Accounting standards for Australian SMEs: identifying, considering and incorporating the needs of users into financial statements

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Declaration

I declare that this thesis is my original work, which has not been copied from another work. Any contributions included from other academic works have been properly acknowledged. It is also the first time that this work has been submitted for a degree at any university. The majority of writing in all papers presented in this thesis, including those that will be submitted for publication with multiple authors, is my own work. Ethics approval has been granted by Macquarie University's Ethics Committee for all the external studies conducted in the collection of data for this thesis. These approval documents numbered 5200903493(D) and 5201001383(D) are included in the body of this thesis.

Karen Handley

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List of abbreviations

AAAJ	Accounting, Auditing & Auditability Journal
AASB	Australian Accounting Standards Board
AEIFRS	Australian Equivalent International Financial Reporting Standard
AFAANZ	Accounting and Finance Association of Australia and New Zealand
AICD	Australian Institute of Company Directors
AICPA	American Institute of Certified Public Accountants
AIFRS	Australian International Financial Reporting Standard
ANT	Accounting and Assurance News Today
ASB	Accounting Standards Board
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Tax Office
Corp Act	*Corporations Act* 2001
CPAA	CPA Australia
CSA	Chartered Secretaries Australia
ED	Exposure Draft
EU	European Union
FASB	Financial Accounting Standards Board
FRC	Financial Reporting Committee
FRSSE	Financial Reporting Standard for Smaller Entities

GAAP	Generally Accepted Accounting Principles (Practices)
GPFR	General Purpose Financial Reports
GPFS	General Purpose Financial Statements
GST	Goods and Services Tax
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IASB	International Accounting Standards Board
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
ICAA	Institute of Chartered Accountants in Australia
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
IMA	Investment Management Association
IPA	Institute of Public Accountants
ITC	Invitation to Comment
NIA	National Institute of Accountants
NZICA	New Zealand Institute of Chartered Accountants
RDR	Reduced Disclosure Requirements/Reduced Differential Reporting
SAC	Statement of Accounting Concepts

SME	Small and Medium-sized Entity
SPFS	Special Purpose Financial Statements
UK	United Kingdom
US/USA	United States of America

Abstract

In July 2010, the Australian Accounting Standards Board (AASB) released an Australia-specific differential reporting standard known as the Reduced Disclosure Requirements (RDR) standard. The RDR is based on the measurement and recognition principles of the International Accounting Standards Board's (IASB's) International Financial Reporting Standard (IFRS) with reduced disclosure and is targeted at non-publicly accountable reporting entities. In selecting this choice for Australian use, the AASB completed a very short consultation period following on from the release of the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). The haste with which the standard was introduced was contentious, as was the decision of the AASB not to adopt IFRS for SMEs. The AASB also did not implement the full proposed change outlined in their Consultation Paper, which they had hoped would incorporate the removal of the reporting entity concept as it is applied in Australia.

This thesis is set within the context of the development of the RDR standard. Included are three papers examining aspects of the standard setting process within this context. First, a synthesis of the issues facing the AASB and preparers of financial statements, the nature of participation in lobbying and the identity of users of the financial statements of non-publicly accountable entities are extracted from the comment letters in response to the AASB’s Invitation to Comment 12 (ITC 12). Second, the results of a survey of Australian accounting practitioners highlight the reporting practices of Australian entities. In addition, the awareness of members of the stakeholder community of the solutions offered by the AASB during the consultation period for the RDR is reported. These findings provide insight into the gaps between standard setters and other stakeholders. Finally, the motives of stakeholders for participation and non-participation in the development of the standard are established using a survey. These survey findings are supplemented by interviews with key stakeholders, to question the method by which the standard setter determines and preserves the public interest. Having examined the standard setting process, this thesis concludes that the processes designed for standard setting for listed entities may need adaptation when seeking input from stakeholders of non-publicly accountable entities or SMEs.

Chapter 1: Introduction

1.1 Introduction

In July 2010, the Australian Accounting Standards Board (AASB) released AASB 1053 and AASB 2010-2[1], an Australian Reduced Disclosure Requirements standard (RDR)[2] for use by large non-publicly accountable reporting entities. The release of this standard is notable for a number of reasons. First, the AASB had chosen not to adopt the differential reporting standard released by the International Accounting Standards Board (IASB) in July 2009, i.e. the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs). Second, the consultation period for the standard was relatively short, as was the period of its exposure prior to release. Finally, the implementation of the RDR did not cover the same entities as were originally targeted in the Consultation Paper[3]. The AASB resolved to return to the problem of which entities need to report using the RDR at a later stage (AASB, 2010a).

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

[2]The acronym, 'RDR' has been used in a variety of ways during the development of this standard. ITC 12 refers to a 'Revised Differential Reporting regime'. In its 2009 Consultation Paper, the AASB referred to a 'Reduced Disclosure Regime', and in the AASB's October 2009 Agenda Paper, it was again referred to as a 'Revised Differential Reporting regime'. AASB 2010-2 refers to RDR as a 'Reduced Disclosure Requirements' standard, which is the interpretation used in this thesis wherever possible.

[3]The Consultation Paper, as well as the earlier Invitation to Comment 12 (ITC 12) (AASB, 2007a) which was released in 2007 calling for comments on IFRS for SMEs, suggested the removal of the reporting entity concept: an Australian institution that had been in place since the early 1990s. Rather than remove the reporting entity concept, it remained enshrined in the final implementation of the RDR, which extended only to large non-publicly accountable reporting entities.

Divergence from the adoption of an IFRS-branded standard, the haste of implementation and the unresolved question of which entities should apply the RDR once the reporting entity concept has been removed, provide the standard setting context for this thesis. The RDR is based on the measurement and recognition principles found in IFRS and the disclosures of IFRS for SMEs. It is targeted at a specific set of users of financial statements of non-publicly accountable entities, but has provoked much debate and confusion in the Australian stakeholder community. The RDR's implementation is controversial because it is a divergence from the previously-held support of the AASB for international accounting standards.

In response, this thesis provides an original synthesis of the multi-faceted financial reporting issues that the AASB was trying to address with the RDR and examines why the process has stalled. It exposes previously unknown evidence of non-compliance with the reporting entity concept and knowledge gaps regarding the proposed changes amongst stakeholders during the consultation period for the RDR. The chapters which follow examine comment letters and also include interview data collected from influential stakeholders. In examining the motives of participants and non-participants in the debate, and the requirements of users of the financial statements of non-publicly accountable entities, the thesis also critically scrutinises the standard setting process in this case.

This process requires interrogation because it was heated, rushed, and not accompanied by any empirical testing or impact assessments from the AASB.

In a post-IFRS world, where some countries relinquished their responsibility for standard setting to the IASB, it is even more critical that the consultation process be genuine, and that transparent and accountable mechanisms ensure it is not dominated by louder and more powerful voices. This local case provides a rich microcosm for research findings which could have international implications, particularly when dealing with non-publicly accountable entities.

This chapter continues as follows. Section 1.2 provides a brief background to the relevant literature. Section 1.3 elaborates on the development of differential accounting in Australia, which is the setting for the papers in this thesis. In Section 1.4 the research questions are detailed and discussed. Section 1.5 describes the methodology used to collect the data for the three papers. The aims and contributions of each paper are included in Sections 1.6 to 1.8. In Section 1.9, the contribution of the thesis as a whole is discussed. The chapter concludes with Section 1.10 which includes an outline of the remainder of the thesis. The references for this chapter are provided in Section 1.11.

1.2 Literature review

Prior studies provide insight into the influence of different stakeholders in the accounting standard setting process on standard setters. The process of setting accounting standards is more than a technical practice. Standard setting is described in the literature as a political process (Tweedie, 2012) which is influenced by government, as well as the society in which it occurs, and the literature abounds with descriptions of bias, lobbying, and the promotion of self-interest during the development of financial reporting standards (see, for example, Perry and Noëlke, 2005; Ryan, Guthrie and Day, 2007; Schiebel, 2008; Jorissen, Lyabert, Orens and van der Tas, 2010; Bengtsson, 2011). Given that the objective stated in the *Conceptual Framework* is predominantly to satisfy the widespread decision-making needs of the users of reports, any possible bias in the financial reporting standards will detract from the decision usefulness goal.

The literature describes a possible cause of bias as arising from the phenomenon of a lack of participation in standard setting by some groups, most notably users of financial statements. For example, Durocher and Gendron (2011 p. 236) suggest that users are a 'docile group of actors'. Young (2006) argues that standard setters 'mak[e] up users' and laments,

> … where the term financial statement user is invoked in various accounting standards, the user appears as a resource to justify or dismiss a particular accounting disclosure or practice. It is the category that is referenced rather than individual persons (Young, 2006 p. 580).

She elaborates that traditionally, standard setters and accounting rule makers see users as a ‘shadowy’ coherent group, ‘an abstract type or kind rather than as flesh and blood decision makers’ (Young, 2006 p. 591) allowing them to ‘forego consultation with living and breathing financial statement readers’ (Young, 2006 p. 592).

Even those participants who purport to represent the ‘shadowy’ coherent group of users and respond to calls for consultation from standard setters have been found to have a biased view (De Lange and Howieson, 2006; Durocher, Fortin and Côté, 2007; Larson, 2008; Thornburg and Roberts, 2008). For example, a study conducted by Jorissen, et al. (2010) analyses comment letters to determine participation in standard setting. It finds that preparers, accountants and standard setters are motivated by changes to accounting numbers, whereas users, stock exchanges and their supervisory authorities are more concerned with disclosure. Perry and Nölke (2005) find evidence of an unbalanced influence on the IASB from members of the financial sector. Ryan, Guthrie and Day (2007) report subordination of the interests of the public sector, compared to those of the private sector, in the resulting amendments to IFRS to accommodate public sector reporting in Australia. It can be concluded from these studies that one particularly active sector can influence the standard setter to adopt its viewpoint in the absence of involvement by others. Lack of participation by all stakeholders in the standard setting debate runs the risk of having a particular viewpoint subordinated to the views of louder voices.

Jonas and Young (1998) argue that it is important to include the user focus as it benefits companies, auditors, academics and standard setters through the production of financial statements that are valuable, relevant, and cost-effective. While Cooper and Robson (2006 p. 427) suggest that shareholder interests are considered, they lament the focus on these interests and the neglect of the interests of other stakeholders:

> … the general economic welfare for a society as a whole is unlikely to be achieved by the single minded pursuit of shareholder interests. Yet there is now little discussion of the requirements of other groups in society, such as employees or consumer groups, for reliable financial information for their purposes.

Academics could have provided insight into the views of other stakeholders, but this has not been a research focus for many of them (Tandy and Wilburn, 1996; George, 2004).

The problems arising from potentially biased representations to standard setters extend to standards framed specifically for smaller and unlisted entities. In the SME sector, a study of the comment letters written in response to the IASB's call for comment about IFRS for SMEs finds a bias in the responses towards the opinions of auditors and accountants, with a focus on audit and compliance costs (Schiebel, 2008). Schiebel also finds that there was little evidence of empirical testing by the IASB of the needs of users (Schiebel, 2008 p. 15), and calls for the IASB to test empirically:

1) Who are the external users of SMEs' general purpose financial statements worldwide? and
2) What kind of information do those external users need from SMEs?[4] (Schiebel, 2008 p. 16)

Schiebel's questions are addressed in this thesis. In addition, the need to understand the 'processes by which agents and their expectations are created and by which the alternatives and outcomes of the game are defined' (Adler and Haas, 1992 p. 371) is explored. According to Potter (2005 p. 282), 'Merely identifying influential individuals and groups and key agents of change or even "pioneers" in specific settings remains an interesting and worthwhile endeavour'. This thesis responds to Potter's call (2005 p. 276) to identify the 'multitude of factors' which are relevant in this instance and include the 'political, professional and social agendas of the actors involved'.

The papers contained herein cover different aspects of standard setting within the context of the AASB's development of the RDR. In these papers, the issues that the AASB were trying to resolve by introducing a

[4]According to Schiebel, the IASB has determined that the information needs of users of financial statements of SMEs are different from the information needs of users of financial statements of publicly accountable entities, although '[n]o information is available about the common information needs of various external user groups on a national or international level' (Schiebel, 2008).

new standard are analysed using surveys of accounting practitioners and users of financial statements of non-publicly accountable entities, content analysis of comment letters, and interviews with comment letter writers and members of the AASB. Compliance with financial reporting standards in Australia is examined, in addition to accounting practitioners' awareness of the contents of the standard during the consultation period.

The inclusion of a variety of data sources responds to criticisms of other studies which look at comment letters alone (Hodges and Mellett, 2002; Walker and Robinson, 1993). This research attempts to determine 'how actors make sense of, and operationalize, what they believe to be their interests' (Cooper and Robson, 2006 p. 426), and allows understanding of the 'roles played by small groups of technical experts located in influential positions in the accounting profession and in key regulatory agencies in creating the conditions conducive to accounting changes to occur' (Potter, 2005 p. 280).

In summary, the literature finds that standard setting is the result of a political process; characterised by biased representations from technical experts with their own agendas; and where there is lack of participation by some quieter, more docile stakeholders.

1.3 Background

The setting for this thesis is the case of the development of an Australia-specific standard for non-publicly accountable entities. This standard, known as the RDR, was released in July 2010 as AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*. The RDR created a second tier of financial reporting, which was available for early adoption for financial statements with a year ending 30 June 2010. Mandatory adoption by applicable entities will commence on or after 1 July 2013 (AASB, 2010a). Some of the history of the development of this standard is included in the papers in Chapters 2, 3 and 4. The description which follows in this section does not seek to duplicate the material that appears in the papers; rather, it provides a short overview of the AASB's and IASB's activities regarding differential reporting.

The decision by the AASB not to allow adoption of IFRS for SMEs but rather to craft its own reduced disclosure version of IFRS is a controversial one. This controversy arises because developing a national financial reporting standard is contrary to the AASB's earlier commitment to international accounting standards, evidenced in the adoption of IFRS in Australia in 2005. In fact, in Australia, the adoption of IFRS was more widespread than most other countries as it extended to unlisted reporting entities, public and not-for-profit entities as well as to listed entities. In addition, the consultation period for the RDR was relatively short[5], timed to coincide with the summer holiday season[6], and was not accompanied by any empirical testing by the AASB, or by an impact statement[7]. Finally, the implementation of the RDR also did not extend to all the entities which the AASB planned to target with the new standard[8].

The AASB reached the controversial decision to adopt the RDR after two rounds of consultation with Australian stakeholders. The first of these was in the form of ITC 12 (AASB, 2007a). This call for comments coincided with the IASB's call for comments on IFRS for SMEs in 2007. ITC 12 outlined a proposal for a new differential reporting regime in Australia, the cornerstone of which was changes to the reporting entity concept and a related change to the range of entities required to produce General Purpose Financial Statements (GPFS). IFRS for SMEs was to be considered by commentators as an option in the scenario painted by the AASB in ITC 12; there was mention at this stage of a possible locally-developed alternative, although little detail was provided.

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[5]In comparison, the IASB released IFRS for SMEs after lengthy international discussion commencing with the release of the Exposure Draft in 2007 and ending in July 2009 with the release of the standard. The IASB also performed field testing internationally.
[6]The draft Exposure Draft and Consultation Paper were released by the AASB on 23 December 2009. Amendments were made by the AASB subsequent to their initial release and the 'formal' release date of these two documents was February 2009.
[7]A draft impact statement was released by the AASB on 25 June 2010, after the conclusion of the consultation period (AASB. 2010b).
[8]The reporting entity concept remained unchanged, and with it the requirement to produce General Purpose Financial Statements did not extend to previously 'non-reporting' entities as planned in the Consultation Paper. See Chapter 2 for more information

The second call for comments came later, again coinciding with a major advance by the IASB, in the form of the publication of IFRS for SMEs in July 2009 (IASB, 2009). In December 2009, the AASB released a Consultation Paper (AASB, 2009a) and an Exposure Draft (ED 192) (AASB, 2009b) outlining its proposed solution to differential reporting in Australia. This Consultation Paper outlined three possible options: the RDR, which was the subject of ED 192; IFRS for SMEs; or maintenance of the status quo. Following a short consultation period ending in April 2010 and two round-table meetings in May 2010, the AASB released AASB 1053 and AASB 2010-2 early in July 2010, selecting the RDR as the implementation choice for Australian non-publicly accountable entities. No change has been made to the reporting entity concept at the time of writing, and the AASB has resolved to return to this issue as a second stage after completing research into the 'incidence and nature of special purpose financial reporting' (AASB, 2012b p. 3).

Even though the decision to implement the RDR was controversial, Australia is not new to pursuing its own agenda in standard setting. IFRS was implemented in Australia differently from other countries, in that its application extended beyond listed entities to some unlisted entities, and also included adaptations for public sector entities. Given this earlier extended adoption of IFRS, the decision to reject IFRS for SMEs was unexpected[9]. However, perhaps the earlier extended adoption helps to explain why some Australian entities would not find it difficult to implement a differential reporting standard which still contains full IFRS measurement and recognition. The entities that can now use the RDR were previously reporting using full IFRS, so the IFRS measurement and recognition principles retained in the RDR would not be an additional cost for these entities. Following a directive from the Australian Securities and Investments Commission (ASIC), even non-reporting entities which produce financial reports under Chapter 2M of the Corporations Law are required to comply with measurement and recognition specified in accounting standards (ASIC, 2000).

The AASB's decision to divorce itself from IFRS for SMEs is curious given that international comparability was one of the reasons for the adoption of IFRS in 2005. Still, the literature points to problems with a 'one size fits all' approach. For example, Ball (2006 p. 8) goes so far as to suggest, 'It has never been convincingly demonstrated that there exists a unique optimum set of rules for all'. Prior studies support the contention that even when nation-states swear allegiance to an international standard, implementation is inconsistent. Cooper and Robson (2006 pp. 427-8) offer a good summary of the literature in defence of this position (see also

[9] This is not the only time the AASB did not adopt an equivalent IFRS. Another major departure was not adopting the pension plan accounting standard (IAS 26); instead, the AASB opted for a domestic standard and proceeded with developing a replacement standard for AAS 25.

Brown and Tarca, 2007; Baker, Biondi and Zhang, 2010). There is a tension between allowing accounting standards to be set by the IASB and the demands of the local business fraternity. The literature documents concern regarding power that arises from the IASB being the only standard setter, especially in the event that they produce standards that are problematic (Tweedie, 2012). In that instance, market forces and competition should produce competing standards to arrive at the best possible solution for business, including the possibility of the need for a separate conceptual framework for SMEs (Botosan, Ashbaugh-Skaife, Beatty, Davis-Friday, Hopkins, Nelson, Ramesh, Uhl, Venkatachalam and Vrana, 2006; Meeks and Swann, 2009; Jamal, Bloomfield, Christensen, Colson, Moehrle, Ohlson, Penman, Stober, Sunder and Watts, 2010). Posner (1974) provides the same hope:

> … the regulatory process can be expected to operate with reasonable efficiency to achieve its ends. The ends are the product of the struggle between interest groups, but, as suggested earlier, it would be contrary to the usual assumptions of economics to argue that wasteful or inappropriate means would be chosen to achieve those ends.

With the RDR, the Australian standard setter attempts to find a solution for the complexity and burden placed on non-publicly accountable businesses by the need to report to external stakeholders. According to the AASB, the RDR is ‘intended to be a pragmatic but significant response to reduce the burden of accumulated disclosure requirements on Australian reporting entities’, while not necessarily being ‘held out as a complete and final answer to that need’ (AASB, 2009a p. 6). Australia is not the only country looking for relief from the accounting burden for smaller entities. In the USA, the American Institute of Certified Public Accountants (AICPA) has been investigating this since 1974, looking for relief of ‘accounting standards overload’ (Christie, Brozovsky and Hicks, 2010). In 2010, the AICPA recognised and allowed IFRS for SMEs (Christie et al., 2010). In other countries, the SME overload is felt as well: the UK has Financial Reporting Standard for Smaller Entities (FRSSE) and Canada has its own ‘small Generally Accepted Accounting Principles (GAAP)’ (Barcelo, 2007). Some countries, like New Zealand for example, allow smaller entities relief from standardised reporting. The USA allows this as an option for some entities.

The IASB responded to the need for a reduction in accounting burden for smaller entities with IFRS for SMEs. However, this has been rejected in Australia, and has been replaced by the RDR. This decision by the AASB gives rise to the research questions examined in this thesis, which are elaborated upon in Section 1.4.

1.4 Research questions

In Chapters 2, 3 and 4, this thesis presents three research papers that examine the development of the RDR in Australia from a variety of perspectives. Using data collected from 71 comment letters to ITC 12, two surveys and 15 interviews, the following two research questions are examined:

1. What were the issues facing standard setters (particularly the AASB) in devising a financial reporting standard for the SME sector?
2. What was the nature of lobbying for changes to a financial reporting standard for the SME sector by some stakeholders and the reasons for disengagement from this process by other stakeholders?

Research Question 1 is explored via a number of subsidiary issues, including the categories of users of non-publicly accountable entities, compliance with standards and awareness of proposed changes to those standards amongst stakeholders, and the issues raised by stakeholders during the consultation process.

In the following sections, the methodology used to collect the data is explained, and then more detail is provided on each paper in turn.

1.5 Methodology

Data were collected from a number of sources:

- Content analysis was performed on 71 comment letters written in response to the AASB's ITC 12. After reading all of the letters to identify themes, each letter was coded into these themes manually. NVivo 8 was used to collate the data into nodes to facilitate analysis. Additional themes relating to the aims of this thesis were also added, for example, the letters were examined for categories of users and their requirements. This analysis is included in Paper 1 (Chapter 2).
- Two surveys were conducted using SurveyMonkey software. These surveys were distributed by the Australian professional accounting bodies and the Australian Institute of Company Directors (AICD) to their members using weekly newsletters, monthly magazines and social media sites. Both surveys were pilot tested prior to their release, and in both cases, reminders were sent. One of the surveys is reported in Paper 2 (Chapter 3) and the other is reported in Paper 3 (Chapter 4).
- Fifteen members of the Australian accounting and business fraternity were interviewed in person. The majority of interviewees were selected from the comment letter writers of responses to ED 192. Members of the AASB and two interviewees from regional accounting firms were also included in the sample to add different perspectives to the study. These interviews were recorded and transcribed, and the

transcriptions were analysed manually, with the use of NVivo 8 software to collate the data into nodes for analysis. Data collected from the interview process is reported in Paper 3 (Chapter 4).

1.6 Paper 1 (Chapter 2): Reporting for SMEs in Australia: Issues arising from commentators in a standard setting process

Aims

This paper examines the key issues surrounding the development of an accounting standard for SMEs in Australia. These issues include concerns about changes to the reporting entity concept as it is defined and used in Australia; which entities should be allowed relief from IFRS disclosure and the associated costs and benefits of different accounting requirements. In so doing, this paper addresses the first research question outlined in Section 1.4[10]. It presents the results of content analysis of the comment letters written by members of the Australian business community in response to ITC12 from the AASB. Using a framework of propositions explaining increased participation in the standard setting process first suggested by Elbannan and McKinley (2006), the participation by members of the Australian professional and business community is examined, and these findings are supported by comments obtained by interviewing members of the Australian business community.

[10]What were the issues facing standard setters (particularly the AASB) in devising a financial reporting standard for the SME sector?

