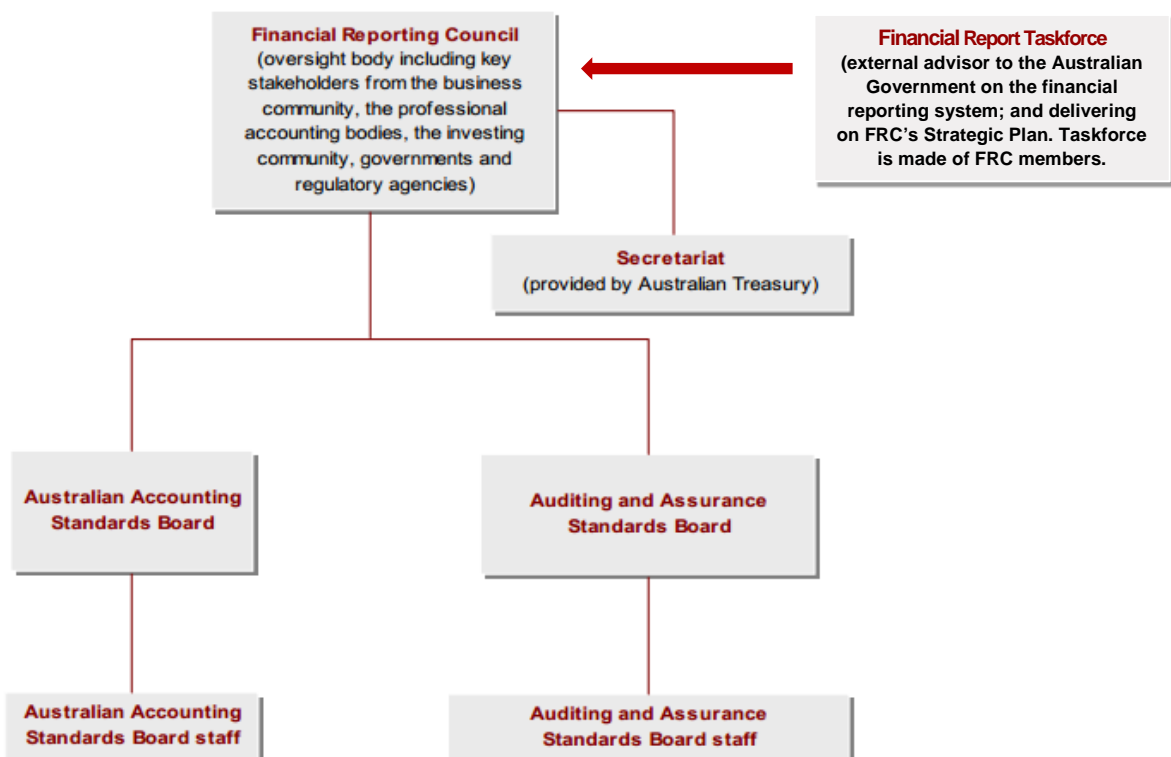
ATTACHMENT B

BACKGROUND

The Financial Report Taskforce (FRTF) was established in response to one of the recommendations made by the Managing Complexity Taskforce — that the FRC 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 Members of the Taskforce are Ross Barker (Chair), Andrew Fleming (retired during the term of the task force), Merran Kelsall, Ian Laughlin, Ian Purchas, Kris Peach (joined the committee following the retirement of K. Stevenson) and Kevin Stevenson (retired during the term of the task force). The non FRC members of the Taskforce are Kevin Neville (Director and Head of External Audit and Assurance Division, Moore Stephens) and Susan Pascoe (Commissioner of the Australian Charities and Not for-profits Commission). Margot Le Bras, partner of PricewaterhouseCoopers and Masha Marchev, a senior accountant at PricewaterhouseCoopers, also attended meetings as required, to report on the mapping exercise.

Fig 1: Diagrammatic representation of the FRC portfolio and FRTF



MEETINGS

The FRTF committee met six times during February 2013 and May 2014. The meetings were conducted at the Bourke Street, Melbourne office of the Australian Accounting Standards Board (AASB). Members attended in the meeting in person and via teleconference. The meetings were chaired by Ross Barker and APS officers from the Markets Group, Commonwealth Treasury assisted with the Secretariat role.