



Level 38, International Towers Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7621
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

Chief Executive Officer
Accounting Professional & Ethical Standards
Board Limited
Level 11, 99 William Street
Melbourne VIC 3000

Our ref ED 3/22 APES 205

12 August 2022

Dear Mr Wijesinghe

Exposure Draft, Proposed Standard APES 205 Conformity with Accounting Standards

We are pleased to have the opportunity to comment on Exposure Draft 03/22 – Proposed Standard APES 205 *Conformity with Accounting Standards* (ED APES 205).

In general, we acknowledge the need for the guidance in APES 205 to be revisited considering the Australian Accounting Standards Board (AASB) removal of the 'reporting entity concept' for a majority of for-private private sector entities. Refer to the Appendix for further discussion and comment on the three requests made in ED APES 205.

We would be pleased to discuss our comments with members of the APESB or its staff. If you wish to do so, please contact myself on (02) 9455 9744.

Yours faithfully

Michael Voogt
Director

Appendix

Request 1

Do you agree with the APESB's approach to not amend subparagraphs 6.1(b) and (c) of APES 205 to align to the terminology in the AASB's SPFS disclosure requirements? Please provide reasons and justification for your response.

Response

We do **not support** the proposed approach not to amend. We would recommend that the wording in paragraph 6.1 line up with the terminology used by the AASB in *AASB 2022-6 Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Certain For-Profit Private Sector Entities* (AASB 2022-6) and *AASB 2019-4 Amendments to Australian Accounting Standards – Disclosures in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements* (AASB 2019-4).

In summary we would recommend that paragraph 6.1 contain the following.

“... shall take all reasonable steps to ensure that the special purpose financial statements and any associated audit report, review report or compilation report clearly identifies:”

- (a) that the financial statements are special purpose financial statements
- (b) the basis on which the decision to prepare special purpose financial statements was made
- (c) the material accounting policies applied in the special purpose financial statements, including information about changes in those policies
- (d) for those material accounting policies applied and disclosed in the financial statements that do not comply with all the recognition and measurements requirements in Australian Accounting Standards – disclose an indication of how it does not comply; or if such an assessment has not been made, disclose that fact
- (e) whether or not the financial statements overall comply with all the recognition and measurement requirements in Australian Accounting Standards.

We have not recommended including the disclosures around investments in subsidiaries, associates or joint ventures as we believe that this will be apparent from disclosure (e) above.

Why?

The AASB conducted extensive research of financial statements users and other reporting framework stakeholders as a prelude to the removal of the 'reporting entity concept' with three of the more significant papers being:

- *AASB Evidence-Informed Standard-Setting Framework* (May 2018)
- *AASB research Report 11 Review of Special Purpose Financial Statements: Large and medium-Sized Australian Charities* (September 2019)

- AASB research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019).

This research evinced users' clear views on the importance of understanding the recognition and measurement basis of preparation used in special purpose financial statements. It also noted that there were many deficiencies in clearly reporting the basis of preparation for special purpose financial statements prepared at the time of the respective research reports.

Based on the completed research the AASB remained concerned about the lack of transparency of special purpose financial statements that continue to refer to Australian Accounting Standards. The AASB formed a view that disclosures of the extent of compliance or otherwise with the recognition and measurement requirements in Australian Accounting Standards was necessary to satisfy the needs of financial statements users. This measurement would:

- assist in improving the transparency and consistency of special purpose financial statements
- enable users to determine whether they need additional information to meet their needs in terms of assessing an entity's financial position and performance.

When the AASB exposed the requirements contained in AASB 2019-4 and AASB 2022-6 the feedback from a majority of respondents agreed with the proposed basis of preparation disclosure requirements and confirmed that they held a belief that they would increase the transparency and comparability of special purpose financial statements.