Contribution

The major contribution of this paper is to synthesise the issues faced by the Australian accounting community in developing a standard for SMEs. It exposes the dissenting views which prompted the involvement of members of the business community. Some of the issues raised are still to be resolved, and have not been documented in prior literature. A further contribution of the paper is the analysis of the comment letters for evidence of the identity of users of financial reports of SMEs, about whom very little has been written.

This paper provides the thesis with a foundational description of the situation in Australia when the AASB sought to introduce a new reporting standard for non-publicly accountable SMEs. Paper 2 builds on this foundation by examining the compliance of entities with the existing reporting framework and their knowledge of its proposed replacement during the consultation phase of its implementation. Paper 3 further addresses the issue of involvement in the standard setting process in this particular case.

Major findings

The areas of contention for ITC 12 were identified as the removal of the reporting entity concept; the extension of the definition of GPFS to include all statements made publicly available; the thresholds that would trigger

GPFS, viz. public availability, public accountability and size; and problems caused by potential differences in measurement and recognition rules across standards. The paper further identifies the users of SME reports and the purpose for which they used the reports. Finally, the paper provides support for four of Elbannan and McKinley's (2006) propositions regarding participation in standard setting.

An earlier version of this paper was presented at:

- *British Accounting and Finance Association Annual Congress* in Birmingham, United Kingdom, 2011

In revising this paper, comments from the participants of this conference have been considered and included where appropriate.

1.7 Paper 2 (Chapter 3): Reporting for SMEs in Australia: The gap between standard setters and practitioners

Aims

The reporting practices of Australian entities, the awareness of members of the Australian business community of the issues in the SME reporting debate, and the categories of recipients of financial statements for SMEs are explored in this paper. Addressing both of the research questions[11] of this thesis, this paper reports the findings of a survey of Australian

[11] What were the issues facing standard setters (particularly the AASB) in devising a financial reporting standard for the SME sector? and; What was the nature of lobbying for changes to a financial reporting standard for the SME sector by some stakeholders and the reasons for disengagement from this process by other stakeholders?

accounting professionals conducted during the consultation period for the AASB's Exposure Draft 192 *Revised Differential Reporting Framework* (AASB, 2009a). The survey exposes some inconsistent application of accounting standards in the Australian business community, particularly in relation to the decision by financial statement preparers and auditors to prepare General or Special Purpose Financial Statements. It also exposes knowledge gaps amongst accounting professionals of the changes to financial reporting standards being discussed at the time.

Contribution

This exploratory paper contributes to our understanding of the gaps between standard setters and practitioners in terms of levels of awareness, knowledge and practice. It examines the practical use of, and compliance with, accounting standards and the lack of knowledge of practitioners during the critical consultation period of standard setting. Finally, it adds to our knowledge of the intended recipients of financial statements.

Major findings

The study finds that the majority of survey respondents had some knowledge of IFRS for SMEs and were willing to adopt it (particularly the case for accountants in public practice), but had lesser awareness of the AASB's alternative standard, the Reduced Disclosure Requirements

(RDR) standard. Less than 50 per cent of the respondents were aware of ED 192 during the time available to comment on it. The paper also reports some compliance gaps, particularly with entities that declared themselves reporting entities but failed to use full IFRS. The most common standard used for SPFS was found to be full IFRS measurement and recognition with reduced disclosures. This is consistent with the option offered in the RDR for GPFS. Smaller entities reported SPFS using simplified measurement and recognition, with a large percentage reporting a complete absence of compliance with accounting standards.

Finally, the most commonly identified recipients or end users of financial statements were equity holders and management, banks and financial institutions, and a large number of distinct government bodies.

The findings from this paper were incorporated into a letter to the AASB in response to their call for comments during the consultation period for ED 192. A copy of this letter appears in Appendix 3.4. A short article summarising the findings was also published in *Charter*, the magazine of the Institute of Chartered Accountants in Australia (ICAA) (Handley, 2010). In addition, the findings from this paper were discussed in an appendix to the letter to the AASB regarding ED 192 from the ICAA and CPA Australia (Representatives of the Australian Accounting Profession, Malley and Meyer, 2010).

An earlier version of this paper was presented at:

- *European Accounting Association Annual Congress* in Rome, Italy, 2011
- *La Trobe 2nd Finance and Corporate Governance Conference* in Melbourne, Australia, 2011
- *Accounting and Finance Association of Australia and New Zealand (AFAANZ) Accounting Standards Special Interest Group meeting* at the annual conference in Darwin, Australia, 2011 (by invitation)

In revising this paper, comments from the participants of these conferences have been considered and included where appropriate.

1.8 Paper 3 (Chapter 4): Adjudicating public and private interests in lobbying for the Australian Reduced Disclosure Requirements standard

Aims

Motivated by evidence of dissenting views presented by different stakeholders in comment letters in response to the Australian RDR standard, this paper examines motives for participation and non-participation in standard setting consultation. In addition, the perceived effectiveness of different methods of participation in the standard setting process is explored through a survey. The survey findings are expanded further to examine the notion of the incorporation of public interest into financial reporting standards using the comments gained in interviews with authors of comment letters in response to the AASB's ED 192. This paper explores whether the public interest, a basic tenet of the global accounting profession, has been incorporated into the development of a reduced disclosure financial reporting standard in Australia. Research Question 2 is examined in this paper[12].

Contribution

This is the first study known to the author which incorporates the views of comment letter writers extracted from interviews about a national accounting standard for unlisted entities. Using two sources of data to determine reasons for participation and non-participation in standard setting consultation, this study challenges the global accounting profession regarding its role in protecting the public interest in the face of user apathy and non-participation.

Major findings

This paper reveals that a majority of respondents did not participate actively in the development of the RDR standard, perceiving that they were well represented by their professional body or auditors, and influenced by their perceived inability to change the outcome. The majority of participants were found to favour comment letters and communication with professional bodies as their preferred mode of participation.

[12]What was the nature of lobbying for changes to a financial reporting standard for the SME sector by some stakeholders and the reasons for disengagement from this process by other stakeholders?

Participants' mixed motivations show political and power drivers, for example, game playing, resistance to the AASB's power and visibility. They also show genuine concern about the costs and benefits of the outcome.

This paper finds evidence of both concern for the public interest and promotion of self- and stakeholder-interests. It also presents evidence of interaction amongst comment letter writers and points to a schism which divides stakeholders into supporters of the RDR and supporters of IFRS for SMEs as an option.

An earlier version of this paper was presented at:

- *Canadian Academic Accounting Association Annual Conference* in Charlottetown, Canada, 2012
- *Accounting and Finance Association of Australia and New Zealand Annual Conference* in Melbourne, Australia, 2012

In revising this paper, comments from the participants of these conferences have been considered and included where appropriate.

1.9 Contribution of the thesis

This thesis analyses the accounting standard setting process in the context of an Australian standard produced for non-publicly accountable entities, examining the issues facing the AASB and investigating the nature of lobbying and the reasons for engagement and disengagement from the process by stakeholders. The findings contribute to the extant literature in three ways. First, the thesis synthesises the issues faced by the Australian standard setter in trying to provide a solution that meets the requirements of the users of the reports of non-publicly accountable entities. Second, it augments the sparse literature on the identity of the users of these financial statements, and examines participation by stakeholders in the process of developing the standard.

Finally, a number of challenges facing the standard setter are assessed. These include low awareness of the proposed changes, compliance issues with existing standards, a variety of incompatible user requirements and self-interested lobbying behaviour. These challenges are not easily addressed in a standard setting environment which is rushed and lacks proper research at the outset, as is the case in the development of the RDR standard. Findings from the research can be used to inform standard setters about the ineffectiveness of the current consultative process in encouraging wide participation, and the reasons for lack of engagement of major stakeholders in the SME sector.

1.10 Organisation of the thesis

The remainder of this thesis in published paper format presents the three papers described above, followed by a final concluding chapter. Each of the papers is presented in its own chapter, and each of these includes a section with relevant appendices and references. The reference list which appears following Chapter 5 covers the entire thesis.

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Chapter 2: Reporting for SMEs in Australia: Issues arising from commentators in a standard setting process

2.1 Abstract

This paper examines participant responses in the standard setting process for reduced disclosure for SMEs in Australia by analysing the content of the comment letters written in response to Invitation to Comment 12 from the Australian Accounting Standards Board. This paper finds that the comment letters highlight important Australian SME reporting issues which revolve around the reporting entity concept, the triggers for differential reporting, the costs and benefits associated with reporting for SMEs and the use of IFRS for SMEs. The comment letters also provide some insight into possible users of financial statements in SMEs and the information they require. Elbannan and McKinley's (2006) propositions are used to identify the conditions leading to the participation of commentators in the process of creating a reduced disclosure standard.

Key words: *IFRS for SMEs, standard setting, lobbying, comment letters*

2.2 Introduction

In recent years, as part of the standard setting process, the Australian Accounting Standards Board (AASB) has invited stakeholders to comment on Exposure Drafts (AASB, 2011b). The calls for comment have come in the form of a series of questions for which the AASB seeks answers. In May 2007, the AASB issued Invitation to Comment 12 (ITC 12) (AASB, 2007a), calling for comment on the Exposure Draft of International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), prepared by the International Accounting Standards Board (IASB). Interestingly, included in ITC 12 was a plan for a 'Revised Differential Reporting Regime for Australia', suggesting a change to the composition of entities required to produce General Purpose Financial Statements (GPFS) using accounting standards. This change was to be achieved by the removal of the reporting entity concept as adopted in Australia[13]. Commentators were asked to respond to a series of specific questions framed by the AASB, covering both IFRS for SMEs and the

[13]In Australia, the reporting entity concept defines which entities are required to produce general purpose financial statements which fully comply with Australian accounting standards. The definition of a 'reporting entity' extends to companies listed on the Australian Securities Exchange (ASX) but also includes unlisted companies considered large and important enough to attract the interest of the Australian Securities and Investments Commission (ASIC). In the context of this thesis, an important implication of the Australian application of the reporting entity concept is that it affords companies considered as 'non-reporting' some relief from compliance with all accounting standards when reporting. Another important implication is that it extends compliance with accounting standards to a wider group of entities than are required to comply in most other parts of the world where IFRS has been adopted. The change proposed in ITC 12 was to remove this concept altogether in the Australian standard and introduce a change to the scope of the definition of general purpose financial reporting which would enforce compliance with IFRS by a larger group of entities. See p 37 for more detail on the reporting entity concept.

newly proposed differential reporting regime. In early September 2007, the AASB made available 71 responses to ITC 12 (AASB, 2007a). These letters responding to ITC 12 were sent from a variety of sources, including 58 per cent from accountants and almost 17 per cent from private sector entities[14].

This paper investigates the issues raised by the participants in that process and provides insights into their motivation for participation in the standard setting process.

Debate around the issues which surfaced in ITC 12 is still on-going[15], and some of these issues, for example, the removal of the reporting entity concept and the option of IFRS for SMEs as an alternative, are as yet unresolved. While these issues have been discussed in articles in professional body magazines (Reilly, 2007; Reilly and Luckins, 2007; Shying, 2007; Mackay, 2008) and on the AASB's website (AASB, 2009c), the comment letters have not been systematically analysed in the

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[14]In this paper, both the entity represented and the author(s) of the letter have been indicated in the references because it is assumed that the letters represent the views held by the directors or management of the originating entities. However, some of the letters are short emails. In this case, these have been referenced by the name of the sender, and not the organisation that employs the sender.

[15]In the intervening years between the release of ITC12 in 2007 and the release of the Australian differential reporting standard in 2010, the IASB conducted round-table meetings and field testing, and after review by the working group, released IFRS for SMEs in July 2009 (IASB, 2009). The AASB responded with Exposure Draft 192 and a consultation period and round-table meetings, ending in April 2010. In June 2010, the AASB issued a differential reporting standard for Australia in the form of AASB 2010-2 (Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements), accompanied by AASB 1053 (Application of Tiers of Australian Accounting Standards).

literature. This paper presents an analysis of 38 different letters[16] in order to identify and describe recurring issues which arise and are prompted by the questions presented by the AASB in ITC 12. This analysis reveals the emergence of a number of issues that are important to SME reporting in Australia, and which the AASB has sought to address in its solution to the problem, viz. the Reduced Disclosure Requirements (RDR) standard, introduced in 2010. Understanding the underlying tensions in this debate is important in explaining the partial solution introduced in the RDR, and why the debate is, as yet, unresolved.

A further contribution of this paper is to synthesise the perspectives and participation of the community involved in the creation of this accounting standard. The perspectives presented in the ITC 12 comment letters are often in conflict with one another, and vary in emphasis. According to Elbannan and McKinley (2006), resistance to standards is driven by a number of cognitive, social and political factors. Their theoretical framework attempts to explain the conditions that will prompt entities to take a stand against a proposal by an accounting standards board. Using the issues identified in this paper, ex post support for four of Elbannan and McKinley's theoretical propositions is provided.

[16]There were 34 letters which were virtually identical in content, but only one of these has been included in the analysis. This approach is taken because this paper focusses on the views expressed. The existence of 34 identical views shows considerable support for the position advocated in these letters. It is not clear why the authors of these letters did not express their views using their own words.

Finally, this paper analyses the ITC 12 comment letters to provide some insight into the identity and requirements of users of financial statements of entities that could qualify for differential reporting, and the purposes for which those reports are used. Very little is currently known about the identity and requirements of this user group, who are the target of the standard being debated.

This paper proceeds as follows. Section 2.3 includes a review of methods of evaluating the standard setting process evident in the literature. Section 2.4 covers the background relating to differential reporting and the content of ITC 12: its purpose and the specific matters for comment. In Section 2.5, the research method used in this paper is described and Section 2.6 contains a discussion of the issues in ITC 12. Section 2.7 presents findings about the nature of users of financial statements derived from the comment letters. Section 2.8 provides an analysis of participation in standard setting using the propositions of Elbannan and McKinley, a summary of the study and conclusions. This chapter ends with Section 2.9, which contains the references.

2.3 Literature review

Accounting standards provide entities with a set of principles or rules that, when applied correctly, are structured to provide financial statements that are comparable and give a faithful representation of the functioning of the entity (AASB, 2011a; AASB, 2012a). Through a process of exposure and consultation, the standard setter arrives at a standard which identifies the allowable options for measurement, recognition and disclosure for particular items on the financial statements. According to Walker (2004), the standard setter needs to adjudicate all the formal and informal submissions, and act independently to prepare a solution that will meet the approval of its Board. At the same time, the standard setter needs to persuade the constituents that the process has been legitimate and fair (Young, 2003) and that its neutrality has been maintained (Beresford, 1997). For IFRS, this role is performed by the International Financial Reporting Interpretations Committee (IFRIC) (Kenny and Larson, 2009). In the case of the AASB, the Board, which gives final approval to the standard, comprises thirteen members and the Chairman, all of whom are appointed by the Financial Reporting Council of the Australian Government (AASB, 2010c).

As a consequence of having to evaluate and choose between different and often opposing options, accounting standard setting is recognised in the literature as a slow political process which will not satisfy all the parties in the debate (Schultz and Hollister, 2003; Young, 2003). Participants in the debate use whatever methods are at their disposal to lobby the standard setter on behalf of their constituents. Prior studies of standard setting processes have found that some constituents are more powerful than others (Jeppesen, 2010; Noël, Ayayi and Blum, 2010) and that some of the representations may be self-interested, placing political pressure on standard setters and others (Zeff, 2002). Some standards appear to invoke a higher level of lobbying and corporate action than others (Elbannan and McKinley, 2006). There may also be unseen players attempting to manipulate the outcome, for example, representatives from industry, government and the banking sector (Zeff, 2002).

Further, involvement in standard setting is not without inherent costs. Georgiou (2010) finds that the cost of lobbying prohibits more extensive involvement in standard setting amongst UK investment companies surveyed, but that it is not a factor for preparers of financial statements. He suggests that interested parties who are concerned about the cost of lobbying might lobby via representative bodies or through other forms of collective action. Using collective action to lower the cost of lobbying is also explored by Lindahl (1987 p.63), who suggests that smaller entities will not engage in lobbying unless they are offered ‘selective inducements’ to do so. He describes comment letters, which sometimes take the form of ‘form letters’, as ‘a low-cost form of lobbying; hardly more than a vote’. He elaborates,

> The selective inducements are offered by industry trade associations, which both conduct the lobbying effort and provide, to members, goods not otherwise available except at high cost.

Durocher, Fortin and Côté (2007) add that

> … users' participation may also be affected by the perceived benefits expected from participation, the perceived costs, the perceived capacity to influence the outcome, and by user's perceptions of the homogeneity and consensus of their group, and how costs could be shared in view of the foregoing factors.

The cost may serve to explain why some comment letter writers use form letters to address their concerns to standard setters, rather than taking the time to draft their own detailed responses.

The standard setting process has provided many avenues for research, following a number of themes. There are studies which examine the politics of standards setting and agenda formation (see, for example, Ryan, Guthrie and Day, 2007; Howieson, 2009; Ram and Newberry, 2010). Other studies try to understand the participation of different groups in standard setting (Tandy and Wilburn, 1996; George, 2004; Georgiou, 2004; Young, 2006). Theoretical studies develop models to explain participation in standard setting (see, for example, Durocher et.al., 2007).

A study which attempts to develop a model to explain participation in standard setting was conducted by Elbannan and McKinley (2006). These authors propose common characteristics of entities that oppose suggestions by standard setters[17]. A number of these proposed characteristics relating to the standard itself are visible in this study. These characteristics that increase opposition to a standard and consequently increase the level of participation include: perceived uncertainty (Proposition 1), higher information-processing outcomes (Proposition 2), a major change in institutionalised reporting practice (Proposition 3), and a threat to the ability to procure scarce resources (Proposition 4). Elbannan and McKinley's study also examines the influence of large entities over other entities in the process, and the properties of the industry itself, which are difficult to evaluate in a study of comment letters.

Finally, content analysis studies of comment letters to standard setters follow two common methods. Quantitative studies test the significance of key concepts (Coombes and Stokes, 1985; MacArthur, 1996; Etteredge, Soo Young and Smith, 2002; Stenka and Taylor, 2010). A study by Larson (2008 p. 41) following this approach of examining comment letters to the International Accounting Standards Committee (IASC) showed that the involvement of participants in this form had an effect on the standard: they

[17]Elbannan and McKinley suggest 12 reasons why entities might oppose suggestions by the Federal Accounting Standards Board (FASB). These are labelled in their paper as 'Proposition 1' to 'Proposition 12'. In this paper, only the first four of these propositions are considered, and have been labelled consistently with Elbannan and McKinley. Proposition 5 and 6 involve the relationship an entity has with stakeholders; Proposition 7 examines the impact of an entity's size; Proposition 8 depends on previous history of lobbying action; Proposition 9 relies on industry concentration; Proposition 10 examines the negative impact of a change on an entity's important stakeholders; Proposition 11 examines the level of government regulation on a particular industry; and Proposition 12 looks at the growth of an industry. As these propositions are dependent on entity information, none of Propositions 5 to 12 is applicable to this study.

‘made the rules clearer, improved their understandability and increased their consistency’. There are fewer qualitative studies similar to the method adopted in this paper (Hodges and Mellett, 2002; Khadaroo, 2005). As supported by Walker and Robinson (1993), qualitative studies allow for greater exposure to the views of the participants in the process. These views, as expressed in participants’ letters, are ‘presumably … [made] available to the public to ensure that rule-making bodies can be held accountable for the way they go about making their decisions’ (Walker and Robinson, 1993 p. 15).

This paper follows the qualitative method and in so doing considers the strength of support by the participants for each issue, rather than simply counting the number of times each issue is mentioned. Each comment letter has been carefully scrutinised to extract the substance of the commentator’s stance on various views, and the quotes are presented to reveal the strength of the arguments presented. This method of analysis and presentation captures the flavour and vehemence of the debate on the issues, and the scale of the task of the AASB in trying to find a resolution to the issues. It also provides evidence of resistance to changes in the standard that is relevant for application to the first four of Elbannan and McKinley’s propositions, which are:

Proposition 1: The greater the perceived uncertainty proposed by a … standard, the more likely it is that a corporation's managers will initiate action against that action (Elbannan and McKinley, 2006 p. 609)

Proposition 2: The greater the information-processing requirements posed by a … standard, the more likely it is that a corporation's managers will initiate action against that standard (Elbannan and McKinley, 2006 p. 609)

Proposition 3: The more a … standard requires deviation from institutionalized financial reporting practice, the more likely it is that a corporation's managers will initiate action against that standard (Elbannan and McKinley, 2006 p. 611)

Proposition 4: The more a … standard seems to threaten a corporation's ability to acquire scarce, critical resources, the greater is the likelihood that the corporation's managers will initiate action against the standard (Elbannan and McKinley, 2006 p. 611).

2.4 Background

This section provides a context for the release of ITC 12 by the AASB. It also discusses the questions that were posed by the AASB in ITC 12, which form the framework for analysis presented in this paper.

Differential reporting in Australia

On 1 January 2005, the AASB adopted International Financial Reporting Standards (IFRS), with modifications to incorporate not-for-profit and government-owned entities. IFRS were originally targeted at listed, for-profit entities (Fearnley and Hines, 2007). In Australia, however, IFRS applies to the GPFS of 'reporting entities'[18] that are incorporated under the *Corporations Act 2001.* The definition of a reporting entity captures entities which are not listed on the Australian Securities Exchange (ASX) but which, by nature of their size and influence, are of interest to the Australian Securities and Investments Commission (ASIC) (ASIC, 2009). Some non-reporting entities are also required to report to ASIC using a subset of IFRS, if they exceed a size threshold which is determined by ASIC. These non-reporting entities need to produce special purpose reports that comply with at least AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (ICAA, CPA and NIA, 2007).

[18]The concept of a reporting entity is enshrined in Statement of Accounting Concepts (SAC) SAC 1 *Definition of the Reporting Entity* of the 2009 Australian Accounting Standard as 'all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources' (AASB 2009a). SAC1 forms part of the Australian Accounting Framework but does not appear in IFRS.

The scope of the adoption of IFRS in Australia is different from that of other countries. ‘Australia is the only jurisdiction that uses the concept of reporting entity in the application paragraphs of its accounting standards’ (AASB, 2007a Preface, p. vii). ‘Other countries such as the United Kingdom (UK) adopted them for listed groups but retained local generally accepted accounting practice (GAAP) for individual companies and other entities’, leaving Australia with its own ‘set of challenges’ (ICAA, 2007a p. 5). In addition, Australian implementation of IFRS is unusual in its application to not-for-profit and government sector entities (ICAA, 2007a). As a result, there have been calls for reduction in the burden that has been placed on those unlisted entities required by the AASB to comply with disclosure (CPA Australia, 2007; Durkin, 2009; Reilly, 2009), most of which are ‘relatively small’ with ‘limited resources’ (ICAA, 2007a p. 5). The release of an Exposure Draft of IFRS for SMEs in February 2006 by the IASB provided a ‘wake-up call’ to resolve differential reporting in Australia (Evans and Cummings, 2007). The AASB responded to this release by issuing ITC 12 in May 2007 (AASB, 2007a).

ITC 12: Specific matters for comment

In ITC 12, the AASB sought feedback regarding the implementation of differential reporting in Australia via a series of questions, beginning with a proposal to change the scope of Australian Accounting Standards by removing or altering the reporting entity concept. Respondents were asked to comment on the proposal to extend accounting standards to all GPFS rather than applying the reporting entity concept. In addition, comment was sought on whether it was appropriate to regard all statements lodged on a public register (for example, ASIC), available to the public (for example those tabled in Parliament), or required by the *Corporations Act 2001* to be prepared according to Australian Accounting Standards, as GPFS.

