



# Board Meeting Summary Paper

**Subject:** Recent Changes to AASB Standards and  
*Corporations Act 2001*

**Date:** 8 July 2010

<b>AUASB AGENDA ITEM NO. 14(c)</b>
<b>Meeting Date: 26 July 2010</b>

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

To inform the AUASB on recent amendments to:

- (a) Australian Accounting Standards as a result of the Reduced Disclosure Regime.
- (b) *Corporations Act 2001* via *Corporations Amendment (Corporate Reporting Reform) Act 2010*

And comment on their impact to AUASB Pronouncements.

## Background

### (a) AASB Accounting Standard changes

The AASB's Differential Reporting project has resulted in the first stage of changes being made to the disclosure and reporting requirements of entities who prepare general purpose financial statements (GPFS). It is understood the second stage will involve consideration of the retention of the "reporting entity" concept and the state of "special purpose financial statements". In the meantime, entities currently preparing special purpose financial statements will continue to do so.

The first stage changes have been effected via the release, on 5 July 2010, of two new accounting standards. These are:

- o AASB 1053 *Application of Tiers of Australian Accounting Standards*; and
- o AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*

These Standards are effective for annual reporting periods beginning on or after 1 July 2013, with early adoption possible for annual reporting periods beginning on or after 1 July 2009 (i.e. first application for 30 June 2010 year end entities).

---

*This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

The standards apply to any general purpose financial statements prepared for any purpose (including those prepared under the *Corporations Act 2001*, by reporting entities, in respect of financial statements held out to be GPFS, financials prepared in accordance with AASB 1049 (Government), and for any timeframe (e.g. annual or half-yearly).

A snapshot of the substance of the changes are as follows:

- Entities who prepare GPFS are now classified for financial reporting purposes as either Tier 1 or Tier 2 on the basis of whether they are “publicly accountable”, or a government entity (Australian Government, State, or Territory). AASB 1053 sets out the application of the tiered system,
- Entities apply the same recognition and measurement basis of accounting regardless of whether they are in Tier 1 or 2.
- “Public accountability” (defined at Appendix A to AASB 1053) means “accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs”. Examples include for-profit private sector entities that have debt or equity instruments traded in a public market or entities that hold assets in a fiduciary capacity (e.g. banks, credit unions etc...)
- Entities in Tier 1 – having public accountability – continue to prepare GPFS in accordance with Australian Accounting Standards (AAS) and incorporate IFRS compliance.
  - Tier 1 financial reporting disclosure requirements remain the same (status quo).
  - Examples of Tier 1 entities are for-profit private sector entities preparing under the *Corporations Act 2001* and federal government departments.
- Entities in Tier 2 – not having public accountability – can now prepare their GPFS in accordance with Australian Accounting Standards using the reduced disclosure requirements (AAS-RDR). They *don't* include IFRS compliance.
  - Examples of Tier 2 entities are not-for-profit entities or for-profit private sector entities that are not publically accountable.
  - The AAS-RDR prescribe the minimum disclosure requirements in the Tier 2 entities financial report. Compared to Tier 1 entities, the disclosure requirements are reduced in the area of notes to the financial statements, according to the circumstances of the entity. It is important to note:
    - Tier 2 entities can still elect to apply Tier 1 reporting requirements as AAS-RDR requirements are the minimum for GPFS.
    - Tier 2 entities can also choose to add additional disclosures over and above the Tier 2 minimum requirements.
    - Regulators (e.g. ASIC) may also require Tier 2 entities to apply Tier 1 disclosure requirements.
- AASB 2010-2 is an amending standard to effect the reduced disclosure requirements of Tier 2 requirements across numerous pre-existing Accounting Standards impacted by the AAS-RDR.