A further benefit identified as part of the exposure process is that providing adequate information to enable users to confidently assess an entity's level of compliance with recognition and measurement requirements in Australian Accounting Standards – or be alerted to areas where this has not been assessed and is therefore unclear – would better support users in identifying where additional information is required.

In exposing the AASB requirements comment was also sought around the cost/benefit of the basis of preparation disclosure requirements. A majority of respondents expressed a view that overall, the benefits to financial statement users would outweigh the costs of providing the disclosures. Specifically, they agreed that the required **disclosures where not unduly burdensome and believed they would require minimal additional effort.**

We support the AASB research findings, and the stakeholder feedback received as part of exposing the AASB requirements. We believe the benefits outweigh the costs.

We would support an option for entities to disclose that they have not assessed whether or not the accounting policies disclosed in the special purpose financial statements comply with all the recognition and measurement requirements in Australian Accounting Standards where it would place an undue burden. This still will highlight potential instances of non-compliance with recognition and measurement requirements to users, as well as potential governance issues. Users may then seek additional information if required.

We do not believe the other disclosures identified above [(a), (b), (c), and (e)] would be an unreasonable burden.

We note that a vast majority of entities which prepare special purpose financial statements (including public sector) use Australian Accounting Standards as a basis to develop their respective reporting practices.

If an entity prepares special purpose financial statements and specifically includes an audit report, review report or compilation report then it would be reasonable to conclude that there are financial statement users independent of management.

We do not see why the above requirements would not be applied to any entity type preparing special purpose financial statements (be it private or public sectors, for-profit or not-for-profit sectors). The research conducted by the AASB considered many types of stakeholders and users of financial statements.

We acknowledge there may be different user requirements for financial statements of different entity types. However, and importantly, we believe that an understanding of the basis of preparation and why that basis is considered appropriate to meet user needs is fundamental to all – no matter whether the entity is in the private or public sector, for-profit or not-for-profit sector.

For comments on the use of the term ‘material accounting policies’ refer to Request 2 below.

Request 2

Do you agree with the APESB's approach to not amend subparagraphs 6.1(c) of APES 205 to align to the terminology in AASB 2021-2 and AASB 2021-6? Please provide reasons and justification for your response.

Response

We do **not support** the proposed approach not to amend. We would recommend that ‘**material** accounting policies’ is used in preference to ‘significant accounting policies’.

Why?

‘Material’ or material information is a term which is widely used, well defined and understood by financial statement users and preparers. In contrast ‘significant’ is a term which is not defined and, in our view, has different interpretations by financial statement users and preparers in different sectors – particularly private and public sectors.

In our experience when assessing if an accounting policy is material there is focus on both quantitative and qualitative factors. When assessing significant accounting policies the focus is more on the quantitative considerations. There is the potential for some accounting policies to be qualitatively important but numerically being relatively small.

We believe given the widely accepted definition of 'material' and the frequency of use, changing from 'significant' will promote greater consistency in judgements and will generally result in lower compliance costs across all sectors.

Request 3

Do you believe there are other entity types than those listed in proposed paragraph 6.2 of APES 205 that should be scoped-out of the SPFS disclosure requirements in APES 205? Please provide reasons and justification for your response.

Response

We do **not support** the inclusion of paragraph 6.2. We would recommend that paragraph 6.2 is removed.

Why?

Consistent with our view in Request 1 we believe that the requirements in the amended paragraph 6.1 should be applied by **all entities** that prepare special purpose financial statements – private or public sectors, for-profit or not-for-profit sectors.

If an entity prepares special purpose financial statements and specifically includes an audit report, review report or compilation report then it would be reasonable to conclude that there are financial statement users independent of management.

While there may be different user requirements for financial statements of entities in different sectors – we believe that an understanding of the basis of preparation and why that basis is considered appropriate to meets user needs is fundamental to all.

Other

We have no further comment on the proposed changes around:

- updates for changes in Statement of Accounting Concepts 1 *Definition of the Reporting Entity*
- changes in the definition of 'assurance engagement'.