Since the implementation of IFRS in Australia spanned private sector and not-for-profit private and public sector entities, each of these sectors was asked specific questions in ITC 12 regarding size thresholds to identify 'important' entities and the concept of public accountability as a trigger for differential reporting. The AASB also sought comments on the suitability of IFRS for SMEs for Australian entities, and their possible adaptation using Australian equivalents to accommodate private and public not-for-profit entities.

A number of other issues were canvassed. These included the addition of a third tier of reporting requirements for smaller entities not covered by accounting standards and how to identify these entities; whether size thresholds should include an employee threshold; the need for harmonisation with New Zealand; possible Australian regulatory issues;

perceived benefits and costs of the proposals in ITC 12 to entities; and the effect on the Australian economy.

More detail of the topics covered by the ITC 12 questions is provided in Table 2.1.

Table 2.1: ITC 12 question topics[19]

Question	Topic
(a)	Extending accounting standards to all GPFS rather than applying the reporting entity concept
(b)	Improving the reporting entity concept if it remains
(c)	Using the concept of public accountability to determine which for-profit entities should use IFRS and which should use an Australian equivalent to IFRS for SMEs
(d)	Introduction of size thresholds to ensure standards compliance for entities that are not publicly accountable but which are large enough to be 'important from a public interest perspective' (AASB, 2007b Preface p. xiii)
(e)	Suitability of an Australian equivalent of IFRS for SMEs for not-for-profit private sector and for public sector entities
(f)	Not-for-profit private sector entities: Questions relating to size thresholds and the introduction of a third tier of reporting for smaller entities
(g)	Public sector entities: Questions relating to size thresholds and another tier of reporting for smaller entities
(h)	Alternative suggestions for differentiating between standards, other than size and public interest
(i)	Whether it is appropriate to regard all statements lodged on a public register (for example, ASIC), or available to the public (for example those tabled in Parliament to be regarded as GPFS
(j)	Whether it is appropriate to regard all statements required by the *Corporations Act 2001*, even those not filed with ASIC , as GPFS
(k)	Whether an employee size threshold is needed for for-profit entities
(l)	Suitability of IFRS for SMEs for Australian entities
(m)	Requirement for additions to IFRS for SMEs to cover not-for-profit private and public sector entities
(o)	Regulatory issues that might impact the proposal
(p)	Benefits and costs, including quantum of additional costs that might arise from the proposed changes
(q)	The impact of the proposal on the Australian economy

[19] Source: (AASB, 2007a)

2.5 Research method

The AASB made 71 responses to ITC 12 available on their website. Table 2.2 shows a classification of the writers of the comment letters.

Table 2.2: Classification of sources of comment letters

Type of Respondent	Number of letters
Accountant or accounting firm	42
Public sector/government	3
Not-for-profit entity	3
Private sector entity	12
Professional body	5
Academics	1
Business representative body	1
Local government consultant	1
Unidentified	2
AASB submission to IASB	1
TOTAL	71

From Table 2.2, it is clear that the majority of responses were received from accounting practitioners. However, a large percentage, 21 per cent, was sent from private sector and not-for-profit entities, signalling participation by stakeholders other than preparers of financial statements. Thirty four of the comment letters received were virtually identical[20]. For this reason, this analysis includes the 37 other letters and one of the identical letters.

[20]This comment letter originates from a partner in an Australian accounting firm. The identical comment letters were sent to the AASB from thirty four individuals, the majority of whom are identifiable as accounting practitioners.

The majority of the comment letters followed a similar format. After giving a summary of their particular viewpoints, most of the letters answered each of the ‘specific matters for comment’ requested by the AASB in turn (see Table 2.1 in Section 2.4). Each letter was examined in full, extracting themes which corresponded with the areas on which the AASB requested further comment. This classification was performed with the aid of NVivo 8 software, which was used to collect quotes into nodes. The identified themes discussed in Section 2.5 relate to the removal of the reporting entity concept (ITC 12 questions (a) and (b)); the triggers for differential reporting and the definition of GPFS (ITC 12 questions (c) – (k)); perceived benefits and costs of the proposed change (ITC 12 questions (o) – (q)); and the suitability of IFRS for SMEs in the Australian setting (ITC 12 questions (l) and (m)). Once the classification was complete for the full set of letters, each collection of quotes was examined a second time to group them into common threads of discussion. Quotes which captured each point of view best were selected, and these are presented in this paper. The quotes illuminate the different perspectives provided in the debate using the voices of the participants.

Because of the relatively high proportion of letters from users of reports, it is also possible to analyse the types of report users and the commentators’ views on SME reporting. Each section also includes context and discussion of each of the themes presented. In the concluding section, the propositions of Elbannan and McKinley are tested using the results of the analysis of the comment letters.

2.6 The issues in ITC 12

This section presents an analysis of the different issues in ITC 12. As mentioned previously, the paper follows the questions prepared by the AASB in ITC 12, therefore conforming to the agenda raised by the AASB. Each of these issues is discussed in turn in a separate subsection.

The removal of the reporting entity concept

In the Australian version of full IFRS[21], adopted in 2005, the reporting entity concept is the fundamental determinant in deciding which entities should report using IFRS. IFRS must be complied with for the preparation of *GPFS* produced by *reporting entities,* which can be either publicly listed or privately-held entities. Directors and auditors determine whether an entity is a reporting entity or not, based on guidance provided by professional bodies, ASIC and the AASB, and whether it is also governed by the disclosure principles of the *Corporations Act 2001* (Walker, 2007). Australian reporting entities include listed entities which all have external stakeholders (for example, shareholders and the Australian Stock Exchange) who use the reports and are not able to access this information

[21]In Australia, IFRS has also been referred to as 'AIFRS' (Australian IFRS) or 'AEIFRS' (Australian Equivalent IFRS). This is no longer common practice, although these acronyms do appear in some of the comment letters to ITC12.

from the company's internal records. The definition also includes privately-held entities which are publically accountable, i.e. the directors have ascertained that there is an external dependence on information that would only be satisfied by the existence of GPFS. It does not extend to privately-held enterprises where the directors believe there is no external dependence on the financial information of the company. This is irrespective of the size of the entity.

The ability of the directors and auditors to determine whether an entity needs to comply with IFRS by exercising their judgement in terms of the reporting entity concept is challenged in ITC 12. Because the application of the reporting entity concept is subjective, it has been criticised for inconsistent application (ASIC, 2000). According to Boymal (2007 p. 108)[22]:

> To avoid classification as reporting entities, companies state that they are preparing special purpose reports for the purpose of lodging with ASIC or for the purpose of conforming to their constitution or for the purpose of conducting an annual meeting. I regard these as devices to avoid reporting obligations.

Walker (2007) discusses entities that do not consider themselves reporting entities and argues that they are evidence that 'reflect a failure of

[22] Professor David Boymal was the Chairman of the AASB at the time of the release of ITC 12

accounting professionals to ensure observance of the reporting entity rule' (Walker, 2007 p. 68).

In Boymal's opinion, the application of the reporting entity concept appears to depend on the 'willingness of auditors to ensure compliance' and the actions of regulators to monitor compliance and take action when the rule is breached (Boymal, quoted in Walker, 2007 p. 69). ITC 12 adds to this criticism on the basis of 'Australia being the only jurisdiction that uses the concept of reporting entity in the application paragraphs of its accounting standards for differential reporting purposes' (AASB, 2007a Preface p. ix), and that IFRS applies to GPFS and not reporting entities. The AASB proposed to address this mixed interpretation by the changes suggested in ITC 12 (AASB, 2007a).

It is important to note that before any formal consultative processes had been undertaken, the AASB identified the reporting entity concept as flawed in practice. In ITC 12, the role of the reporting entity concept is replaced by redefining the scope of GPFS as a trigger for differential reporting.[23] In explaining its rationale for making changes, the AASB commented on the 'mixed success' of interpretations of the reporting entity concept 'such as an interpretation that non-reporting entities should apply

[23]Although Australia's approach to defining the scope of GPFS and the applicability of Accounting Standards using the reporting entity concept is different from other countries, the issue of determining the scope of GPFS is a universal one faced by many accounting regulators

the recognition and measurement requirements in Standards, but need only apply some of the presentation and disclosure requirements' (AASB, 2007a Preface, p. ix). ITC 12 proposed that the new differential reporting regime would remove the reporting entity concept as the deciding factor for the application of standards:

> Under the proposed revised differential reporting regime, the application of AASB Standards would no longer depend on whether entities are reporting entities, rather the focus of application would be general purpose financial reports. Accordingly, all entities that prepare general purpose financial reports would apply either the Australian equivalents to IFRSs or an Australian equivalent to the IFRS for SMEs, based on criteria that establish which set of these Standards would apply (AASB, 2007a).

The comment letters to ITC 12 present both support for, and resistance to, the removal of the reporting entity concept as proposed in ITC 12. There is also support for the AASB's contention that application of the reporting entity is inconsistent or confusing (Philanthropy Australia Inc. and Anderson, 2007), and that entities have applied a form of 'unregulated, unofficial differential reporting' (Boymal, 2007 p. 109), with subjective judgement of directors (Ernst & Young, 2007; KPMG and Hall, 2007; Moore Stephens and Neville, 2007). Typical examples of this view are expressed in these quotes:

> The subjectivity involved in determining whether an entity is a reporting entity has resulted in widely varying interpretations and inconsistent applications of the concept (Ernst & Young, 2007).

> The reporting entity is a subjective way to categorise entities … Given interpretations of this subjective concept …, as a general rule, we would support a more objective test being put in place (KPMG and Hall, 2007).

However, the comment letters amplify the view that the reporting entity concept is only 'difficult to apply "at the margin"'[24] (Deloitte Touche Tomatsu and Rundell, 2007).

In contrast to the above views, there is more opposition than support in the comment letters to a change to the reporting entity concept. An analysis performed on the ITC 12 letters concluded that 'over 90 per cent of the submissions made … argued for the continuation of the (non) reporting entity concept' (Reilly, 2009 p. 53)[25]. Some comment letter writers in this group contend that there is no problem with the application of the reporting entity as it currently stands, while others argue for its retention on the basis that it offers flexibility and is a good way of limiting 'excessive' reporting requirements on smaller entities. The comments quoted below capture the argument of the group that vehemently denies the view that

[24]'e.g. substantial subsidiaries of foreign-owned entities that are integrated with, and largely funded by, their offshore parent or a company that dominates its industry but otherwise is not large' (Deloitte Touche Tomatsu & Rundell, 2007)

[25]It is not clear from this article whether this calculation includes the duplicate responses which all rejected the reporting entity concept.

the reporting entity is not applied correctly in practice, and expresses their annoyance at the change.

> We do not believe that there is (*sic*) any confusion as to the use of the reporting entity concept, until the release of ITC 12 (Grant Thornton Association Inc. and Reilly, 2007).
>
> In the absence of any evidence of abuse or problem with the ‘reporting entity’ concept, CSA queries why the AASB promotes its removal (Chartered Secretaries Australia and Sheehy, 2007).
>
> In our view the reporting entity concept is not broken and does not require fixing (Clearlight Investments and Robertson, 2007).
>
> … does not accept the argument that the current regime is only operating effectively through ‘non-compliance’ by non-reporting entities (Australian Institute of Company Directors and Evans, 2007).

The National Institute of Accountants (NIA)[26] makes a case for the need for more flexibility around the application of disclosure requirements for the accounts of entities not deemed to be publicly accountable (National Institute of Accountants and Conway, 2007), which is currently the role of the reporting entity concept. The Australian Institute of Company Directors (AICD) praises the functioning of the reporting entity as a ‘useful “brake”

[26] The NIA has subsequently changed its name to the Institute of Public Accountants (IPA).

for excessive reporting obligations on certain SMEs' (Australian Institute of Company Directors and Evans, 2007). PwC (PricewaterhouseCoopers) claims that they have not seen any 'evidence that the current system is failing users' (PwC and Bendall, 2007).

Finally, rather than wanting to replace the reporting entity concept, there was support from a number of respondents for further legislative clarification to remove subjective application. It was suggested by several respondents that the AASB could reduce the perceived problem with the reporting entity concept by providing additional guidance (HoTARAC and Challen, 2007; ICAA, 2007b; PwC and Bendall, 2007; QBE Insurance Group and Drabsch, 2007; RSM Bird Cameron and Meade, 2007; The Institute of Chartered Accountants in Australia and Palmer, 2007). HoTARAC warn that '(t)he removal of the reporting entity concept … could eliminate the function of the conceptual framework, which would result in there not being agreed rules when deciding between approaches' (HoTARAC and Challen, 2007).

The reporting entity concept was designed to provide relief to entities from standards compliance where no external users of financial statements appear to exist. It is not surprising therefore, that many commentators oppose the removal of this relief. The AASB appears to have a real concern that the reporting entity is being abused by entities which should comply with accounting standards but avoid this by declaring themselves 'non-reporting'. Their solution is to remove the concept altogether. It can be speculated that it was this level of uncertainty for commentators which resulted in high participation on this topic. Many commentators seem to believe the problem is regulatory rather than conceptual.

The 'triggers' for differential reporting: the definition of General Purpose Financial Statements, public availability, public accountability and size thresholds

Prior to the consultative process, the AASB identified the reporting entity concept as flawed. ITC 12 then proposed a revised differential reporting scheme which uses GPFS rather than the reporting entity to determine which entities should use IFRS or IFRS for SMEs. According to ITC 12, the AASB's intent is that:

> … all entities that prepare general purpose financial reports would apply either the Australian equivalents to IFRS or an Australian equivalent to the IFRS for SMEs, based on criteria that establish which set of these standards would apply (AASB, 2007a Preface p. v)[27].

[27]ITC 12 refers to an Australian equivalent to IFRS for SMEs. The term *Australian equivalent* is also used in reference to IFRS in this quote, possibly because the Australian implementation of IFRS contains amendments to allow for not-for-profit and publicly owned entities. In this paper, IFRS for SMEs has been used as a proxy for an Australian equivalent, which was not clearly defined publicly by the AASB at the time of the ITC 12 consultation period.

These criteria hinge on the notion of ‘public accountability’ and size, discussed below. Further clarification identifies the AASB’s interpretation of GPFS as financial reports which are lodged on a public register or are ‘otherwise made available to the public at large’ (AASB, 2007a Preface p. v). This classification would include all financial reports lodged with ASIC under the *Corporations Act 2001*, as well as all financial statements that are required by the *Corporations Act* to be prepared according to Australian Accounting Standards (for those entities that are exempt from the *Corporations Act* by grandfathered provisions), and all reports tabled in Parliament (AASB, 2007a Preface p. xii).

Under this proposal, the focus for determining that accounting standards must be complied with switches from an entity being a reporting entity to being one which produces GPFS for external users. The production of GPFS therefore fills the void left by the removal of the reporting entity concept. The notion of public accountability then determines whether an entity using standards is allowed to use IFRS for SMEs or must use IFRS for their GPFS. The AASB followed the guidance of the IASB in introducing the concept of public accountability as a means of determining whether entities producing GPFS for external users should use IFRS or IFRS for SMEs (AASB, 2007a). According to ITC 12, an entity is publicly accountable if it:

(a) files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity. (AASB, 2007a Preface p. ix)

From a public interest perspective, size is also seen by the AASB as an indicator of importance (AASB, 2007a), and ITC 12 introduces tentative size thresholds as a factor in differential reporting. In order to differentiate between entities which need to produce GPFS using IFRS and those that could use IFRS for SMEs, ITC 12 suggested tentative size thresholds below which IFRS for SMEs could be used. In the case of for-profit entities, the suggested size thresholds were either consolidated revenue of $500 million or consolidated assets of $250 million. Not-for-profit and public sector entities had suggested size thresholds of either consolidated revenue of $25 million, or consolidated assets of $12 million (AASB, 2007a).

The discussion below presents some of the views of the ITC 12 respondents to the change in focus from reporting entities to GPFS, their confusion regarding public availability and also their perceptions regarding the suitability of public accountability and size as triggers for different reporting standards.

a) General Purpose Financial Statements

The change in focus from reporting entities to GPFS directly targets those entities that currently define themselves as ‘non-reporting’, but are still required to file annual financial statements with ASIC by conditions in the *Corporations Act 2001* or other legislation. Because these entities are ‘non-reporting’ entities, the financial statements they file would be special purpose, rather than general purpose statements. Special purpose financial statements (SPFS) are not required to follow IFRS, and so have a lower level of disclosure than GPFS. These statements may also use different measurement and recognition from IFRS. The classification of *all* statements filed with ASIC as GPFS would therefore add to the disclosure and reporting burden for those entities required to switch from SPFS to GPFS. For this reason, commentators to ITC 12 had strong opinions on whether this change is acceptable.

The AASB’s suggestion received some support among ITC 12 respondents (BDO Kendalls (NSW) and Basford, 2007; KPMG and Hall, 2007):

> We believe that the proposed change eliminates the inherent subjectivity associated with the assessment of what is a 'reporting entity'. We consider the definition of 'general purpose financial reports' … to be objective in nature and easy to implement (Moore Stephens and Neville, 2007).

Given that there were a high number of commentators who did not like the removal of the reporting entity concept, it is not surprising that there were many opposed to its replacement with the requirement for all statements filed with ASIC to be classified as ‘general purpose’. Some did so on the grounds that circumventing the reporting entity would mean that non-reporting entities would still have to comply with accounting standards, contrary to the IASB’s intent for IFRS for SMEs (Australian Institute of Company Directors and Evans, 2007; Grant Thornton Association Inc. and Reilly, 2007; HoTARAC and Challen, 2007; PwC and Bendall, 2007):

> …we strongly disagree … that because an Entity lodges financial statements on a public register, it is automatically a reporting entity that is required to prepare general purpose financial reports (Grant Thornton Association Inc. and Reilly, 2007).

> … just because some overseas jurisdictions might end up linking the proposed IFRS for SMEs to public filings, does not mean Australia should automatically follow this approach ... (the IASB’s) proposals are not necessarily a neat fit with local laws (Australian Institute of Company Directors and Evans, 2007).

A particularly strong objection was raised by Deloitte Touche Tomatsu, who referred to notes from the December 2006 meeting of the IASB to argue that the IASB itself does not support the idea that all entities which lodge statements publicly should have to classify the statements as GPFS. According to their submission, this is particularly true when there are no external users who are 'not in a position to demand reports tailored to meeting their particular information needs' (Deloitte Touche Tomatsu and Rundell, 2007).

The most frequent objection in the ITC 12 comment letters, however, is to the proposal by the AASB that filing a financial statement on a public register (e.g. ASIC) or tabling it in Parliament automatically makes the statement a general purpose statement. The impact of this proposal is that all such statements would need to comply with the relevant accounting standards. The objections to this proposal are voiced in the comment letters in a number of ways. Some commentators reject the proposal outright for their entities:

> …we do not support the proposal that our financial report should be regarded as a general purpose financial report (Clearlight Investments and Robertson, 2007).

> This is a major change in the financial reporting requirements in Australia that has *(sic)* applied since 1991 and is contrary to the best interests of the Australian economy for smaller enterprises (Construction Control and Pont, 2007).

> This tentative decision is labelled as being consistent with the IASB definition of general purpose financial reports however we disagree with this interpretation (Insurance Australia Group and Whipp, 2007)

> The proposal at page (v) 'all financial reports on the public register or otherwise made available to the public at large to be regarded as general purpose financial reports' is overwhelming (Uniting Church in Australia and Ackland, 2007).

Some of the professional bodies and accounting firms that commented support these entities, suggesting that the proposed change lacks qualitative criteria to determine whether external users exist (National Institute of Accountants and Conway, 2007); that it would capture entities that are currently legitimately non-reporting because they have no external users of their statements (Commerce Queensland and Bidwell, 2007; Ernst & Young, 2007) or who are allowed by State and Territory Incorporation Acts to prepare financial statements using the cash basis (Deloitte Touche Tomatsu and Rundell, 2007); that it would force SMEs to comply unnecessarily with standards when special purpose reports would suit their purpose (Beckingham, 2007; HoTARAC and Challen, 2007); and that it conflicts with the published views of ASIC and the IASB:

> We do not believe this was ASIC's original intent in their Media Release 92/106 and related guide. Additionally we do not believe the view outlined … [is] consistent with the IASB's view of a general purpose financial report. An entity may lodge a report with ASIC and have no employees or creditors ... it would not meet the IASB's definition of a general purpose financial report … because there are no external users of the accounts (PwC and Bendall, 2007).

> In the case of non-reporting entities, the reports are prepared to satisfy the information needs of specific users and lodgement is merely a matter of regulatory compliance. The intent of the preparers of a special purpose report is quite clear from reading the introduction to the statement of accounting policies, generally found in Note 1 (The Institute of Chartered Accountants in Australia and Palmer, 2007).

Australian legislation presents another barrier to a change which regards all financial statements filed publicly as GPFS. 'Grandfathered' entities produce reports that are not publicly available and therefore have no visible external users. Since there are no external users of these reports, they do not fit the definition of GPFS. These entities are allowed to report without using accounting standards (BDO Kendalls (NSW) and Basford, 2007; Grant Thornton Association Inc. and Reilly, 2007; Ingham

Enterprises Pty. Ltd. and Vegvari, 2007). The ITC 12 size criteria discussed below might capture these grandfathered entities (BDO Kendalls (NSW) and Basford, 2007) and force them to produce GPFS for no external users:

> By rejecting the proposal to remove the grandfathered provisions within the Corporations Law the government has in effect confirmed these exempt proprietary corporations … will continue to be relieved from the requirement to lodge and prepare general purpose financial statements … [The] statements these exempt proprietary corporations would be forced to prepare would never actually be lodged (Ingham Enterprises Pty. Ltd. and Vegvari, 2007)

The role of the AASB in determining unilaterally which reporting should comply with accounting standards is further challenged by commentators on the grounds that it is a ‘public policy issue’ and will necessitate involvement by Treasury and Government (Australian Institute of Company Directors and Evans, 2007). The change extends beyond the *Corporations Act 2001* to other State and Federal legislation which requires reporting by some entities (Deloitte Touche Tomatsu and Rundell, 2007). The change also requires a major reinterpretation of the law by the accounting and auditing professions (BHP Billiton and Chadwick, 2007) and is not necessarily the interpretation considered by policy makers when they considered public filings (Australian Institute of Company Directors and Evans, 2007).

Since whether or not reports are GPFS hinges on being ‘made publicly available’, the commentators’ confusion regarding this term is examined in the next section.

b) Public availability

Commentators asked for clarification of the term ‘made available to the public at large’ as it is used in ITC 12. The AASB proposes in ITC 12 that ‘all financial reports that are otherwise made available to the public at large whether mandatorily or voluntarily’ should be considered GPFS (AASB, 2007a Preface p. xxvi). The comment letters, however, provide many examples of publicly available reports that commentators believe should not be considered GPFS.

Examples of reports that might be considered ‘publicly available’ are shown in Table 2.3.