---

*This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

(b) Corporations Act 2001 changes

**Parent Entity Financial statements**

The *Corporations Amendment (Corporate Reporting Reform) Act 2010* was given royal assent on 29 June 2010 and has changed the existing *Corporations Act 2001* (the Act) requirements relating to parent entity disclosures in the financial report for financial reporting periods ending on or after 30 June 2010. The changes relate to entities required by accounting standards to prepare consolidated financial statements. Specifically, it removes from section 295(2) of the Act the existing requirement for such entities for the parent entity to prepare and disclose separate current and preceding financial year results in the financial statements. Instead, the Corporations Regulations will require parent entity supplementary information to be disclosed by way of a note to the financial statements. Such information is less extensive than previously required.

The above change has a direct impact on the auditor's report as the auditor is required to form a conclusion on whether the financial report has been prepared, in all material respects, in accordance with the Act and accounting standards. Consolidated entities preparing financial statements under the Corporations Act are no longer allowed to assert compliance with the Act (via the Directors Statement) if they continue (e.g. by choice or by lack of knowledge of the above changes) to separately include the parent entity financials in the consolidated financials, and therefore the auditor would be similarly precluded from concluding compliance. To address this, ASIC have advised us that they are currently working on issuing a class order that will "allow inclusion of the parent entity financial statements on condition that there are the appropriate statements in the Director's Declaration and the Auditor's Report (i.e. same as the old regime)".

**Protection of certain audit information – Solicitors representation letters requested by the auditor**

The legal protection of solicitors representation letters has not been included in the final approved version of the *Corporations Amendment (Corporate Reporting Reform) Act 2010*. Treasury have advised that they will be consulting further on this topic and will include reforms related to this in a later Bill once the appropriate wording has been settled.

**Matters to Consider**

(a) AASB Accounting Standard changes

The AUASB Technical Group has considered, at the current date, the impact of the above Accounting Standards on the existing AUASB suite of pronouncements, particularly the Auditing Standards (Clarity).

It is *not* considered that the new Accounting Standards require any amendments to the Auditing Standards, given the following:

- *ASA 210 Terms of Engagement*. Whether the entity reports under Tier 1 or 2 reporting framework, the standard requires the auditor to determine the acceptability of the "applicable financial reporting framework" chosen by management/those charged with governance in the preparation of the financial report. This concept of an "applicable financial reporting framework" is referred to throughout the Auditing Standards and accommodates many different forms of the financial reporting framework, as is necessary with the different reporting circumstances of entities. Therefore, no further action is currently required.

---

*This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*

- *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards.* The definitions related to financial reporting remain current and accommodate the new tiered reporting system for GPFS through use of the “applicable financial reporting framework” concept in ASA 210. Therefore, no further action is currently required.
- *ASA 700 Forming an Opinion and Reporting on a Financial Report.* The requirements are framed to require the auditor to “form an opinion on whether the financial report is prepared in all material respects in accordance with the applicable financial reporting framework”. Therefore, no further action is currently required. Other reporting standards which build on ASA 700’s requirements (i.e. ASAs 705/706/800/805) are not currently impacted.
- *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity.* The existing requirements retain applicability through the use of the “applicable financial reporting framework” terminology. Therefore, no further action is currently required.

The AUASB Technical Group will maintain a watching brief on the AASB’s Differential Reporting project and advise the AUASB Board of further developments as they arise.

(b) Corporations Act 2001 changes

**Parent Entity Financial statements**

In view of the pending ASIC class order, the AUASB Technical Group does not believe any changes are currently necessary to the Auditing Standards (in particular ASA 700, Appendices – which contain an example auditor’s report on consolidated entities’ financial reports prepared under the *Corporations Act 2001*). The AUASB Technical Group will maintain a watching brief on this issue.

In the meantime, the only change an auditor would have to make to the illustrative report in ASA 700, is to delete the reference to the parent entity in the opinion paragraph.

**Protection of certain audit information – Solicitors representation letters requested by the auditor**

Treasury will keep us updated on any significant developments in this area. Therefore, the AUASB Technical Group will maintain a watching brief on this issue.

---

*This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.*