Table 2.3: Examples of 'publicly available' reports

Type of report lodged/made available:	Reference (s)
on a website or sent by mail, possibly voluntarily	(PwC and Bendall, 2007; HoTARAC and Challen, 2007; RSM Bird Cameron and Meade, 2007)
with the Department of Fair Trading	(PwC and Bendall, 2007)
with regulators with public access	(AASB, 2007b; New South Wales Treasury and Williams, 2007)
in Parliament according to the requirements of AASB 1049 *Financial Reporting of General Government Sectors*	(AASB, 2007b)
in Parliament as operational documents	(HoTARAC and Challen, 2007)
as required by 'legislation international and other treaties, ministerial and other guidelines, government policy, international best practice' in the public sector	(Deloitte Touche Tomatsu and Rundell, 2007)
for indigenous corporations that have been incorporated under the *Aboriginal Councils and Associations ACT 1976*	(HoTARAC and Challen, 2007)
to access government funding	(HoTARAC and Challen, 2007)
by liquidators or trustees in bankruptcy as a Statement of Distribution of Funds	(The Institute of Chartered Accountants in Australia and Palmer, 2007)
as part of a prospectus	(The Institute of Chartered Accountants in Australia and Palmer, 2007)

Philanthropy Australia Inc. considers that 'broad interpretation of this requirement would result in all private sector not-for-profits preparing GPFRs'[28] as many charitable not-for-profits are required to place their financial statements on their websites for donors, and to make their statements available in response to requests from major funders and to all

[28]General Purpose Financial Reports. This is a synonym for General Purpose Financial Statements, used elsewhere in this paper.

who attend Annual General Meetings. These reports can also be purchased online from Registrars in some states according to the provisions of their respective *Associations Incorporation Acts* (Philanthropy Australia Inc. and Anderson, 2007).

These lodgements are not currently considered sufficient in and of themselves to make an entity a reporting entity. Many of these documents are of interest to the public and there are commentators who support the classification of these as GPFS (Ernst & Young, 2007). However, even some commentators who support the change to using GPFS rather than the reporting entity concept agree that this is too broad, for example:

> We would regard such a financial report[29] as a 'general purpose financial report' only on the basis that there are shareholders of the entity who cannot otherwise obtain information to satisfy their financial information needs. In all other cases, we believe that it is conceptually difficult to see how a financial report that is not required to be lodged on a public register could be appropriately described as a 'general purpose financial report' (Moore Stephens and Neville, 2007).

Finally, the view expressed by the Uniting Church in Australia is that practices could result that are not in the public interest because of ‘reticence by organisations to disclose their finances to the public e.g. on

[29]Refers to reports otherwise made available to the 'public at large'.

the internet’ for fear of these reports being classified as GPFS (Uniting Church in Australia and Ackland, 2007).

The lack of clarity reflected above regarding what it means to have reports ‘publicly available’ is of concern. If this is to be part of the definition which determines which entities produce GPFS and therefore use accounting standards, it will need to be clarified. If it is not part of the definition, confusion and, possibly, abuse will result. Commentators also believe that it would force IFRS compliance on entities that have no external users of their financial statements.

c) <u>Public accountability</u>

The appropriateness of public accountability as the method for differentiating between accounting standards elicited comments from the community. Concern was expressed that the definition is too broad, has a ‘general meaning in English’ (National Institute of Accountants and Conway, 2007) and is open to interpretation in respect of the context in which the entity operates (for example, a medium sized entity in a small town would have a major impact on the economy of that town and might therefore be considered publicly accountable) (BDO Kendalls (NSW) and Basford, 2007). Commentators also believed it would force smaller entities to use reporting standards that are too onerous (Grant Thornton Association Inc. and Reilly, 2007). The NIA proposed that while its constituents believed that public accountability is suitable for determining levels of differential reporting, the AASB should not lose sight of ‘the quantum of disclosure an entity must provide to the marketplace’ (National Institute of Accountants and Conway, 2007). There was also a general criticism that the definition did not take into account the specific needs of public-sector and not-for-profit entities (New South Wales Treasury and Williams, 2007; PwC and Bendall, 2007; Uniting Church in Australia and Ackland, 2007), all of which might be considered as being publicly accountable.

Specific criticisms levelled at the public accountability definition in the ITC 12 letters illustrate confusion regarding the terms *fiduciary capacity* and listed entities in the *public market.* The following quotes capture the criticisms of *fiduciary capacity*:

> If one includes entities that hold assets in a fiduciary capacity, does that extend to the high street travel agent or insurance broker? Such businesses can be quite small but still hold assets in a fiduciary capacity on behalf of their clients. Similarly, would a trustee company that does nothing apart from acting as trustee for a family trust be publicly accountable (The Institute of Chartered Accountants in Australia and Palmer, 2007)?

> It would be clearer if the IASB were to explain the characteristics of entities that are 'fiduciaries', such as banks and other deposit takers. Other deposit takers would presumably include insurers that sell investment products and the IASB would need to clarify if it intends that general insurers and term life insurers are publicly accountable because, technically, they do not hold deposits since they retain their assets to the extent those assets are not needed to pay claims (there is usually no minimum deposit amount associated with a general insurance contract or 'pure' term life contract) (AASB, 2007b).

> … many service organizations hold assets to meet customer needs and therefore could operate in a 'fiduciary capacity' and we do not believe this was the intent of the IASB (The Institute of Chartered Accountants in Australia and Palmer, 2007).

> … it is not clear to us what is meant by 'fiduciary capacity' or 'broad group of outsiders'. Fiduciary is not defined on the AASB web site. A dictionary defines it as held or given in trust, depending for its value on public confidence or securities. At a basic level what entity does not have some form of fiduciary capacity to its owners (KPMG and Hall, 2007)?

Summarised, these concerns relate to the size and nature of the business which holds assets in a fiduciary capacity, and whether or not entities that do not hold assets are captured by the definition. In its broadest form, the definition could extend to all directors of companies and trusts (AASB, 2007b).

Below are some of the comments relating to listed entities and the *public market*:

> … an established listed entity that has no need for raising further capital may argue that it is not publicly accountable on the grounds that it only files its financial statements for the purposes of compliance with legislation or Listing Rules. It would be helpful to clarify that an entity is publicly accountable if it has its equity or debt instruments traded in a public market (AASB, 2007b).

> … the definition of a 'public market' is not clear enough, notwithstanding the additional clarification included in AASB 8 *Operating Segments* and AASB 133 *Earnings per Share.* By way of practical example, in the managed funds industry where units are issued by an unlisted fund to the public does this meet the definition of a 'public market' (KPMG and Hall, 2007).

> … it seems possible for an established listed entity that has no need for raising capital to argue that it is not publicly accountable since it only files its financial statements for the purposes of compliance with the Corporations Act or Listing Rules. Hence, without the relevant activity of issuing instruments to the public, the nexus between such an entity and the definition does not appear to exist (Moore Stephens and Neville, 2007).

The definition of public accountability is principles-based, requiring professional judgement to discern the meaning of the terms *fiduciary capacity* and the *public market*. According to some commentators, this exposes it to the same differences in interpretation as the reporting entity concept unless it is ‘clear and vigorous’ (The Institute of Chartered Accountants in Australia and Palmer, 2007). The questions raised in the ITC 12 comments with regards to what it means to have reports made publicly available and what *fiduciary capacity* and the *public market* mean are valid criticisms. In its submission to the IASB on IFRS for SMEs, the AASB acknowledges that this definition is flawed and requires clarification before it is used in practice (AASB, 2007b). This definition will decide whether or not entities producing GPFS will need to produce these statements using IFRS or will be allowed reduced disclosure. This will have a cost impact on entities. Therefore, the definition of public accountability needs to be clarified to ensure that the result is consistent interpretation.

d) <u>Size Thresholds</u>

The final determinant triggering differential reporting that is proposed in ITC 12 concerns the size thresholds discussed in Section 2.6. There were different size thresholds for for-profit private sector entities and for public-sector and not-for-profit entities. This difference will provide relief from disclosure for smaller non-publicly accountable charities and government entities required to produce GPFS, while still reflecting the ‘degree of public interest in the financial activities of public sector entities’, which the AASB considers to be proportionate to their size (AASB, 2007a Preface p. xxvi). The high size thresholds for private sector entities are intended to ensure that IFRS disclosures are only enforced for entities that are ‘viewed as being important from a public interest perspective because of their large size’ (AASB, 2007a Preface, p. xxiii).

There is some support for this notion of large size as an indicator of public importance, especially for for-profit entities not captured by the public accountability definition (Moore Stephens and Neville, 2007; RSM Bird Cameron and Meade, 2007). Since IFRS is specifically designed for for-profit entities, and IFRS for SMEs is a derivative of IFRS, size thresholds are only an issue for for-profit private sector entities where there are possible distortions of the intent of differential reporting. Concerns have been raised regarding the use of a test which includes two mutually exclusive components i.e. separate assets and revenue tests, rather than combining the two of these simultaneously (Deloitte Touche Tomatsu and Rundell, 2007; Japan Alumina Associates (Australia) and Shearwood, 2007; RSM Bird Cameron and Meade, 2007).

Since the Australian implementation of IFRS contains modifications to apply the standard to the not-for-profit sector, it is appropriate that size thresholds be extended to these entities if they are used for the for-profit sector. The low threshold suggested by the AASB is justified by some commentators because of public accountability:

> It has been argued that most public sector organisations should prepare full AEIFRS reports because of the need for public accountability, and this justifies a very low threshold (Australian Government Department of Finance and Administration and Campbell, 2007).

However, there is a criticism from supporters that the thresholds suggested are too low (Australian Government Department of Finance and Administration and Campbell, 2007; BDO Kendalls (NSW) and Basford, 2007; HoTARAC and Challen, 2007):

> Finance considers that the proposed threshold of $25 million revenue/$12.5 million assets is an inappropriate level for the Commonwealth (Australian Government Department of Finance and Administration and Campbell, 2007).

> … under the proposed thresholds, only a small percentage of public sector entities that produce GPFRs would be classed as small or medium in certain jurisdictions. This appears counter-intuitive if the framework is seeking to classify entities as small, medium or large (HoTARAC and Challen, 2007).

> … a more appropriate threshold would be $100 million revenue/$50 million assets, where both administered and controlled balances and transactions are included in the calculation (Australian Government Department of Finance and Administration and Campbell, 2007).

In contrast to this limited support, many commentators are opposed to the size thresholds. These criticisms are summarised in Table 2.4 for clarity.

Table 2.4: Criticisms of size thresholds

Criticism	Reference(s)
insufficiency to determine public accountability	(BDO Kendalls (NSW) and Basford, 2007)
the elevation of size above other economically significant measures of public accountability, for example industry and regional or strategic importance	(RSM Bird Cameron and Meade, 2007; BDO Kendalls (NSW) and Basford, 2007; Deloitte Touche Tomatsu and Rundell, 2007)
capturing of grandfathered entities	(BDO Kendalls (NSW) and Basford, 2007)
inequitable treatment between private and not-for-profit entities	(BDO Kendalls (NSW) and Basford, 2007)
having no relevance to user requirements	(BHP Billiton and Chadwick, 2007)
possible temporary switching between IFRS and IFRS for SMEs as entities move across the size threshold	(Deloitte Touche Tomatsu and Rundell, 2007; HoTARAC and Challen, 2007; RSM Bird Cameron and Meade, 2007)
the inability of entities to forecast whether or not they will need to report using standards until the end of the financial year if they are close to a threshold	(HoTARAC and Challen, 2007)

The structure of the size thresholds themselves is criticised, in particular because they will capture entities with large asset bases but relatively low revenue (for example, libraries) (HoTARAC and Challen, 2007; PwC and Bendall, 2007), and because the revenue threshold will capture 'low margin, high turnover entities that have no real economic significance' (Deloitte Touche Tomatsu and Rundell, 2007).

Practically, commentators believe that size thresholds will also become a burden to the AASB. The tests would require frequent updating, or risk becoming invalid (HoTARAC and Challen, 2007). Their use could alter the behaviour of entities to avoid meeting the criteria, for example, 'entities or "artificial" structures may be created so as to avoid or minimise the required reporting' (Uniting Church in Australia and Ackland, 2007). There is also criticism that setting these thresholds falls outside the scope of the AASB (BDO Kendalls (NSW) and Basford, 2007).

Various commentators provide suggestions for changing the way in which the size thresholds are implemented by the AASB. These include making it necessary for an entity to exceed both tests simultaneously, rather than just one of them, in order to avoid capturing low profit margin entities, for example, some retail entities, where high revenue does not necessarily signify economic significance (Deloitte Touche Tomatsu and Rundell, 2007). The problem of changing size thresholds is also addressed by a number of commentators, who suggest allowing entities to average over a number of years to identify consistent upward trends and alleviate the problem of flip flopping between the two standards in the event of an extraordinary event in one year (Deloitte Touche Tomatsu and Rundell, 2007). A further suggestion is to introduce a process of reviewing size thresholds regularly, justified each time by the AASB by ‘an Impact Statement similar to that undertaken by Treasury in adopting the proposals under the Simpler Regulatory System’ (Ernst & Young, 2007). Finally, the threshold levels should be reviewed, with a suggestion from HoTARAC that the size threshold for the not-for-profit public sector should be raised to the for-profit level to allow for individual jurisdictions to decide where IFRS for SMEs might be appropriate (HoTARAC and Challen, 2007), and from BHP Billiton that for group entities, ‘a differentiation based on an appropriate % of the group position may be a better indication of “important” entities within a consolidated group’ (BHP Billiton and Chadwick, 2007).

The AASB requires a method to enforce compliance with standards in the absence of the reporting entity concept. GPFS must be produced that comply with accounting standards. It seems obvious that if it is clear which entities must produce GPFS, then standards compliance will automatically follow. The AASB seeks to extend compliance with standards to all entities that file statements with ASIC. This captures many Australian entities that do not currently classify themselves as reporting entities. Because there is much resistance to the removal of the reporting entity concept, it is not surprising to see the resistance to the increase in the number of entities that will have to comply with standards because of the suggested change in scope of GPFS. Commentators also resist the idea and quantum of size thresholds for triggering GPFS. There is confusion regarding the definition of public accountability which will determine whether complying entities can use a simpler standard. If the AASB seeks to use GPFS as the trigger for compliance with standards, then these issues will need to be addressed and resolved.

Perceived benefits and costs of the proposed change

The third issue raised by the AASB in ITC 12 was the perceived benefits and costs of the proposed change. In ITC 12, the AASB asked commentators the following:

> … do you think that the overall benefits that would arise from the proposals would exceed the overall costs? If you are an entity that prepares a general purpose financial report or would need to do so under the proposals, please advise us of any increased costs or any savings that would result from the proposals, and if possible, quantify them (AASB, 2007a).

This section explores their answers to this request.

a) <u>Benefits</u>

The purpose of the comment letters is to criticise rather than compliment the proposed changes to reporting. In this context, there are few comments on the perceived benefits of adopting the proposals, with the noted exception of the benefits that will arise to entities that are currently reporting entities and are required to use full IFRS for their GPFS, even if they are not publicly accountable. These entities would be allowed to use IFRS for SMEs under the ITC 12 proposals, and this would allow simplified disclosure (BDO Kendalls (NSW) and Basford, 2007; Uniting Church in Australia and Ackland, 2007) with an associated reduction in work. IFRS for SMEs would provide a single, clear source of relevant requirements for these entities (Australian Institute of Company Directors and Evans, 2007; Insurance Australia Group and Whipp, 2007). If IFRS becomes more complex in the future, the benefit to these entities will be higher (Deloitte Touche Tomatsu and Rundell, 2007). For example:

> … we do support the introduction of the IFRS for SMEs Standard for reporting entities and believe that the benefits would clearly exceed the costs … given simplified recognition, measurement and disclosure requirements that apply, compared to the existing IFRS requirements for reporting entities (Grant Thornton Association Inc. and Reilly, 2007).

This benefit would not, however, extend to subsidiaries of parent entities required to use full IFRS, as is discussed below.

b) <u>Costs</u>

Additional burdens placed on SMEs from the introduction or expansion in compliance with accounting standards that are not justified by concomitant benefits were of major concern to ITC 12 commentators. Many of the comments in this section were made by accountants from smaller firms or by entities (see, for example, Beckingham, 2007; Bridging Capital Pty. Ltd. and Paige, 2007; Construction Control and Pont, 2007; Nuss, 2007; Rutter, 2007; Skinner, 2007). Interestingly, some of these letters do not comment on any other aspect in the Invitation to Comment.

Representations refer to the Australian Government's policy of reducing Red Tape (Australian Treasury Department, 2006) as a valid criticism of the perceived increase in costs of reporting for entities, in particular for existing non-reporting entities (see, for example, Australian Institute of Company Directors and Evans, 2007; Bridging Capital Pty. Ltd. and Paige, 2007; Chartered Secretaries Australia and Sheehy, 2007; Clearlight Investments and Robertson, 2007; Commerce Queensland and Bidwell, 2007; Construction Control and Pont, 2007; Imparja Television and Wade, 2007; Ingham Enterprises Pty. Ltd. and Vegvari, 2007). As commented by the NIA:

> … The *Taskforce for Reducing the Regulatory Burden on Business* examined the various burdens facing business in Australia which culminated in the release of the *Best Practice Regulation Handbook* in August 2007. Accordingly, it is our view that these proposals ought to be read in conjunction with the Australian Government's priority to address, and where possible, reduce the regulatory burden on business (National Institute of Accountants and Conway, 2007).

The increased costs of abandoning the reporting entity concept and expanding the scope of GPFS, with the resultant increase in producing annual financial statements was of major concern, especially for smaller practitioners:

> … there are a number of small companies and entities that do not require full reporting or even smaller SME standard compliance, due to their small size, lack of complexity, members with little financial interest (e.g. Clubs where they pay $10 membership a year!) and the confusion certain measurement standards will bring for little benefit to the entity (Cornall, 2007).

> … our small clients do not want any change which will produce no benefits to them but will cost them a great deal of money (Nuss, 2007).

The additional burden on SMEs would manifest itself in the form of time to collect and administer information (BHP Billiton and Chadwick, 2007; Bird, 2007); lack of access to qualified professionals regionally (Wilcher, 2007); volume and complexity of disclosure (Chartered Secretaries Australia and Sheehy, 2007; Clearlight Investments and Robertson, 2007; Construction Control and Pont, 2007; Deloitte Touche Tomatsu and Rundell, 2007); training of suitably qualified accountants (Beckingham, 2007; Rutter, 2007); transitional costs (including additional staff training) between standards (Deloitte Touche Tomatsu and Rundell, 2007; New South Wales Treasury and Williams, 2007); restrictions to the movement of accountants internationally (Deloitte Touche Tomatsu and Rundell, 2007); and additional costs to subsidiaries (see Section 2.7). Many commentators expressed the belief that these additional costs would not benefit any users of financial statements (Deloitte Touche Tomatsu and Rundell, 2007):

> We believe this will require us to prepare a very substantial amount of information in our financial report for no useful purpose (Clearlight Investments and Robertson, 2007).

> AICD remains concerned about the imposition of IFRS on many SMEs, on the basis that the costs to these companies far outweigh benefits to the companies and report users (Australian Institute of Company Directors and Evans, 2007).

> I find it ridiculous and absurd that these tiny aboriginal communities dotted around the fringe of the central Australian deserts should be compelled to comply with International Financial Reporting Standards. I cannot possibly envisage their being able to provide the human and financial resources that such a decision would require (Skinner, 2007).

Finally, measuring the quantum of these costs proved difficult for commentators. Some commented that this was the result of the absence of a regulatory impact statement from the AASB (Australian Institute of Company Directors and Evans, 2007; Ernst & Young, 2007). The quotes below reflect the thoughts of those commentators who did try to quantify the costs:

> We estimate that for a current non-reporting entity to move from the AASB disclosure Standards to the proposed IFRS for SMEs ED[30], it would cost at least an extra $15,000 or more (Grant Thornton Association Inc. and Reilly, 2007).

> The average length of the special purpose financial reports currently prepared by our subsidiaries is 18 pages ... this would double under the proposed IFRS for SMEs and that the ongoing cost … would potentially be in excess of $200,000 per annum. In addition to this, there would potentially be the costs of implementing systems to facilitate the production of two sets of financial information under IFRS and IFRS for SMEs (QBE Insurance Group and Drabsch, 2007).

> In Victoria alone there are approximately 300 UCA congregations, all using voluntary treasurers who are generally unqualified … if all 300 congregations employed a part time accountant at $30,000 pa that is $9.0m pa, if say at year end the auditor did the work for $5000 pa that is $1.5m pa (Uniting Church in Australia and Ackland, 2007).

> In the banking industry in Australia it would not be unusual for a listed entity to have more than 300 subsidiaries … The average length of the subsidiaries' special purpose financial report would be 15 pages, it is

[30]Exposure Draft

> anticipated that this would increase to around 30 pages if general purpose financial reports needed to be prepared. These entities may wish to adopt IFRS for SMEs to avoid the detailed disclosures required by IFRS. However, this may result in them adopting accounting treatments different from those adopted in their group's consolidated financial reports. This would mean their financial information would need to be adjusted before being included in the group's results (PwC and Bendall, 2007).

These comments reflect a very real concern on the part of commentators for the additional costs associated with the changes in ITC 12 and emphasise that it is particularly onerous for small, regional entities. The number of shorter submissions that appear on this subject alone reflects the concern of smaller practitioner firms and of entities. The additional training required to produce reports that comply with accounting standards will result in a shortage of trained accountants in the short term (a scarce resource), hence the increased interest from participants. The benefits appear to reside with those entities for which the change is a relief from existing disclosure, and the costs imposed affect entities which are important for economic growth in Australia.

The suitability of IFRS for SMEs in the Australian setting

The fourth issue examined in ITC 12 was the suitability of IFRS for SMEs in Australia. ITC 12 included an Exposure Draft of IFRS for SMEs, released by the IASB. Many of the specific matters for comment on differential reporting in ITC 12 are therefore phrased with IFRS for SMEs as an example of a standard that could be applied to smaller entities[31]. The following discussion examines the comment letter references to IFRS for SMEs in the Australian setting.

There was support for immediate relief from IFRS disclosure for reporting entities that are non-publicly accountable (Australian Institute of Company Directors and Evans, 2007; Chartered Secretaries Australia and Sheehy, 2007; Grant Thornton Association Inc. and Reilly, 2007). This is in line with the IASB's intention for IFRS for SMEs to only apply to non-publicly accountable entities, and there is a call in the letters to ensure that this standard does not apply to micro entities (1-3 employees), as it is regarded as still too complex for small unlisted entities (see, for example, Australian Institute of Company Directors and Evans, 2007; Ernst & Young, 2007; Grant Thornton Association Inc. and Reilly, 2007; HoTARAC and Challen, 2007; Ingham Enterprises Pty. Ltd. and Vegvari, 2007; The Institute of Chartered Accountants in Australia and Palmer, 2007). There was even a call to include additional disclosures in IFRS for SMEs for entities that are not publicly accountable but that exceed the size thresholds (BDO Kendalls (NSW) and Basford, 2007).

[31]At the time of writing (September 2012), the AASB has not adopted IFRS for SMEs for differential reporting.

Contrary to the approach which embraces IFRS for SMEs is the view that there is no need for an additional standard; that a single standard with exemptions from disclosure should specify the ‘scope of financial reporting’ in Australia (National Institute of Accountants and Conway, 2007), and that the existing approach to differential reporting is sufficient in the Australian context (BHP Billiton and Chadwick, 2007). Having one standard rather than two will remove any transitory arrangements that might arise when an entity is required to move from one to the other (HoTARAC and Challen, 2007):

> The benefits to the Australian economy of a single set of recognition and measurement rules extend to:
>
> - the comparability of financial information across entities and across industry sectors by users and preparers of financial reports;
> - the mobility of accountants across entities and across industry sectors;
> - the ongoing costs of training and maintaining a highly skilled accounting profession;
> - and the regulatory and other costs of maintaining two sets of generally accepted accounting principles (Ernst & Young, 2007).

However, fear was expressed that the IASB would allow IFRS and IFRS for SMEs to diverge now that there are two standards (Ernst & Young, 2007). The complexity of IFRS for SMEs and its ‘top down’ development by cutting out parts of IFRS prompted the Australian Institute of Company Directors to call for its rejection:

> Unless there are material changes to the draft IFRS for SMEs, along the general lines suggested in this submission, AICD believes that Australia should develop its own accounting standards for unlisted SMEs (Australian Institute of Company Directors and Evans, 2007).

A specific issue that was raised in relation to IFRS for SMEs was the measurement, recognition and disclosure obligations of subsidiaries of IFRS-compliant publicly accountable entities (AASB, 2007a; PwC and Bendall, 2007; QBE Insurance Group and Drabsch, 2007; The Institute of Chartered Accountants in Australia and Palmer, 2007). BHP Billiton rejected IFRS for SMEs (as an alternative to reduced disclosure based on IFRS) on the grounds that the measurement and recognition requirements are not consistent with those of IFRS. This difference will create 'significant difficulties' for subsidiaries (BHP Billiton and Chadwick, 2007), a sentiment which was also raised by QBE Insurance Group:

> … our subsidiaries [will have to adopt] accounting treatments that differ to those adopted in QBE's consolidated financial reports. This would lead to a requirement to prepare two sets of financial information … The additional cost of training staff, preparing adjustments between single entity and consolidated financial statements and implementing systems to facilitate the two sets of standards would be onerous (QBE Insurance Group and Drabsch, 2007).

Finally, many commentators noted that IFRS for SMEs, as proposed by the IASB, is not suitable for Australian public sector entities (Deloitte Touche Tomatsu and Rundell, 2007; HoTARAC and Challen, 2007; Imparja Television and Wade, 2007; PwC and Bendall, 2007). This comment is in line with the findings of other international accounting standards boards, as commented on by PwC:

> We understand the UK Chair of Charities SORP Committee has also requested more attention be given to the needs of charities by the UK ASB and the IASB. In New Zealand and the United States a sector neutral approach has been undertaken for recognition and measurement but disclosures specific to charities are required (PwC and Bendall, 2007).

Consolidation of public sector entity financial statements into whole of government reports, which require different recognition and measurement principles, would also render IFRS for SMEs unsuitable for these entities (RSM Bird Cameron and Meade, 2007).

The debate regarding IFRS for SMEs reveals a potentially irreconcilable difference between the two sides of the argument. IFRS for SMEs is rejected on the grounds that it will not be suitable for subsidiaries of entities using IFRS and for the public sector, largely because of its different measurement and recognition standards. Those in favour embrace the reduction in complexity that IFRS for SMEs affords. This provides the standard setter with a difficult choice.

2.7 Users of financial statements

According to the IASB, IFRS for SMEs is intended to apply to entities that are not publicly accountable and that publish GPFS for external users (AASB, 2007a). Without external users, the definition of GPFS is not met. This places the needs and existence of external users at the forefront in the implementation of IFRS for SMEs (Chartered Secretaries Australia and Sheehy, 2007). There are twelve ITC 12 responses that can be identified as originating from private sector entities or their representative bodies. Some of these represent large groups of subsidiary entities (see, for example, Insurance Australia Group and Whipp, 2007; QBE Insurance Group and Drabsch, 2007; Uniting Church in Australia and Ackland, 2007). In addition, seven letters originate in the public sector or from consultants to the public sector. This pattern of participation in standard setting is unusual (Georgiou, 2002; Durocher et al., 2007), and makes the ITC 12 letters a valuable source of information about user requirements from financial reports.

Diverging from the previous analysis which followed the questions set by the AASB, this section presents the findings of an analysis of the ITC 12 responses to identify references to user groups of the GPFS that might qualify for IFRS for SMEs. In addition, the responses were also scrutinised for indications of how these users were using the reports.

Types of users

The following list illustrates the user groups identified from the analysis of ITC 12 comments and the source of each reference.

- Employees (Deloitte Touche Tomatsu and Rundell, 2007; Skinner, 2007)
- Equity holders (Clearlight Investments and Robertson, 2007; CPA Australia and Rankin, 2007; Deloitte Touche Tomatsu and Rundell, 2007; Ingham Enterprises Pty. Ltd. and Vegvari, 2007), 'to whom the primary reporting obligation is owed' (Deloitte Touche Tomatsu and Rundell, 2007), although there were respondents who believed that there were entities included in the proposed IFRS for SMEs reporting group that did not have equity investors (Chartered Secretaries Australia and Sheehy, 2007; Imparja Television and Wade, 2007).
- Government (BDO Kendalls (NSW) and Basford, 2007; HoTARAC and Challen, 2007; Imparja Television and Wade, 2007; Thorley, 2007; Uniting Church in Australia and Ackland, 2007). Examples include departments administering aboriginal corporations funded by government grants (Thorley, 2007), and churches (Uniting Church in Australia and Ackland, 2007).
- Existing and potential creditors: Most of the respondents who identified creditors as a potential user of GPFS identified that this class of report-user would normally call for special purpose financial reports (AASB,

2007b; CPA Australia and Rankin, 2007; Ingham Enterprises Pty. Ltd. and Vegvari, 2007; Imparja Television and Wade, 2007; Skinner, 2007):

> Under paragraph 1.1 of the IASB's Exposure Draft, existing and potential creditors are regarded as external users who would rely on general purpose financial statements of the entity for their information needs. In the case of providers of finance, this may be true in jurisdictions where there is intensive competition between those providing finance and where requiring tailored reports may lead to loss of clientele. However, in many jurisdictions providers of finance would be able to demand tailored reports in place of the client's general purpose financial statements (AASB, 2007b)
>
> … creditors of most small not for profit organisations do not rely just on the financial statements but rather they do their own due diligence which may include individual guarantees from the entity and its executives and directors (Imparja Television and Wade, 2007).

- Members of not-for-profit entities (Bird, 2007; Chartered Secretaries Australia and Sheehy, 2007; Ernst & Young, 2007; Philanthropy Australia Inc. and Anderson, 2007) and donors to not-for-profit entities (BDO Kendalls (NSW) and Basford, 2007).
- Philanthropic Investors (Ernst & Young, 2007; Philanthropy Australia Inc. and Anderson, 2007)

Purposes for which reports are used

The ITC 12 comment letters also provide limited reasons why these potential groups of users might need GPFS, rather than special purpose statements. The reasons included: queries from potential funders (Philanthropy Australia Inc. and Anderson, 2007) and, for members of not-for-profits, 'ascertain(ing) whether the quality of the services provided by the not-for-profit company is fulfilling the company's mission and values' (Chartered Secretaries Australia and Sheehy, 2007) and assessing the performance of management of the entity (Philanthropy Australia Inc. and Anderson, 2007).

Some commentators reinforced the notion that GPFS are not required at all and shareholders' needs are largely satisfied by special purpose reports:

> They currently receive timely information such that the annual accounts prepared as a special purpose financial report are already considered a regulatory necessity. To require preparation of a private report in full compliance with all the public disclosure requirements of accounting standards for shareholders who place no value on the report is Kafkaesque (Clearlight Investments and Robertson, 2007).
>
> It is not considered reasonable to conclude that there are users who depend on general purpose financial reports for information which will be useful to them in making and evaluating decisions about the allocation of

scarce resources to those entities. Experience of the Group, in terms of the absence of enquiries from potential users of the financial reports of these subsidiaries, continues to confirm the validity of these judgements (BHP Billiton and Chadwick, 2007).

What needs to be reported

The smaller entities that could apply IFRS for SMEs are not homogeneous. On the most basic level, they can be divided into three groups – for-profit entities, not-for-profit private entities and not-for profit public entities. Within these three groups, the entities can be classified further; for example, ‘it seems likely that subsidiaries within large groups would be involved in a wider range of activities and transactions than an equivalent SME that is not part of a group’ (AASB, 2007b). However, the accounting standard needs to embrace this diversity, and offer solutions to the reporting needs for all the entities that apply it. Therefore, the responses to ITC 12 were examined to identify suggestions for what needs to be reported in financial reports. These findings are presented in this subsection.

At the simplest level, users need information regarding the entity’s liquidity and solvency (CPA Australia and Rankin, 2007). Commentators believed GPFS should include the three basic reports – income statement, balance sheet and cash flow statement, as well as statements of accounting policies, and related party disclosure, modified for not-for-profit entities

(BDO Kendalls (NSW) and Basford, 2007). Some ITC 12 commentators believed that the current reporting standards for non-reporting entities (AASB 101[32], AASB 107[33], AASB 108[34], AASB 1031[35] and AASB 1048[36]) are consistent with the requirements of users of financial statements (Commerce Queensland and Bidwell, 2007). Further, IAS 24[37] *Related Party Disclosures* is also needed (Deloitte Touche Tomatsu and Rundell, 2007).

CPA Australia commented on there being no real need for international comparison of financial statements, because banks can demand the information they need before they lend; cross-border suppliers use financial guarantees and letters of credit to secure their business relationships; and because of a lack of an international market in SMEs for international vendor financing or a need for international credit ratings for SMEs (CPA Australia and Rankin, 2007). AICD requested 'fewer mandatory disclosures in the Australian SME standard' and 'allowing an entity to select the '"simple" measurement option of cost' (Australian Institute of Company Directors and Evans, 2007).

[32]IAS 1 *Presentation of Financial Statements*
[33]IAS 7 *Cash Flow Statements*
[34]IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors*
[35]Does not have a corresponding standard in IFRS
[36]Does not have a corresponding standard in IFRS
[37]AASB 124 *Related Party Disclosures*

Users of public sector entity financial reports have additional needs that are not provided for in IFRS for SMEs; for example, ‘parliamentary scrutiny, enhanced probity, general public interest, non-financial objectives’ (Deloitte Touche Tomatsu and Rundell, 2007).

This analysis of the users of financial reports shows a wide variety of users of financial statements of SMEs. Many of these users have their requirements met by special purpose rather than general purpose reports; for example, government, equity investors and creditors. However, potentially, some might rely on GPFS, including employees and members of not-for-profits. Commentators believed that GPFS, if produced for smaller entities, need to satisfy diverse user requirements for establishing liquidity and solvency and are unlikely to need to be internationally comparable. Reduced standards may even be insufficient to meet the needs of users of reports of some public sector entities.

2.8 Analysis, summary and conclusions

ITC 12 proposes a change to the way in which unlisted entities decide whether they are required to comply with accounting standards. This decision, according to ITC 12, should hinge on whether or not they produce GPFS, and not on whether they consider themselves to be reporting entities. ITC 12 also contentiously proposes that the scope of

GPFS should extend to all reports made publicly available and that entities should determine whether or not they are publicly accountable to establish whether they use IFRS or a reduced disclosure standard.

This analysis of the comment letters to ITC 12 reveals that the proposal has met with considerable resistance on a number of issues. Participation by private entities was relatively high, as was the involvement of professional and commercial representative bodies. The issues discovered in the ITC 12 comment letters echo the questions asked by the AASB and can be divided into four broad categories: the removal of the reporting entity concept; the ‘triggers’ for differential reporting; perceived benefits and costs of the ITC 12 proposals; and IFRS for SMEs in Australia.

The first four of Elbannan and McKinley’s (2006) propositions provide a useful tool to analyse the findings on the issues described in this paper. In so doing, ex post support for these four propositions is provided, which helps to explain the relatively high level of participation in the debate[38].

Proposition 1: The greater the perceived uncertainty proposed by a … standard, the more likely it is that a corporation’s managers will initiate action against that action (Elbannan and McKinley, 2006 p. 609)

[38]For comparison, the Invitation to Comment immediately preceding ITC 12, i.e. ITC 11, had 10 published responses, and ITC 13 had 11 published responses.

Uncertainty arises for ITC 12 commentators in the proposal to remove the reporting entity concept (a driver of financial reporting in Australia since 1990), the definition of public accountability and the introduction of a size threshold.

The responses to the change in the reporting entity concept reveal widespread support for maintenance of the status quo. These comments reveal disquiet relating to the notion that the concept is too subjective to be applied correctly in practice, and support its use as a method to provide relief from standards compliance for smaller entities.

According to ITC 12 commentators, the IASB's principles-based definition of public accountability is unclear. This uncertainty reveals itself in resistance to its application as a determinant of which accounting standard to use (IFRS or an Australian equivalent to IFRS for SMEs). Commentators call for clarity on the definition of *fiduciary capacity* and *public market*, which are elements of the definition of public accountability.

Ironically, the trigger for differential reporting that should have reduced uncertainty, i.e. the size thresholds proposed by the AASB, is also rejected by many commentators. The uncertainty introduced by these thresholds includes problems with switching over the threshold, and the difficulty that the AASB will have in maintaining them.

Proposition 2: The greater the information-processing requirements posed by a … standard, the more likely it is that a corporation's managers will initiate action against that standard (Elbannan and McKinley, 2006 p. 609)

Proposition 3: The more a … standard requires deviation from institutionalized financial reporting practice, the more likely it is that a corporation's managers will initiate action against that standard (Elbannan and McKinley, 2006 p. 611)

To find evidence that supports Propositions 2 and 3 from the ITC 12 comment letters, it is necessary to look no further than the comments surrounding the change in scope for GPFS. If implemented as proposed in ITC 12, the new standard will mean that many entities that are currently not producing GPFS will have to start producing them if they file with ASIC or table statements in Parliament. Commentators object on the grounds that the change might: capture grandfathered entities; remove the focus on external users of reports; change the practices of entities that make their statements available on websites or other media; and require changes to other legislation.

The change to the reporting entity concept and the scope of GPFS are also changes to entrenched methods of reporting in Australia. The reporting entity concept has been in existence since 1990.

Proposition 4: The more a … standard seems to threaten a corporation's ability to acquire scarce, critical resources, the greater is the likelihood that the corporation's managers will initiate action against the standard (Elbannan and McKinley, 2006 p. 611).

Proposition 4 is supported in the discussion on benefits and costs. As mentioned previously, this section is commented on by a number of individuals and entities who did not comment on any other aspect of ITC 12. The additional costs that would arise for those entities that would be required to produce GPFS where none were produced before is a major concern for commentators. There are also commentators who support the relief that fewer disclosures would bring to eligible entities currently using IFRS.

The ITC 12 comments do not provide insight into the other properties that Elbannan and McKinley suggest will increase participation in the standard setting process. Further research is required to establish the possible impact on participation by intervention from focal corporations, the relative size of corporations and the structure of the industry itself.

In addition to the changes summarised in the discussion above, commentators' views on IFRS for SMEs and their perceptions of who uses GPFS are explored in this paper. Although many commentators embrace the reduction in complexity provided by IFRS for SMEs, some feel it is unsuitable for subsidiaries of parent entities using IFRS, and for public sector entities. Many of the users of statements identified in the letters would probably be satisfied with special purpose reports, with the possible exception of employees and members of not-for-profits.

In summary, this paper has used an analysis of comment letters in response to the AASB’s ITC 12 to present a synthesis of the issues facing the AASB in preparing an accounting standard for SMEs. This synthesis reveals potentially irreconcilable differences between stakeholders who wish to preserve transaction neutrality for wholly-owned subsidiaries, and those who embrace the reduction in burden and disclosure embodied in IFRS for SMEs. The resistance to change in this instance has generated a higher than usual number of comment letters and this research finds support for four of Elbannan and McKinley’s propositions for increased engagement in standard setting. The letters also provide information about the potential users of SME financial reports, about who very little was previously known.

This paper contributes to the literature and practice by synthesising the issues faced by the Australian accounting community in developing a standard for SMEs. In exposing the dissenting views which prompted the involvement of members of the business community, it opens up the debate around changes to reporting standards for Australian unlisted entities. This is particularly important as some of the issues raised are still to be resolved. A further contribution of the paper is the analysis of the comment letters for evidence of the identity of users of financial reports of SMEs, about whom very little has been written.

Postscript

In closing, it is useful to briefly consider the events following ITC 12. After issuing ITC 12, the AASB compiled a submission to the IASB on IFRS for SMEs, and deliberated on the findings from the comment letters at their meetings. An Agenda Paper released for the June 2008 meeting (AASB, 2008) reveals discussion on the commentators' views on the major issues discussed in this paper. The Agenda Paper refers repeatedly to 'respondents'' views on IFRS for SMEs, the reporting entity concept, size thresholds, GPFS, public accountability, and other specific issues, for example, the reporting requirements of subsidiaries of parent entities using IFRS. In this document, the Board introduced the possibility of three options for Tier 2 entities (those that are not required to use IFRS), including IFRS, IFRS for SMEs and IFRS with reduced disclosures. The problems of setting size thresholds, as discussed in many of the ITC 12 documents, are referred to directly in the Agenda Paper (AASB, 2008 p. 6), and size thresholds were rejected by the Board. There is no relaxation of the position of the AASB on the removal of the reporting entity concept or the change in the definition of the reporting entity concept. The AASB defends its position on the basis that the change is not regulatory, and it is in the public interest to ensure that information made available to the public is reliable.

Following ITC 12, the AASB waited for the final release of IFRS for SMEs in July 2009 before issuing a Consultation Paper (AASB, 2009a) and an Exposure Draft (ED 192) (AASB, 2009b) outlining their proposed solution to differential reporting in Australia. By the time the AASB's reduced disclosure standard was released in July 2010[39], the issue of removing the reporting entity concept and expanding the scope for GPFS had not been resolved. Contrary to the suggestions of the June 2008 Agenda Paper, the AASB did not allow IFRS for SMEs as an option. The AASB appears to have responded to the concern raised by some ITC 12 commentators regarding the requirements of subsidiaries, while neglecting the frequent calls for less complex measurement and recognition for smaller entities. AASB 2010-2 reflects the decision to enforce IFRS measurement and recognition for differential reporting. The reduced disclosure standard that the AASB adopted has been developed by removing some disclosures from IFRS and applies to GPFS of reporting entities that are not publicly accountable. AASB 2010-2 and AASB 1053 were available for early

[39] AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* and AASB 1053 *Application of Tiers of Australian Accounting Standards*.

adoption for financial statements with a year ending 30 June 2010, and with mandatory adoption from 1 July 2013.

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Chapter 3: Reporting for SMEs in Australia: The gap between standard setters and practitioners

3.1 Abstract

In July 2009, the International Accounting Standards Board (IASB) released a new financial reporting standard known as the International Financial Reporting Standard for Small and Medium-sized entities (IFRS for SMEs). The release of IFRS for SMEs prompted a response from the Australian Accounting Standards Board (AASB) to address the reporting burden on Australian non-publicly accountable entities. This study was conducted during the window of the consultation period for the AASB's Reduced Disclosure Requirements (RDR) standard. It includes a brief history of the RDR and reports the findings of an exploratory survey conducted in order to determine the awareness of accounting professionals of the reporting requirements for SMEs at this time. The paper also documents compliance of Australian SMEs with accounting standards, and identifies the users of SME financial statements in Australian entities. The results provide evidence of gaps between standard setters and practitioners in relation to awareness, knowledge and practice. Most respondents, who were accountants for Australian entities, were not aware of the debate over SME reporting standards, and indicated inconsistent application of accounting standards by reporting entities.

Key words: *Standard setting, differential reporting, compliance*

3.2 Introduction

The introduction of the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) by the International Accounting Standards Board (IASB) in July 2009 heralded a change in reporting burden for smaller entities. Following on from the IASB, in late 2009 the Australian Accounting Standards Board (AASB) sought to introduce changes that were based on the user needs established by the IASB. The AASB's proposed Reduced Disclosure Requirements (RDR) regime suggested a reduction in the burden for some entities that were already using full IFRS to prepare their financial reports, while at the same time hinting at compliance issues arising from the abuse of the reporting entity concept as applied in Australia. Removal of the reporting entity concept as proposed by the AASB would increase the reporting burden for some entities. As the Exposure Draft for the RDR was not accompanied by an impact statement, the extent of the regulatory impact, the existing burden and the quantum or even proof of compliance breaches were not provided. In addition, the consultation period proposed by the AASB extended over the Australian summer holidays and was relatively short[40].

This study was performed during the consultation period for the RDR to investigate several gaps between standard setters and practitioners in

[40]The AASB released a draft of the Exposure Draft and Consultation Paper on 23 December 2009. The final documents were released in February 2010, and the consultation period ended on the 21 April 2010.

terms of awareness, knowledge and practice. The nature and extent of these gaps is investigated using a survey of accounting professionals conducted in early 2010 that provides information regarding the level of compliance with, and practical use of, the existing accounting standards[41]. The survey examines four research questions:

RQ1: What is the level of awareness of IFRS for SMEs and the Australian RDR standard during the consultation period for the RDR?

RQ2: Are Australian practitioners and entities willing to adopt IFRS for SMEs where allowed by the AASB?

RQ3: What reporting standards are used in practice by Australian entities for GPFS and SPFS prior to the adoption of changes suggested by the AASB in ED 192?

RQ4: Who are the recipients of financial statements produced by Australian entities?

The findings from this survey will inform Australian standard setters and professional bodies about the practices in use prior to the introduction of the RDR, in the absence of an impact statement accompanying ED 192.

The remainder of this paper is structured as follows. Section 3.3 provides a literature survey and background to the development of the RDR and differential reporting in Australia. It is followed by Section 3.4, describing

[41] Some of the findings in this report have been included in an article in the August 2010 edition of the ICAA's magazine, *Charter*, entitled 'Reporting for SMEs' (Handley, 2010). A comment letter to the AASB on ED 192 was also compiled from the findings (Handley, Evans and Wright, 2010). This letter is reproduced in Appendix 3.4.

the design of the survey instrument, research method and sampling. Section 3.5 presents the results of the survey and Section 3.6 concludes the study. References are provided in Section 3.7.

3.3 Background and literature review

IFRS were designed to meet the needs of equity investors in listed public companies, and so ‘cover a wide range of issues, contain a sizeable amount of implementation guidance and include disclosures appropriate for public companies’ (Pacter, 2007 p. 16). The disclosure required to meet the needs of equity investors in listed entities aims to satisfy the stewardship gap first identified by Jensen and Meckling’s (1976) agency theory. Maintaining the reliability of the financial reports is therefore critical for listed companies, where many small investors are not able to demand financial reports structured to their needs, and have to rely on the information provided by company management. Financial reporting reduces the ‘asymmetry of information’ between directors and providers of external finance (Whittington, 1993 p. 313) and is ‘necessary for the corporate governance system to function effectively’ (Whittington, 1993 p. 314). The IASB focusses on accounting standards which can be applied in global capital markets by listed entities as a consequence of its composition and funding (Fearnley and Hines, 2007).

However, the literature reveals a history of calls for less onerous financial reporting standards for small and privately-held enterprises. As early as 1976, and again in 1980 and 1983, the American Institute of Certified Public Accountants (AICPA) appointed special committees to investigate accounting ‘standards overload’ in small private companies (Mosso, 1983 p. 120). The issues identified at this time can be divided into two broad categories: measurement and disclosure (Christie, Brozovsky and Hicks, 2010). Standards overload was also addressed by the Financial Accounting Standards Board (FASB) via invitations to comment in 1980 and 1981 (Mosso, 1983). An independent study of the financial reports of SMEs in the United Kingdom (UK) in 2006 found that ‘a significant number of qualified and non-qualified accountants are submitting poor-quality accounts to Companies House’ (Nimmo, 2006 p. 52).

In the past, many countries have responded to the need for different reporting rules for ‘smaller’ entities. Typically, micro entities (those with fewer than 5 employees) are exempt from complying with standards, and smaller entities use the local Generally Accepted Accounting Principles (GAAP) to produce their reports (ICAA, 2007b). The leader in establishing separate standards for smaller entities was the UK, where the Accounting Standards Board (ASB) issued the Financial Reporting Standard for Smaller Entities (FRSSE) in November 1997. In Europe, where approximately 55 different versions of GAAP are used by SMEs (O'Keeffe, 2008), the European Commission suggested in 2008 that it form its own standards setting board for SMEs (Mackintosh, 2008). Norway employs a four-tiered set of standards to cater for different reporting needs (Rossi, 2009).

Of the standard setters in 29 countries plus the European Financial Reporting Advisory Group, surveyed by the IASB in 2004, 16 called for a separate, standalone standard for SMEs. The need for different recognition and measurement principles for SMEs was identified by 24 of the survey participants (Pacter, 2004). Commentators stated that the reporting burden of full IFRS was too large for unlisted non-publicly accountable entities (Pacter, 2007).

In July 2009, the IASB released IFRS for SMEs (IASB, 2009). IFRS for SMEs has as its focus entities that publish General Purpose Financial Statements (GPFS) but do not have public accountability (ICAA, 2007a). The IASB defines entities as *publicly accountable* if they file their statements with a securities commission or other regulatory organisation for the purpose of issuing any class of financial instruments in a public market, or if they hold assets in a fiduciary capacity for a broad group of outsiders, for example, banks, insurance companies, pension or mutual funds and investment banks (O'Keeffe, 2008). Regardless of their size, such entities must use the full IFRS standard. However, the IASB has chosen to leave the interpretation of what constitutes an SME and who produces GPFS to the individual jurisdiction of the accounting standards boards in different countries (Epstein and Jermakowicz, 2007). In response, IFRS for SMEs has been adopted in some form by more than 50 countries, including developing nations (IASB, 2010). There is some resistance to IFRS for SMEs from the United States (USA), Canada and the European Union (EU) (Reilly, 2009), although it is available as an option for US private companies (AICPA, 2010). Adoption in Europe may be delayed by disagreement between Anglo-Saxon countries and the rest of the EU over the conceptual framework of IFRS for SMEs and thereby its ability to meet stakeholder needs (Deaconu, Popa, Buiga and Fulop, 2008). The USA is still in the process of converging to full IFRS, expected in 2014 (O'Keeffe, 2008). In Canada, full IFRS was adopted from 1 January 2011 and IFRS for SMEs is not part of that adoption (AcSB, 2009), and New Zealand is unlikely to adopt IFRS for SMEs (NZICA, 2009).

Australia

Australia is also not a newcomer to the issue of differential reporting. A survey of Australian accounting practitioners conducted in 1989 found ‘an obvious demand for differential reporting requirements associated with business size and legal structure’ (Holmes, Kent and Downey, 1991 p. 131), with 97 per cent of the respondents agreeing to the need for differential reporting standards. Holmes et al.'s study was conducted when Exposure Draft 48 (ED 48) was released by the Australian Accounting Research Foundation. ED 48 introduced the reporting entity concept, allowing for a reduction in relevant reporting standards for entities deemed by their accountants to have no external users dependent on GPFS. At around the same time, in October 1986, the *Corporations Act* was amended to recognise the size and nature of entities and to allow for differentiated reporting for specific entities (close corporations, exempt proprietary companies, privately owned trusts, some partnerships, sole traders and wholly owned Australian subsidiaries) (Holmes et al., 1991 p. 127).

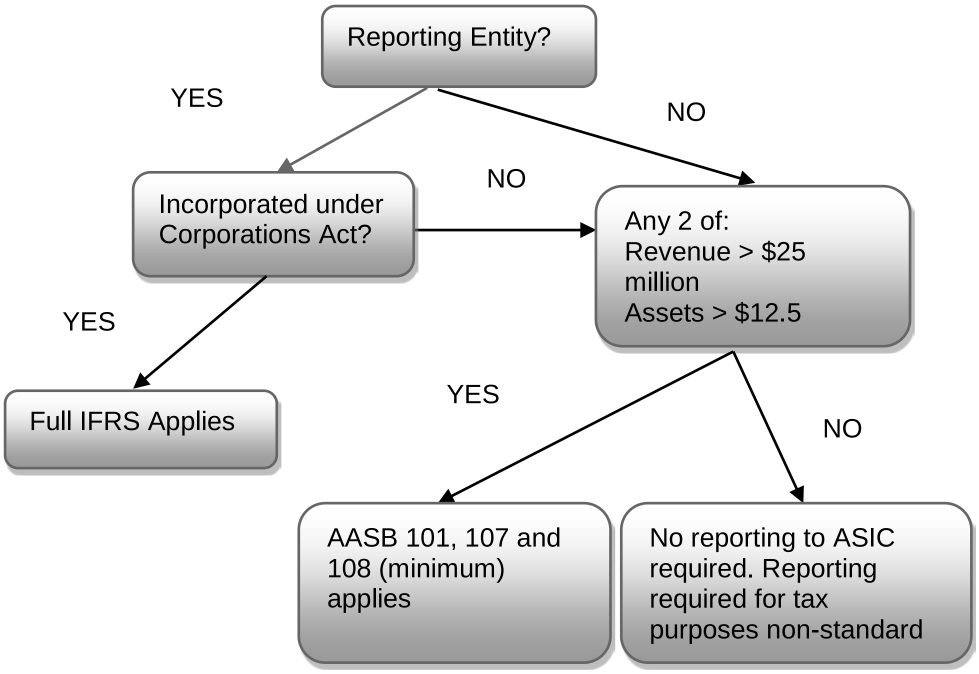
The Australian implementation of IFRS in 2005 extended the application of full IFRS to some entities that were not listed. Prior to the release of IFRS for SMEs, full IFRS was not only applied by publicly accountable entities in Australia, but also by some non-publicly accountable entities (normally larger corporate and government entities) and not-for-profit entities. According to the *Corporations Act 2001*, general purpose reports need to be produced for the Australian Securities and Investments Commission (ASIC) by entities that have general public funds invested in them, where the sums of money being reported are 'substantial', and in the special case of charities that are not-for profit. This includes public companies, disclosing entities, large proprietary companies, managed investment schemes, small proprietary companies that are foreign-controlled and small proprietary companies that are directed by ASIC to lodge financial reports (ASIC, 2009a).[42]

At the time of writing, Australian non-reporting entities are required to produce special purpose reports, and those complying with the *Corporations Act 2001* report to ASIC using a subset of the standard if they exceed a size threshold determined by ASIC. As a minimum requirement, these non-IFRS-compliant reports need to comply with AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (ICAA, CPA and NIA, 2007). The adoption of IFRS measurement and recognition is voluntary for these entities, and some of them elect to use simplified measurement and recognition. Any other type of reporting, for example reporting required by entities for GST or taxation, or prepared for creditors, is not covered by IFRS standards. Entities falling outside the *Corporations Act 2001* follow GAAP (Reilly, 2009).

The standards applicable to Australian entities prior to the introduction of a reduced disclosure standard are presented in Figure 3.1.

[42]These companies are defined by ASIC as those which meet two or more of the following three conditions: consolidated revenue is greater than $25 million; assets are greater than $12.5 million; more than 50 employees. (ASIC, 2009b)

Figure 3.1: Reporting prior to a Reduced Disclosure standard



Sources: (ICAA et al., 2007; ASIC, 2009b)

The AASB did not ignore the development of IFRS for SMEs, and responded by requesting comments from Australian practitioners and stakeholders on two separate occasions, in 2007 and 2009. In response to the release of the Exposure Draft of IFRS for SMEs by the IASB in 2007, the AASB released an 'Invitation to Comment' (ITC 12): *ITC 12 Differential reporting and the Proposed IFRS for SMEs* (AASB, 2007a). ITC 12 detailed the AASB's proposed implementation of IFRS for SMEs, and generated responses from practitioners and entities in Australia.

On the 23 December 2009, the AASB responded to the IASB's release of IFRS for SMEs with the publication of a proposal for reduced reporting in the form of a Consultation Paper entitled *Differential Financial Reporting – Reducing Disclosure Requirements* (AASB, 2009a). The Consultation Paper called for comments on the introduction of a second tier of standards for GPFS for non-publicly accountable for-profit entities, some not-for profit entities and some public sector entities. Included in the Consultation Paper was the introduction of an Australia-specific differential reporting standard. The Consultation Paper was followed by a draft of Exposure Draft 192 (ED 192) in December 2009 entitled *Revised Differential Reporting Framework* (AASB, 2009b)[43].

The AASB asserted that this new differential reporting system would 'substantially reduce the burden of financial reporting for certain entities … in preparing their general purpose financial statements', while maintaining 'transaction neutrality' (i.e. maintaining the same basis of recognition and measurement across all Australian reporting entities) (AASB, 2009a p. 5). This new reporting standard offered relief in the reporting burden for those entities that are regulated to comply with full IFRS that are not publicly accountable.

To support these claims, the AASB relied on the research of the IASB to determine disclosures for SMEs, rather than examining the impact specific

[43]Subsequent to the completion of this study, the AASB finalised 'Stage 1' of the implementation of differential reporting in Australia with the release of AASB 1053 'Application of Tiers of Australian Accounting Standards' and AASB 2010-2 'Amendments to Australian Accounting Standards Arising from Reduced Disclosure Requirements' allowing for early adoption for the year ending 30 June 2010 (AASB, 2010d).

to Australian entities. The AASB admitted that the existence and requirements of external users of GPFS have not been considered carefully in the past when regulating the reporting of entities, resulting in the ‘abuse’ of the reporting entity concept (AASB, 2009a p. 11) and leaving users’ needs unmet (AASB, 2009a p. 12). In preparing its Exposure Draft, the AASB assumed that the IASB had identified these user needs during the production of IFRS for SMEs (AASB, 2009a p. 23), and on that basis, benchmarked its proposal to the disclosure principles applied in IFRS for SMEs (AASB, 2009a p. 29). At the same time, and in a precautionary move to investigate the impact of the new reporting standards for itself, the AASB has commissioned further research into the requirements and reporting practices of Australian entities that might be required to comply with differential reporting standards in the future (AASB, 2012b).

The Consultation Paper did make reference to compliance with financial reporting standards for SMEs. Compliance in the SME sector has been documented by Walker (2007). He explains that in Australia, the directors of an entity, guided by the Statement of Accounting Concepts 1 (SAC 1), and under the guidance of the *Corporations Act 2001*, elect whether or not they are a reporting entity. If they are a reporting entity, they are required to prepare GPFS using full IFRS. Walker argues four cases where the reporting entity concept might be interpreted to imply that an entity is not required to produce GPFS: ‘trustees of superannuation funds’, ‘operators of residential aged care facilities’, ‘responsible entities’ of managed investment schemes’ and ‘charities’ (Walker, 2007 pp. 62-8).

In the Consultation Paper, the AASB contended that there is an abuse of the reporting entity concept (also see Boymal, 2007), and acknowledged that there might be an increased burden for some entities from the changes proposed in the Consultation Paper, as ‘prepared in accordance with Accounting Standards means prepared in accordance with all reporting requirements under a tier and not a subset of them’ (AASB, 2009a p. 7). This prompted claims that these changes may increase the reporting burden for those entities that lodge reports on public registers that would now have to produce general purpose, rather than special purpose, reports (see, for example, Australian Institute of Company Directors and Evans, 2007; BDO Kendalls (NSW) and Basford, 2007; BHP Billiton and Chadwick, 2007; Chartered Secretaries Australia and Sheehy, 2007; Clearlight Investments and Robertson, 2007; Commerce Queensland and Bidwell, 2007; Grant Thornton Association Inc. and Reilly, 2007). The AASB claimed that the increased burden would be offset by the benefit afforded the users of the reports from the additional disclosure required (AASB, 2009a p. 29).

During the consultation period for ED 192, however, little was known about the level of compliance with the required accounting standards amongst entities producing GPFS in Australia. Although the AASB made several statements about the affected entities when it released the Exposure Draft, there was no written information available about the entities affected by the new disclosure regime, nor anything about its possible impact on these entities.

Unlike previous Exposure Drafts, ED 192 was not accompanied by a regulatory impact statement from the AASB outlining how it might affect Australian entities (Representatives of the Australian Accounting Profession, Malley and Meyer, 2010)[44]. This meant that the level of compliance with existing standards and the burden of, or savings from, the proposed standard were not known. The adjustment required by Australian entities affected by these changes would be directly related to the standards they were using prior to any change in requirements. However, as the level of compliance with existing standards prior to the introduction of a differential reporting standard in Australia in 2010 was unknown, the nature and costs of the adjustments could not be estimated. Standard setters did not know how practitioners were reporting for SMEs, nor the costs of their reporting, nor even the identity of the SMEs. On the

[44]This impact statement was released by the AASB at the time of the adoption of the new standard in mid-2010 (AASB, 2010b).

other hand, were practitioners aware of the new standards, or how they should be reporting for SMEs?

To investigate the nature of this gap in awareness, knowledge and practice during the consultation period for the AASB's standard, accounting practitioners were surveyed to discover their compliance with, and use of, the existing accounting standards.

3.4 Research method

Survey design

An electronic survey was designed to explore several aspects of financial reporting in Australia: the first aspect was whether respondents were aware of IFRS for SMEs; the second was what the existing reporting practices of Australian reporting and non-reporting entities for both general and special purpose reporting were; and the third aspect was the purpose for which respondents use SME reports. The survey has 45 questions.

These original, practical and exploratory questions arose in the absence of an impact statement accompanying ED 192, and were crafted during discussions with accounting practitioners and staff at the Institute of Chartered Accountants in Australia (ICAA). The questions were designed to test the reporting practices of Australian entities and were specifically tailored for the Australian setting. Because of the practical nature of this survey, there was no need to incorporate further theoretical bases.

The wording of the questions was further refined through pilot testing and input from the Sydney Corporate Group of the ICAA. The survey was sent to 60 members of this group and made available for seven days. In this time, 33 respondents commenced the survey and 29 of these respondents completed it. The 29 respondents were split almost equally between practitioners in public practice and those not in public practice, allowing for testing of both streams of questions.

Feedback from the pilot survey respondents was received via email as well as offered in the comments sections in the survey. As a result of this feedback and analysis of the results of the survey, a number of changes were made to the survey instrument. A question was added to test for the preparation of financial statements for Australian entities (Question 4)[45]; the survey instrument was amended to allow the same respondent to answer questions on both special purpose financial statements and general purpose financial statements (only one or the other had been allowed in the original survey); respondents were allowed the option of selecting that they were ‘unsure’ whether or not their annual financial statements are prepared under the *Corporations Act* or not (Question 6);

[45]Question numbers refer to the survey instrument presented in Appendix 3.2.

some instructions were worded more specifically (for example, Question 20 was changed to specify that the percentages should be calculated by number of financial reports prepared, rather than the time taken to prepare them); four additional questions were added to the public practice section of the survey to attempt to answer the question ‘What percentage of financial reports for listed entities do you prepare using each standard?’ (Questions 23, 24, 26 and 27); the option of ‘Using the full set of Australian Accounting Standards’ was added to these questions to allow for the same options to be used for GPFS and SPFS; and finally, some issues with flow were resolved.

The structure of the survey instrument and the nature of the questions are provided in Appendix 3.1. The survey instrument itself is provided in Appendix 3.2[46].

The survey questions had differing structures. Some questions required a simple ‘Yes’ or ‘No’ response. The three awareness questions all asked respondents to indicate awareness using a 5-point Likert scale, allowing them to select from the options ‘Strongly Agree’, ‘Agree’, ‘Neither agree nor disagree’, ‘Disagree’ and ‘Strongly Disagree’. In other questions, the respondents were asked to select from a predetermined list, for example, when indicating whether their organisation was a for-profit or not-for-profit

[46]Ethics approval was obtained for this survey. A copy of the letter from the Macquarie University Ethics Review Committee is included in Appendix 3.3.

entity, or to indicate the range of annual consolidated revenue. In some cases, respondents were permitted to answer 'Other', or 'Unsure' or 'Don't Know', or, as in the example of reporting standards used to prepare GPFS, to indicate that none of the options offered were applicable. Wherever possible, respondents who selected the 'Other' option were prompted to provide further, open-ended details.

The survey directed respondents in public practice and those not in public practice to different sets of questions. The two different sets of questions and responses were analysed separately. The survey was prepared using SurveyMonkey software (http://www.surveymonkey.com).

Sample

The final survey was made available to members of the three professional accounting bodies in Australia: ICAA, CPA Australia (CPAA) and the National Institute of Accountants (NIA) between 5 February 2010 and 22 March 2010, using links included in electronic newsletters and Twitter.[47]

[47]**ICAA** – A link was placed in the *Accounting and Assurance News Today* (ANT) newsletter, sent to ICAA membership weekly via email. This link was first released in ANT Issue 04 on 5 February 2010 (ICAA, 2010a).and was repeated in Issues 07 and 09 (ICAA, 2010b) and (ICAA, 2010c). There were 144 responses via this link.
CPAA – CPAA's Australian members were sent the link via the *CPA Update*, emailed on 9 February 2010 and again on 17 March 2010.There were 99 responses via this link.
NIA – The NIA included a link in the 10 March 2010 technical newsletter (NIA, 2010), and advertised it via Twitter on the NIA Accountants page on 7 February 2010, 9 February 2010 and 17 March 2010 (approximately 234 followers). There were 43 responses using this link.

Survey respondents were offered the incentive of entry into a prize draw, in order to increase the response rate. During the survey period, there were 285 respondents who began the survey, 241 of whom completed it fully. The questions on awareness were completed by 274 respondents, some of whom did not complete the full survey, and all of these responses have been incorporated into the findings for the section on awareness. Where comparative analysis required questions to be drawn from different parts of the survey, only fully completed responses were used.

As the survey was included in weekly emails to members of the professional bodies, it is difficult to estimate the number of non-respondents or to calculate the actual response rate[48]. It is also not possible to establish the number of recipients who did not even open the email, which may be high given the frequency of the newsletters and possible ‘oversurveying’ (Weiner and Dalessio, 2006). However, the sample size is satisfactory to perform the descriptive statistics included in this discussion. As suggested by Rogelberg and Stanton (2007 p. 198), it would be ‘foolish’ to suppress research that ‘explores a new and previously unaddressed issue’ on the basis of a low response rate.

A response bias might also have arisen from the labelling of the survey as a ‘Differential Reporting Survey’ in the emails which advertised it, and from

[48]This could have been improved by using a ’visitation counter’ to count the number of potential respondents accessing the site, as suggested by Fleming and Bowden (2009), and comparing this to the number that completed the survey

its mention at various training events provided by the ICAA and CPAA. If this bias exists, it would manifest itself in responses to the questions about awareness of IFRS for SMEs, the Consultation Paper and ED 192. As a result of the training events and/or their interest in differential reporting, respondents electing to complete this survey might have had heightened awareness of the contents of IFRS for SMEs and the AASB's documents when compared with the general population of accountants in Australia. Further discussion of this potential bias can be found in the conclusion to this paper.

3.5 Presentation of findings

Survey respondents

The 241 completed responses can be divided into three main categories as follows: 117 from respondents not employed in public practice, 77 from respondents employed in public practice and 47 from respondents who were not involved in the audit or preparation of Australian financial statements. The largest proportion of respondents was in the age range 31 to 45 years (44%). Approximately 17 per cent of respondents were younger than 31 and only one per cent were older than 67 years. Only four respondents were not affiliated with a professional body and the majority held management positions within their organisations or practices.

Awareness of SMEs and the AASB's Consultation Paper and Exposure Draft

A series of questions were related to respondents' awareness of the contents of ED 192, the Consultation Paper which accompanied it, and IFRS for SMEs. The timing of these questions was critical, as the survey sought to evaluate the level of awareness amongst accountants in this sample during the period in which they would be required to comment on ED 192. Because the survey was advertised by the professional bodies at training sessions convened to discuss ED 192 and IFRS for SMEs, a higher level of awareness in this sample than might be found in the population of accountants in Australia was expected. The survey was also most likely to attract respondents who were aware of the topic. These results, which address RQ1: What is the level of awareness of IFRS for SMEs and the Australian RDR standard during the consultation period for the RDR? are shown in Table 3.1.

Table 3.1: Respondent awareness of IFRS for SMEs, the AASB Consultation Paper and the AASB's Exposure Draft (n=274)

	IFRS for SMEs		Consultation Paper		Exposure Draft	
Response	**Frequency**	**%**	**Frequency**	**%**	**Frequency**	**%**
Strongly Disagree	23	8.4	30	10.9	29	10.6
Disagree	53	19.3	75	27.4	85	31.0
Neither agree nor disagree	29	10.6	39	14.2	45	16.4
Agree	140	51.1	107	39.1	94	34.3
Strongly Agree	29	10.6	23	8.4	21	7.7
Total	274	100.0	274	100.0	274	100.0

Awareness of IFRS for SMEs was higher than awareness of the requirements of the Consultation Paper and the Exposure Draft. The number of respondents who indicated they were unaware of the requirements of the Exposure Draft was almost the same as the number who were aware of it[49]. At the outset of the survey, the final version of the Exposure Draft had not been released.[50]

Willingness to adopt IFRS for SMEs

RQ2 examines the willingness of Australian practitioners and entities to adopt IFRS for SMEs where allowed by the AASB. To answer this research question, some respondents were asked to indicate whether they would be likely to adopt IFRS for SMEs as an alternative to full IFRS for reporting entities, if allowed by the AASB. This question was asked of non-public practice respondents, who indicated that they worked in non-publicly accountable reporting entities, as well as of public practice respondents, who were asked to comment about their clients. Public practice respondents were also asked to indicate the likelihood of adopting IFRS for SMEs for non-reporting entity clients. The responses to these questions are summarised in Table 3.2.

[49]Similar results are reported in a survey of CPA members in the USA (Christie et al., 2010).

[50]The final version of the ED was released during the survey, and so this may have affected the responses to this question. However, the ED was made available by the AASB in an ad hoc manner as drafts during its development, commencing prior to the release of the survey.

Table 3.2: Likelihood of using IFRS for SMEs as an alternative to full IFRS, if allowed

	Public practice respondents				Non-public practice respondents	
	Would you use IFRS for SMEs for applicable reporting entities?		Would you use IFRS for SMEs for applicable non-reporting entities?		(Non-publicly accountable reporting entities only) Would you use IFRS for SMEs for applicable reporting entities?	
Response	**Frequency**	**%**	**Frequency**	**%**	**Frequency**	**%**
Yes	58	75.3	46	59.7	25	46.3
No	9	11.7	14	18.2	16	29.6
Unsure	10	13.0	17	22.1	13	24.1
Total	77	100.0	77	100.0	54	100.0

The results show the likelihood of using IFRS for SMEs as an alternative to using full IFRS, where applicable and allowable. As shown in Table 3.2, this likelihood is particularly high for public practice respondents who indicated they would like to use IFRS for SMEs for applicable reporting entities: an option that was not allowed at the time of the survey[51]. Cross tabulation of the responses to the question of whether respondents would use IFRS for SMEs for reporting entities with the type of practice (public or non-public) confirms that the incidence of public practice respondents being prepared to use IFRS for SMEs for reporting entities if allowed is higher in the sample than expected. Further, non-public practice respondents are more 'unsure' regarding the use of IFRS for SMEs for reporting entities than expected. A chi-square value of 10.49 with two

[51]The survey did not measure the acceptance of the proposed AASB standard as an alternative to full IFRS, nor did it test the acceptance of one differential standard compared to the other, and these are possible areas for future research.

degrees of freedom ($p<0.00563$) reveals a significant relationship between public and private practice responses.

Non-public practice responses

There were 117 completed responses from non-public practice respondents who indicated that they were involved in the audit and/or preparation of financial statements for Australian entities. Analysing these responses provides insights into the reporting practices within Australian entities. Non-public practice respondents indicated whether their entities were reporting entities (66.7%) or not (33.3%), whether they were for-profit (65%), not-for-profit private (10.2%), not-for-profit public (18.8%) or other (6%). Annual financial statements are prepared as a requirement of the *Corporations Act 2001* by 71.8 per cent of the respondents in this section. These respondents also provided information about the demographics of the entities that they represent, including the size of the entity in terms of asset base and annual consolidated revenue, as well as accounting standards applied to general and special purpose reports.

Respondents who prepare GPFS were asked to indicate which reporting standards they use to prepare these reports. The results of the survey show that 68.7 per cent of the entities that prepare GPFS use full IFRS. Full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow*

Statements, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1031 *Materiality* and AASB 1048 *Interpretation and Application*) (hereafter referred to as 'reduced disclosure') is used by 12 per cent of respondents. Simplified measurement and recognition but reduced disclosures (AASB 101 *Presentation of Financial Statements*, AASB 107 *Cash Flow Statements*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1031 *Materiality* and AASB 1048 *Interpretation and Application*) (hereafter referred to as 'simplified recognition and measurement and reduced disclosure') is used by 8.7 per cent of respondents. Table 3.3 shows the standards used by those entities that indicated they were reporting entities.

Table 3.3: Standards used for GPFS for reporting entities (n=78)

Prepare GPFS?	Frequency	%	Reporting Standard Used	Frequency	%	Corp Act entities (Q6) Frequency	%
Yes	69	88.5				48	
			Full IFRS	49	71.0		34
			Reduced Disclosure	8	11.6		5
			Simplified	6	8.7		6
			Unsure	3	4.3		2
			Other	3	4.3		1
			Total	69	100.0		48
No	9	11.5*				7	
Total	78	100.0				55	

The results above highlight three important factors. First, nine of the 78 (12%) entities claimed by respondents to be reporting entities do not appear to prepare GPFS. Second, whilst all entities that are reporting entities should prepare GPFS using full IFRS, only 49 (63%) do so. Third, not all entities required to report under the *Corporations Act 2001* are using full IFRS for their GPFS. Seven (9%) such entities are not producing GPFS at all, five (6%) of them are using reduced disclosure and six (8%) are using simplified measurement and recognition with reduced disclosure. Unfortunately, the small sample sizes do not allow for further meaningful analysis of the characteristics of these non-compliant entities. However, the existence of these responses indicates that there is a gap between the requirements of the standard setter in relation to compliance and what practitioners are actually doing.

There were 36 responses indicating that the entity employing the respondent was a reporting entity and also produced Special Purpose Financial Statements (SPFS). The SPFS are produced in these entities using a variety of accounting standards, as shown in Table 3.4.

Table 3.4: Standards used for SPFS for reporting entities (n=36)

Prepare SPFS?	Frequency	%	Reporting Standard Used	Frequency	%
Yes	36	100			
			Full IFRS	11	30.6
			Reduced Disclosure	12	33.3
			Simplified	8	22.2
			Unsure	1	2.8
			Other	4	11.1
			Total	36	100.0
Total	36	100			

Entity size categories were selected based on the size thresholds suggested in ITC 12 and incorporating the ASIC size thresholds for 'small' companies described above. The majority of entities in the survey were small, both in terms of annual consolidated revenue and asset value. Measured by consolidated annual revenue, the largest group of respondents indicated revenue less than $10 million, and the next highest group between $25 million and $100 million. Measured by asset value, the largest group of respondents was found to be working in entities that have an average asset value of less than $12.5 million, followed by entities that have an average asset value of between $12.5 million and $100 million. Tables 3.5 and 3.6 display the reporting standards used by entities categorised by consolidated annual revenue and average asset value.

Table 3.5: Standards used by non-public practice respondents by consolidated annual revenue (n=117) (Handley et al., 2010)

Annual revenue	Freq [52]	%	Reporting Standards Used	GPFS Freq	GPFS % [53]	SPFS Freq	SPFS %
< $10 million	41	35.0	Full IFRS	16	39.0	3	7.3
			Reduced Disclosure	3	7.3	5	12.2
			Simplified	3	7.3	8	19.5
			Unsure	4	9.8	1	2.4
			No Standards			2	4.9
			Other	2	4.9	3	7.3
≥$10 million and < $25 million	19	16.2	Full IFRS	10	52.6	2	10.5
			Reduced Disclosure	2	10.5	2	10.5
			Simplified	2	10.5	7	36.8
			Unsure	1	5.3		
			No Standards	4	21.1		
≥$25 million and < $100 million	28	23.9	Full IFRS	15	53.6	6	21.4
			Reduced Disclosure	4	14.3	8	28.6
			Simplified	2	7.1	2	7.1
			Other	1	3.6		
≥$100 million and <$500 million	11	9.4	Full IFRS	2	18.2	1	9.1
			Reduced Disclosure			7	63.6
			Simplified			1	9.1
> $500 million	18	15.4	Full IFRS	14	77.8	2	11.1
			Reduced Disclosure	1	5.6	4	22.2
			Simplified			2	11.1
			Other	1	5.6	2	11.1
Total	117	100.0					

[52] Freq=Frequency
[53] Columns do not add to 100 per cent because some respondents do not prepare GPFS. Similarly, for SPFS.

Table 3.6: Standards used for GPFS by average asset value (non-public practice respondents) (n=117)

Average asset value	Freq	%	Reporting Standards Used	GPFS Freq	GPFS %[54]	SPFS Freq	SPFS %
<$12.5 million	49	41.9	Full IFRS	18	36.7	5	10.2
			Reduced Disclosure	3	6.1	5	10.2
			Simplified	5	10.2	11	22.4
			No Standards	1	2.0	1	2.0
			Unsure	4	8.2	2	4.1
			Other	2	4.1	3	6.1
≥$12.5 million and < $100 million	34	29.1	Full IFRS	18	52.9	3	8.8
			Reduced Disclosure	3	8.8	8	23.5
			Simplified	1	2.9	6	17.6
			Other	1	2.9	1	2.9
≥$100 million and < $250 million	10	8.5	Full IFRS	3	30.0	3	30.0
			Reduced Disclosure	3	30.0	4	40.0
≥$250 million	24	20.5	Full IFRS	18	75.0	3	12.5
			Reduced Disclosure	1	4.2	9	37.5
			Simplified	1	4.2	3	12.5
			Other	1	4.2	1	4.2
Total	117	100.0					

The information presented in Tables 3.5 and 3.6 suggests that the likelihood that GPFS will be produced using full IFRS or IFRS measurement and recognition with reduced disclosure increases with the size of the entity. It is also apparent that entities that use full IFRS or IFRS measurement and recognition with reduced disclosure do not necessarily use the same standard to produce SPFS.

[54]Columns do not add to 100 per cent because some respondents do not prepare GPFS. Similarly, for SPFS.

Figure 3.3 depicts the data from Tables 3.5 and 3.6 categorised by consolidated annual revenue, and Figure 3.4 shows the same graphs for average asset value. There are two graphs in each figure: one for GPFS and one for SPFS. From these graphs, it is clear that different reporting standards are used both as the size of the entity changes, and that the same reporting standards are not used uniformly for GPFS and SPFS by similar sized entities. It is also clear that larger entities are more likely to use full IFRS for GPFS, which negates the need to test this using multivariate analysis.

Figure 3.3: Reporting standards categorised by consolidated annual revenue

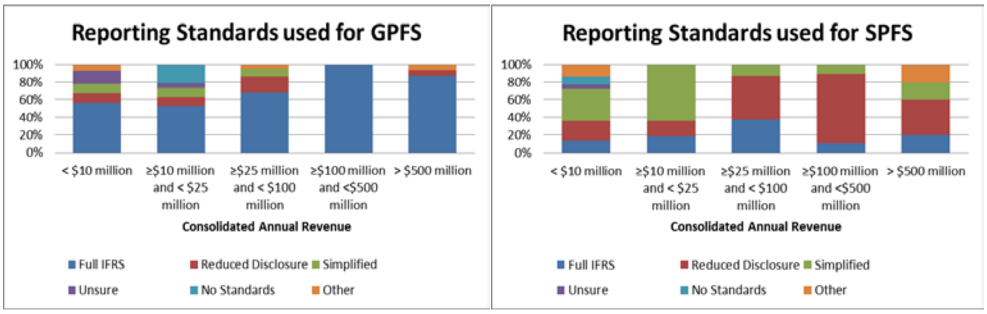
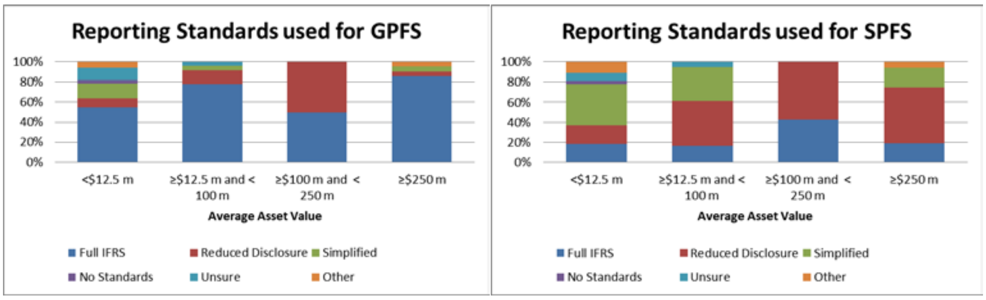


Figure 3.4: Reporting standards categorised by average asset value



Public practice responses

There were 77 completed responses analysed in this section. Public practice respondents differ from non-public practice respondents in one important way – they may be responsible for the preparation of financial statements for a variety of non-related entities. For this reason, responses to some of the questions in this section have been presented as percentages rather than absolute numbers.[55]

Seventeen of the 77 (22%) public practice respondents reported that 80 to 100 per cent of the work done in their firms was for preparing SPFS for entities not required to present GPFS under the *Corporations Act 2001*. The sample had a high number of respondents who indicated that they prepare special purpose reports, with 89.6 per cent of respondents indicating work done to prepare SPFS for *non-Corporations Act* entities, 83.1 per cent indicating work completed for SPFS for *Corporations Act* entities, and 79.2 per cent indicating work done for GPFS for other reporting entities (not listed).

Respondents were asked to identify the accounting standards used for GPFS for reporting entities that are not listed companies. This question is repeated in Figure 3.5. Although respondents were expected to indicate

[55]While the number of respondents for each option can be counted, and questions like ‘How many respondents prepare financial statements for listed companies?’ can be answered, it is not possible to remove any possible overlap from multiple firms to arrive at an absolute number, for example, ‘How many listed companies have their reports prepared by public practice firms?’. This is a limitation of the study.

that 100 per cent of these reports were prepared using full IFRS, because they are all for reporting entities, a range of answers was allowed. Some of the respondents noted that only the option of full IFRS should have been allowed. However, the variety of reporting practices offered as options in the survey was justified. Whilst 20 of the 49 (41%) respondents indicated that full IFRS was used for 100 per cent of these reports, there were 29 respondents who indicated that full IFRS was not the only standard used, and that some percentage of their work for other reporting entities was completed using other standards. In other words, not all GPFS for other reporting entities are prepared using full IFRS. The highest median of 50 per cent is reported for simplified measurement and recognition but reduced disclosures. Twelve respondents claimed to use no standards for some percentage of their reporting for these entities.

Figure 3.2: Question 21 from the survey

Please estimate the percentage of the total number of GENERAL PURPOSE financial reports prepared by your firm that are prepared:
(Must add up to 100. Please use whole numbers. For example, 25 equals 25%)

Using the full set of Australian Accounting Standards? ☐

Using full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)? ☐

Using simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)? ☐

Without reference to particular accounting standards, for example, on a cash or simplified accrual basis? Please provide details of how these are prepared in the box below. ☐

Our firm does not prepare any general purpose reports for other reporting entities that are not listed companies (please type 100 in the box in order to continue). ☐

Other? Please provide details of how these are prepared in the box below. ☐

Analysis of the comments provided in response to the question in Figure 3.5 allows speculation as to why all respondents did not select full IFRS for 100 per cent of their GPFS. Although some respondents specified that they used ‘no standards’, and only prepared SPFS for these entities, it is possible that the GPFS were prepared by other practitioners in this instance. It can be interpreted as an indication that accountants interpret the term *full IFRS* to mean all the disclosures in the standard and some entities are legitimately not complex enough to require all these disclosures. It is also possible that this is evidence of a gap between the way entities are expected to report in Australia according to accounting standards, and the way entities actually apply the standards in practice. A few interesting comments provided by respondents support this gap: ‘large Pty audits don't really adopt accounting stds [*sic*]’ and ‘Most clients have difficulty in understanding the reduced disclosure of special purpose reporting. Many do not understand anything but the most basic notes and have little appreciation for accounting standards at all.’

The survey also asked public practice respondents about the accounting standards used to prepare SPFS. There are no prescribed standards for SPFS, which, by their nature, are produced to meet a special requirement. Respondents were asked for information about ‘large’ and ‘small’ entities, split according to the ASIC guidelines described above. For ‘large’ entities, the results show a spread of reporting standards used, with high percentages recorded (80% and above) for reduced disclosures (76.7% of respondents) and simplified measurement and recognition with reduced disclosure (55.1% of respondents). Nineteen of the respondents indicated that all SPFS for large entities required to present under the *Corporations Act* were prepared using reduced disclosure. A ‘full IFRS’ option was not offered, and, contrary to expectations, there were no recorded comments in the ‘other’ section to this effect. For ‘small’ entities, the highest frequency of responses was for simplified recognition and measurement with reduced disclosures (41 responses, 23 of which were 100%). A large proportion of the 77 total respondents (61%) entered 100 per cent in only one category, indicating that all SPFS were prepared using the same standard in their firms. Ten respondents indicated that some portion of their SPFS were prepared with no reference to standards.

From the data it can be seen that the majority of SPFS are prepared for smaller entities. There is also some indication that many firms do not vary the type of standard used for a particular category of report. Some entities prepare SPFS with no reference to standards, which is to be expected, especially for the reports of smaller entities. However, some anomalies appear in the data, particularly the spread of standards used to prepare GPFS for unlisted reporting entities. Although these should all be prepared using full IFRS, the survey responses indicate otherwise, providing evidence of a gap between practitioners and standard setters.

This concludes the discussion of the reporting standards used for GPFS and SPFS for both public practice and non-public practice respondents, and serves to answer RQ3: What reporting standards are used in practice by Australian entities for GPFS and SPFS prior to the adoption of changes suggested by the AASB in ED 192?

Recipients of financial statements of Australian entities

The final section of the survey for both public and non-public practice respondents was a request to identify the categories of recipients of the financial statements. This section of the survey addresses RQ4: Who are the recipients of financial statements produced by Australian entities? Respondents were able to select multiple options from a list provided, and also to specify additional recipients in a comment box. The question did not specify whether the reports were general or special purpose.

For non-public practice respondents, management tops the list of recipients of reports, followed by directors who are shareholders/equity holders, then banks and other financial institutions. For public practice respondents, owners of firms were the most commonly selected recipients of reports, in the form of shareholders/equity holders, followed by members, management, banks and other financial institutions, and ASIC.

Table 3.7 summarises the results of this question.

Table 3.7: Categories of recipients of financial statements

User category	Public practice respondents (n=77)		Non-public practice respondents (n=117)	
	Frequency	%	Frequency	%
Shareholders/Equity holders	73	94.8	62	53.0
Directors who are not shareholders/equity holders			50	42.7
Non-director Shareholders/Equity holders			23	19.7
Members	61	79.2	39	33.3
Management	53	68.8	65	55.6
Australian Tax Office (ATO)	26	33.8	28	23.9
ASIC	46	59.7	60	51.3
Govt other than the ATO and ASIC	27	35.1	42	35.9
Financial Consultants	7	9.1	8	6.8
Union	2	2.6	6	5.1
Donors	5	6.5	4	3.4
Employees	2	2.6	17	14.5
Banks and other Financial Institutions	50	64.9	55	47.0
Other Creditors	4	5.2	3	2.6
Suppliers	5	6.5	5	4.3
Other	2	2.6	11	9.4

Other studies have identified users of financial reports of SMEs as creditors, tax authorities, management (both owner-managers and managers) who are not shareholders, customers, suppliers, consultants and competitors (Collis and Jarvis, 2000; Cole, Breesch and Branson, 2009). If it is assumed that recipients also use the financial statements they receive[56], this survey extends this list to include employees (who are recognised as an important recipient by non-public practice respondents). It also extends the user list to include a large number of government

[56]It is probable that financial statement recipients are provided the financial statement for some use or purpose, which would make them users of the reports.

entities other than tax authorities, and ASIC[57]. Respondents identify approximately 46 specific government entities other than the Australian Tax Office and ASIC, making government agencies major recipients of financial statements.

The following is a list of the ‘other’ recipients of Australian financial statements identified by the respondents to this survey: leasing companies, Parliament, the public of Victoria, media and commentators, systemic schools, insurance companies, unit holders of managed investment schemes and unitised investment trusts, the Australian Stock Exchange, city councillors and ratepayers, corporate supporters, the Travel Compensation Fund and the International Air Transport Association.

3.6 Conclusions

The reporting practices for General Purpose and Special Purpose Financial Statements of Australian entities have been examined by means of a national survey of Australian accountants.

There are four research questions that the paper sought to examine:

RQ1: What is the level of awareness of IFRS for SMEs and the Australian RDR standard during the consultation period for the RDR?

[57] This may be specific to Australia

RQ2: Are Australian practitioners and entities willing to adopt IFRS for SMEs where allowed by the AASB?

RQ3: What reporting standards are used in practice by Australian entities for GPFS and SPFS prior to the adoption of changes suggested by the AASB in ED 192?

RQ4: Who are the recipients of financial statements produced by Australian entities?

The first significant finding obtained from the 241 completed responses to the survey is that a majority of respondents have some knowledge about the contents of IFRS for SMEs, but lesser awareness of the contents of the AASB's Consultation Paper and Exposure Draft. Less than 50 per cent of the respondents were aware of the AASB's Exposure Draft during the consultation period, a time which included coverage in information sessions provided by the professional bodies. This provides evidence of a gap in both awareness and knowledge.

The survey indicates a willingness on the part of public practice accountants to adopt IFRS for SMEs, both for reporting entities and non-reporting entities, if allowed. Accountants appear to believe that a reduction in disclosure and possibly a softening of measurement and recognition rules are desirable in some instances.

The second significant finding of the survey is that not all entities report using full IFRS to prepare their GPFS and therefore reporting practices do not always comply with accounting standards as specified by standard setters. This supports the AASB's assertion that entities are not complying fully with all requirements of the accounting standards, and are using only a subset of them. This finding identifies a gap between the reporting practices of Australian entities and the accounting standards in Australia.

SPFS are prepared using a variety of standards, as expected. Among all respondents, the most common standard for financial reports in the sample was full IFRS measurement and recognition with reduced disclosures. For reports on small entities, although simplified measurement and recognition with reduced disclosures was the preferred standard, it was found that a large percentage of reports are prepared with no reference to standards. Additionally, many public practice respondents use the same standard across all SPFS produced by their firms. This could be the result of a specialisation in the accounting firm, established business models, or of the training of accounting practitioners.

The survey also finds that financial reports are distributed to a wide variety of recipients; the most common recipients being equity holders and management, banks and financial institutions, and a large number of government bodies.

The findings of this survey are limited by potential bias in the sample as discussed earlier. This possible bias would have manifested itself in the awareness of the three documents being higher in the sample than the population as a whole. This would therefore mean that the results indicating lack of awareness of the Consultation Paper and ED 192 might be higher in the population than is reported here. The method of distribution of the survey also did not allow for testing of whether the respondents are representative of the wider population of accounting practitioners dealing specifically with smaller entities, which is a further limitation of this study.

Future research may include replicating the survey after the implementation of the differential reporting standard and comparing the results with those of this study.

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3.8 Appendices

Appendix 3.1: Description of the survey instrument

The survey instrument comprised 45 questions. Respondents did not answer all 45 questions, but followed one of three paths through the instrument. There was a series of questions relating to awareness and demographics that were answered by all respondents. Public practice and non-public practice respondents involved in the preparation or audit of financial statements for Australian entities each answered a series of questions specifically tailored for them. In the survey, all respondents were asked to indicate their awareness of IFRS for SMEs, ED192 and the Consultation Paper, and to provide demographic data. Respondents who indicated that they were not involved in the preparation of financial statements for Australian entities were not asked any additional questions. Respondents who indicated that they were employed in public practice were asked a series of questions about percentages of total work completed in a specific area by the respondents' public practice firm. Non-public practice respondents were asked to comment on the reports prepared for the organisation in which they were currently employed. The order in which the questions were presented to each respondent was the same, and it was assumed that respondents' answers would be consistent with their responses to prior questions in the survey.

The question numbers and their function are described in Table 3.8.

Table 3.8: Survey questions and their function

Question Numbers	Function
1-3	Awareness of IFRS for SMEs, the Consultation Paper and Exposure Draft
4, 42	Tests whether the respondent are preparing or auditing Australian statements and are Australian residents
5	Splits respondents by type of employer – either public or non-public practice. This determines the suite of questions which the respondent will answer
6-19	Answered by non-public practice respondents only
21-39	Answered by public practice respondents only
40-41	Demographics
20, 43-45	These questions were data-gathering

Appendix 3.2: The survey questionnaire

A paper rendition of the online survey instrument appears in pages which follow.

Dear Sir/Madam

My name is Karen Handley [karen.handley@students.mq.edu.au] and I am a PhD Candidate in the Department of Accounting and Finance at Macquarie University. As part of my PhD, I am conducting research into differential accounting in Australia under the supervision of Associate Professors Sue Wright [swright@efs.mq.edu.au, Ph:(02)98508521] and Elaine Evans [eevans@efs.mq.edu.au, Ph:(02)98506477] of Macquarie University and with input from Keith Reilly of Grant Thornton [kreilly@grantthornton.com.au].

You are being invited to participate in an anonymous survey regarding the current status of financial reporting in Australia. Differential Accounting in Australia is currently being reassessed by the Australian Accounting Standards Board (AASB). In December 2009, the AASB released a consultation paper entitled "Differential Financial Reporting Reducing Disclosure Requirements" and the draft Exposure Draft “Revised Differential Reporting Framework” (copies may be obtained on the AASB website), making research into this area timely and critical. The results of this survey will be aggregated and may help inform forthcoming submissions to the AASB and future discussions on differential accounting.

We are sending this survey to members of CPA Australia, the ICAA and NIA and it is fully endorsed by these professional bodies. The survey explores reporting from the perspective of public practice accountants as well as those involved with the preparation of Australian financial reports from an in-house perspective. You will be directed to appropriate questions depending on your perspective. The survey should take you at most 15 minutes to complete.

Data you provide will be treated with complete anonymity and will be made directly available to the researchers only. Should you choose to provide email data, this email address will be stored separately from the answer to your survey. Results will only be presented in aggregated form in publications and submissions. A copy of the completed aggregated study can be requested by email at karen.handley@efs.mq.edu.au.

Thank you for your help and time in completing this survey.

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through the Director, Research Ethics (telephone 9850 7854; email ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

Yours Sincerely
Karen Handley
PhD Candidate – Department of Accounting and Finance
Macquarie University
SYDNEY 2109

The next few questions relate to the AASB's consultation paper on Differential Reporting and to IFRS for SMEs. Even if these do not apply to you, please continue with the survey as we would like to know what does apply to you, and we will ask you more about that later.

1. For the statement below, please indicate the extent to which you agree/disagree:

I am aware of the requirements in the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs).

- ☐ Strongly Disagree
- ☐ Disagree
- ☐ Neither Agree nor Disagree
- ☐ Agree
- ☐ Strongly Agree

2. For the statement below, please indicate the extent to which you agree/disagree:

I am aware of the requirements in the AASB's Consultation Paper 'Differential Financial Reporting Reducing Disclosure Requirements'.

- ☐ Strongly Disagree
- ☐ Disagree
- ☐ Neither Agree nor Disagree
- ☐ Agree
- ☐ Strongly Agree

3. For the statement below, please indicate the extent to which you agree/disagree:

I am aware of the requirements in the AASB's draft Exposure Draft 'Revised Differential Reporting Framework'.

- ☐ Strongly Disagree
- ☐ Disagree
- ☐ Neither Agree nor Disagree
- ☐ Agree
- ☐ Strongly Agree

4. Are you involved in the preparation or audit of annual financial statements for an AUSTRALIAN entity?

- ☐ Yes
- ☐ No - Please go to Question 19

5. Are you:

- ☐ Employed in a public accountancy practice?
- ☐ Not employed in a public accountancy practice?
  – Please go to Question 20

6. Does your organization prepare annual financial statements under the Corporations Act?

- ☐ Yes
- ☐ No
- ☐ Unsure

7. Is your organisation a:

- ☐ For-profit entity
- ☐ Not-for-profit private entity
- ☐ Not-for-profit public entity
- ☐ Other (please specify)

8. Please select the option below that best describes the annual consolidated revenue of your entity in the last completed financial year (in Australian currency):

- ☐ < $10 million
- ☐ ≥ $10 million and < $25 million
- ☐ ≥ $25 million and < $100 million
- ☐ ≥ $100 million and < $500 million
- ☐ > $500 million

9. Please select the option below that best describes the average asset value of your entity in the last completed financial year (in Australian currency):

- ☐ < $12.5 million
- ☐ ≥ $12.5 million and < $100 million
- ☐ ≥ $100 million and < $250 million
- ☐ > $250 million

For the next question, "General Purpose Financial Statements" are prepared to meet the common information needs of users who are unable to command the preparation of reports specifically tailored to meet their information needs regarding the efficient allocation of resources.

10. Does your organisation prepare General Purpose Financial Statements?

☐ Yes

☐ No – Please go to Question 12

☐ My organisation does not prepare annual financial statements - Please go to Question 14

11. Please select the reporting standards used by your organisation to prepare your General Purpose Financial Statements:

☐ Full set of Australian Accounting Standards

☐ Full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)

☐ Simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)

☐ My organisation does not use reporting standards

☐ I am unsure which reporting standards are used

☐ My organisation uses other reporting standards. Please provide details:

For the next question, “Special Purpose Financial Statements” are prepared specifically for users who have the authority to command the preparation of reports specifically tailored to meet their information needs.

12. Does your organisation prepare Special Purpose Financial Statements?

- ☐ Yes
- ☐ No – Please go to Question 14
- ☐ My organisation does not prepare annual financial statements - Please go to Question 14

13. Please select the reporting standards used by your organisation to prepare your Special Purpose Financial Statements:

- ☐ Full set of Australian Accounting Standards
- ☐ Full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)
- ☐ Simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)
- ☐ My organisation does not use reporting standards
- ☐ I am unsure which reporting standards are used
- ☐ My organisation uses other reporting standards. Please provide details:

According to the Statement of Accounting Concepts 2, a “reporting entity” is “an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources”.

14. Is your organisation a reporting entity?

☐ Yes

☐ No – Please go to Question 16

15. Would you be likely to use the IFRS for SMEs accounting standard as an alternative to full IFRS for reporting entities if the AASB allowed it as an option?

☐ Yes

☐ No

☐ Not applicable as the organisation is a publicly accountable entity (i.e. listed company or equivalent) and IFRS for SMEs is not allowable.

☐ Unsure

Please go to Question 17

16. Would you be likely to use the IFRS for SMEs accounting standard as an alternative to full IFRS or IFRS measurement and recognition with limited AASB disclosures for non-reporting entities if the AASB allowed it as an option?

☐ Yes

☐ No

☐ Not applicable as the organisation is a publicly accountable entity (i.e. listed company or equivalent) and IFRS for SMEs is not allowable.

☐ Unsure

17. Please indicate the direct recipients of your financial reports (you may select more than one option)

- ☐ Directors who are not shareholders/equity holders
- ☐ Directors who are shareholders/equity holders
- ☐ Non- director shareholders/equity holders
- ☐ Members
- ☐ Management
- ☐ Australian Tax office
- ☐ ASIC
- ☐ Government bodies other than the ATO and ASIC
- ☐ Financial Consultants
- ☐ Union
- ☐ Donors
- ☐ Employees
- ☐ Banks and other Financial Institutions
- ☐ Other creditors
- ☐ Suppliers
- ☐ None
- ☐ Other (please specify)

Please provide details of government recipients of your reports other than the ATO or ASIC, if applicable.

18. Please indicate which one of the following best describes your position within your organisation:

- ☐ Chief Executive Officer (CEO)
- ☐ Chief Financial Officer (CFO)
- ☐ Senior manager
- ☐ Manager
- ☐ Accounts clerk
- ☐ Other (please specify)

19. Do you use the financial statements of another Australian organisation, for example, to understand the financial position of competitors, in the course of your business decision making?

- ☐ Yes
- ☐ No

Please go to Question 32

20. Please estimate the percentage of financial reports prepared by your firm for:
(Must add up to 100. Please use whole numbers. For example, 25 equals 25%)

Listed Companies?

Other reporting entities preparing general purpose financial reports?

Special purpose reports for entities required to present under the Corporations Act?

Special purpose reports for entities not required to present under the Corporations Act?

Other?

Please provide details of the entities listed in the "other" category above if applicable, e.g. type of entity and type of reporting, and a percentage breakdown for each, if possible.

The next few questions will ask you to estimate the different accounting standards used in practice to prepare the reports for some of these different categories.

21. For OTHER REPORTING ENTITIES that are NOT LISTED companies:

Please estimate the percentage of the total number of GENERAL PURPOSE financial reports prepared by your firm that are prepared:
(Must add up to 100. Please use whole numbers. For example, 25 equals 25%)

Using the full set of Australian Accounting Standards?

Using full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)?

Using simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)?

Without reference to particular accounting standards, for example, on a cash or simplified accrual basis? Please provide details of how these are prepared in the box below.

Our firm does not prepare any general purpose reports for other reporting entities that are not listed companies (please type 100 in the box in order to continue).

Other? Please provide details of how these are prepared in the box below.

Please provide details as requested in the previous question, if applicable.

The next three questions relate to SPECIAL PURPOSE FINANCIAL REPORTS for entities REQUIRED to present under the CORPORATIONS ACT only.

For these questions,
A "small" proprietary company is defined by the Australian Securities and Investments Commission as meeting two of the following three conditions:

- consolidated revenue of less than $25 million (AUD)
- assets less than $12.5 million
- 50 employees or less.

Proprietary companies that do not meet the "small" definition can be classified as "large" for the purpose of this study.
Source:
http://www.asic.gov.au/asic/asic.nsf/byheadline/Are+you+a+large+or+small+proprietary+3F?openDocument

22. What percentage of the SPECIAL PURPOSE FINANCIAL REPORTS your firm prepares for entities that are REQUIRED to present under the CORPORATIONS ACT are:

For large entities? ☐

For small entities? ☐

23. For LARGE entities REQUIRED to present under the corporations act:

Please estimate the percentage of the total number of SPECIAL PURPOSE financial reports prepared by your firm:
(Must add up to 100. Please use whole numbers. For example, 25 equals 25%)

Using full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)? [ ]

Using simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)? [ ]

Without reference to particular accounting standards, for example, on a cash or simplified accrual basis? Please provide details of how these are prepared in the box below. [ ]

Our firm does not prepare any general purpose reports for other reporting entities that are not listed companies (please type 100 in the box in order to continue). [ ]

Other? Please provide details of how these are prepared in the box below. [ ]

Please provide details as requested in the previous question, if applicable.

[ ]

24. For SMALL entities REQUIRED to present under the CORPORATIONS ACT:

Please estimate the percentage of the total number of SPECIAL PURPOSE financial reports prepared by your firm:
(Must add up to 100. Please use whole numbers. For example, 25 equals 25%)

Using full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)?

Using simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)?

Without reference to particular accounting standards, for example, on a cash or simplified accrual basis? Please provide details of how these are prepared in the box below.

Our firm does not prepare any general purpose reports for other reporting entities that are not listed companies (please type 100 in the box in order to continue).

Other? Please provide details of how these are prepared in the box below.

Please provide details as requested in the previous question, if applicable.

We will now ask you to answer these questions for the last category of interest, which is special purpose reports for entities NOT required to present under the Corporations Act.

The next three questions relate to SPECIAL PURPOSE FINANCIAL REPORTS for entities that are NOT required to present under the CORPORATIONS ACT only.
For these questions,
A "small" proprietary company is defined by the Australian Securities and Investments Commission as meeting two of the following three conditions:

- consolidated revenue of less than $25 million (AUD)
- assets less than $12.5 million
- 50 employees or less.

Proprietary companies that do not meet the "small" definition can be classified as "large" for the purpose of this study.
Source:
http://www.asic.gov.au/asic/asic.nsf/byheadline/Are+you+a+large+or+small+proprietary+3F?openDocument

25. What percentage of the SPECIAL PURPOSE FINANCIAL REPORTS your firm prepares for entities that are NOT required to present under the CORPORATIONS ACT are:

For large entities? ☐

For small entities? ☐

26. For LARGE entities that are NOT required to present under the Corporations Act:
Please estimate the percentage of the total number of SPECIAL PURPOSE financial reports prepared by your firm:
(Must add up to 100. Please use whole numbers. For example, 25 equals 25%)

Using full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)?

Using simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)?

Without reference to particular accounting standards, for example, on a cash or simplified accrual basis? Please provide details of how these are prepared in the box below.

Our firm does not prepare any special purpose reports for entities that are not required to present under the Corporations Act (please type 100 in the box in order to continue).

Other? Please provide details of how these are prepared in the box below.

Please provide details as requested in the previous question, if applicable.

27. For SMALL entities that are NOT required to present under the Corporations Act:
Please estimate the percentage of the total number of SPECIAL PURPOSE financial reports prepared by your firm:
(Must add up to 100. Please use whole numbers. For example, 25 equals 25%)

Using full IFRS/AASB measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)? [ ]

Using simplified measurement and recognition but reduced disclosures (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application)? [ ]

Without reference to particular accounting standards, for example, on a cash or simplified accrual basis? Please provide details of how these are prepared in the box below. [ ]

Our firm does not prepare any special purpose reports for entities that are not required to present under the Corporations Act (please type 100 in the box in order to continue). [ ]

Other? Please provide details of how these are prepared in the box below. [ ]

Please provide details as requested in the previous question, if applicable.

[ ]

That concludes the questions on how reports are prepared. For the last part of this survey, we will be asking you whether you will use certain standards if allowed in future, who uses the reports you prepare, and some demographic information. The remaining questions will not take you long to complete.

28. Would you be likely to use the IFRS for SMEs accounting standard as an alternative to full IFRS for reporting entities (other than publicly accountable entities such as listed companies) if the AASB allowed it as an option?

- ☐ Yes
- ☐ No
- ☐ Unsure

29. Would you be likely to use the IFRS for SMEs accounting standard as an alternative to full IFRS or IFRS measurement and recognition with limited AASB disclosures for non-reporting entities if the AASB allowed it as an option?

- ☐ Yes
- ☐ No
- ☐ Unsure

30. Please indicate the direct recipients of the financial reports you prepare for your clients (you may select more than one option)

- ☐ Shareholders/Equity holders
- ☐ Members
- ☐ Management
- ☐ Australian Tax office
- ☐ ASIC
- ☐ Government bodies other than the ATO and ASIC
- ☐ Financial Consultants
- ☐ Union
- ☐ Donors
- ☐ Employees
- ☐ Banks and other Financial Institutions
- ☐ Other creditors
- ☐ Suppliers
- ☐ None
- ☐ Other (please specify)

Please provide details of the government bodies other than the ATO or
ASIC receiving the financial statements, if applicable.

31. Please indicate your designation in your public practice firm:

- ☐ Partner/Director
- ☐ Audit Engagement Partner
- ☐ Audit Review Partner
- ☐ Engagement Quality Control Review Partner
- ☐ Director
- ☐ Associate Director
- ☐ Senior Manager
- ☐ Manager
- ☐ Supervisor
- ☐ Senior
- ☐ Graduate
- ☐ Junior
- ☐ Other (please specify) ____________________

Please help us to collect some demographic information to assist us with our analysis.

32. Please indicate your professional affiliations (you may select more than one of these options):

- ☐ ACCA
- ☐ CA
- ☐ CIMA
- ☐ CPA
- ☐ NIA
- ☐ I have no professional affiliations
- ☐ Other (please specify) ____________________

33. Please indicate your age range:

- ☐ 18-30 years
- ☐ 31-45 years
- ☐ 46-54 years
- ☐ 55-67 years
- ☐ Above 67 years

34. Are you currently a resident in Australia?

- ☐ Yes
- ☐ No

35. Would you be prepared to participate in a subsequent short electronic survey regarding the uses of financial reporting?

- ☐ Yes – Please go to Question 36
- ☐ No – Please go to Question 37

36. Would you please provide us with your email address so that we can enter you in the draw to win a bottle of Hardy's "Thomas Hardy" 2001 Cabernet Sauvignon, and also contact you at a later date for a short survey in relation to financial reporting. Email addresses will not be distributed to any outside parties, nor will your responses be identified by them in any way.

(Optional please press "Next" if you decide to skip this step. However, you cannot be entered in the draw without an email address to contact you.)

Thank you for your time and participation in this survey. If you wish to receive a copy of the aggregated results at the completion of this project, or make further comments, please email me at karen.handley@students.mq.edu.au.

END OF SURVEY

37. Would you please provide us with your email address so that we can enter you in the draw to win one of three bottles of Hardy's "Thomas Hardy" 2001 Cabernet Sauvignon. Email addresses will not be distributed to any outside parties, nor will your responses be identified by them in any way.

(Optional press "Next" if you want to skip this step, and miss out on the draw, please).

Thank you for your time and participation in this survey. If you wish to receive a copy of the aggregated results at the completion of this project, or make further comments, please email me at karen.handley@students.mq.edu.au.

END OF SURVEY

Appendix 3.3: Ethics approval

Ethics Secretariat
MACQUARIE UNIVERSITY NSW 2109 AUSTRALIA
Phone +61 (0)2 9850 9186
Email patricia.clifford@efs.mq.edu.au

21 December 2009

Mrs Karen Handley
PhD Accounting
Department of Accounting and Finance
Faculty of Business and Economics
Macquarie University NSW 2109

Reference: Handley_5200903493(D)

Dear Karen

RE: FINAL APPROVAL

Title of project: "Differential Reporting in Australia"

Thank you for your recent correspondence. Your response has addressed the issues raised by the Ethics Review Committee (Business & Economics) and you may now commence your research.

Please note the following standard requirements of approval:

1. Approval will be for period of twelve (12) months. At the end of this period, if the project has been completed, abandoned, discontinued or not commenced for any reason, you are required to submit a Final Report on the project. If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. The Final Report is available at: http://www.research.mq.edu.au/researchers/ethics/human_ethics/forms

2. However, at the end of the 12 month period if the project is still current you should instead submit an application for renewal of the approval if the project has run for less than five (5) years. This form is available at http://www.research.mq.edu.au/researchers/ethics/human_ethics/forms. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report (see Point 1 above) and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

3. Please remember the Committee must be notified of any alteration to the project.

4. You must notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that might affect continued ethical acceptability of the project.

5. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University
http://www.research.mq.edu.au/researchers/ethics/human_ethics/policy

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide Macquarie University's Research Grants Officer with a copy of this letter as soon as possible. The Research Grants Officer will not inform external funding agencies that you have final approval for your project and funds will not be released until the Research Grants Officer has received a copy of this final approval letter.

Yours sincerely

pp P. Alford

Julie Zetler
Chair, Ethics Review Committee
(Business & Economics)

Appendix 3.4: Letter to the AASB in response to ED 192

MACQUARIE UNIVERSITY

Faculty of Business and Economics
MACQUARIE UNIVERSITY NSW 2109 AUSTRALIA

Phone +61 (0)2 9850 8450
Fax +61 (0)2 9850 9958

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO BOX 204
Collins Street West VIC 8007
Email: standard@aasb.gov.au

23 April 2010

Dear Mr Stephenson

ED 192 Revised Differential Reporting Framework

We are commenting on ED192 as an interested PhD candidate, and her PhD supervisors. Karen Handley is currently enrolled in a PhD in Accounting at Macquarie University. As part of her PhD research, we conducted an exploratory survey in February and March of this year to examine the current reporting practices of Australian entities. The survey was distributed to the membership of CPA Australia, the Institute of Chartered Accountants in Australia (ICAA) and the National Institute of Accountants (NIA). Our detailed comments on some of the specific matters for comment in ED 192 can be found in the attachment below.

In summary, the survey responses revealed the following interesting findings:

- By February/early March of 2010, a small majority of the respondents were aware of IFRS for SMEs but less than 50% of the respondents were aware of the requirements of the Consultation Paper and the Exposure Draft.
- A high proportion of public practice respondents indicated that they would be prepared to switch from full IFRS to IFRS for SMEs for non-publicly accountable reporting entities.
- There was no uniform selection of Accounting Standards for the GPFSs of reporting entities in the sample. Not all reporting entities used full IFRS to prepare their GPFSs. Some reporting entities indicated that they did not prepare GPFSs at all.
- Non-reporting entities produced SPFSs using a variety of standards. Some also reported producing GPFSs.
- Our respondents indicated that financial reports have to satisfy the needs of a wide variety of users. This includes a large number of different government bodies. .

The findings of the survey show a diverse application of the current reporting standards. We are concerned that adding an additional tier to this complexity (in the form of either IFRS for SMEs or Reduced Differential Reporting) will require retraining and additional expenses for many stakeholders, although there will be reduced costs as a result having fewer standards. We are also concerned about the additional burden this complexity places on educators. The survey results indicate that there is confusion about the application of IFRS as it currently stands. This confusion might become more widespread with the introduction of an additional standard. We believe that there should be further research on the needs of the potential users of the Tier 2 financial reports in the Australian setting, as their needs are not currently clearly identified. Until we know what information is required by potential users, it is not possible to judge whether those needs will be met under any new standard.

Thank you for this opportunity to comment. If there are any further queries about this research, please direct questions to Karen Handley at karen.handley@students.mq.edu.au.

Yours sincerely,

Karen Handley
PhD Candidate
Macquarie University

Associate Professor Elaine Evans
Associate Professor Sue Wright
Macquarie University

Appendix

There were 241 completed responses for the whole survey. Forty seven of the respondents were not involved in the preparation of financial statements for Australian entities. Of the remaining 194, 117 respondents completed the questions for non-public practice accountants, and therefore commented on the reporting practices of entities in which they were employed. A further 77 respondents completed the questionnaire from the perspective of clients of their public practice accounting firms. For some parts of the survey, most notably the section on awareness of IFRS for SMEs, the Consultation Paper and the draft Exposure Draft, there were 274 completed responses. Whilst the response rate limits the ability to generalise the results, they do provide some insight into current Australian reporting practices.

Specific Matters for Comment

According to ED192, the AASB particularly wanted comments on the following:
(a) whether you agree with the introduction of a second tier of reporting requirements for preparing general purpose financial statements (GPFSs) for:
(i) for-profit private sector entities that do not have public accountability;
(ii) not-for-profit private sector entities; and
(iii) public sector entities other than those required by the AASB to apply Tier 1?
If not, and you support differential reporting, what other classifications of entities do you think would be more appropriate for differential reporting and why?

In our survey, we asked the public practice and non-public practice respondents questions about their likelihood of using IFRS for SMEs if the AASB were to allow it as an option. Of the 77 public practice respondents, 75.3% indicated that they would use it for reporting entities (other than publicly accountable entities such as listed companies) and 59.7% indicated that they would use it as an alternative to full IFRS or IFRS measurement and recognition with limited AASB disclosures for non-reporting entities. For non-public practice respondents who indicated that their entities were reporting entities, and where the organisation was not a publicly accountable entity, 46.3% of the respondents were prepared to adopt IFRS for SMEs as an alternative to full IFRS.

The following is a tabular representation of the responses from our survey regarding the likelihood of using IFRS for SMEs as an alternative to full IFRS, where allowed.

Table 1: Likelihood of using IFRS for SMEs as an alternative to full IFRS, if allowed

	Public practice respondents Would you use IFRS for SMEs for applicable reporting entities?		Public practice respondents Would you use IFRS for SMEs for applicable non-reporting entities?		Non-public practice respondents (non-publicly accountable reporting entities only) Would you use IFRS for SMEs for applicable reporting entities?	
Response	Frequency	%	Frequency	%	Frequency	%
Yes	58	75.3%	46	59.7%	25	46.3%
No	9	11.7%	14	18.2%	16	29.6%
Unsure	10	13.0%	17	22.1%	13	24.1%
Total	77	100.0%	77	100.0%	54	100.0%

We believe that this support for IFRS for SMEs amongst the respondents in our sample is an indication of the desire on their part for a less complex reporting option than full IFRS for some entities.

(b) whether you agree that entities within the second tier should be able to apply the proposed reduced disclosure regime, which retains the recognition and measurement requirements of full IFRSs or would you prefer another approach (e.g. IFRS for SMEs)? If you prefer the IFRS for SMEs, what do you consider to be the specific advantages of the individual differences of recognition and measurement requirements in the IFRS for SMEs compared with full IFRSs?

Survey respondents were required to indicate their awareness of the requirements of IFRS for SMEs, the AASB's Consultation Paper and the draft Exposure Draft by selecting from a 5 point Likert-scale with the options "Strongly Disagree", "Disagree", "Neither agree nor disagree", "Agree" and "Strongly Agree". Overall, our respondents declared a higher awareness for IFRS for SMEs than for either the Consultation Paper or the draft Exposure Draft. We found that 61.7% of the 274 respondents selected either "Agree" or "Strongly Agree" for awareness of IFRS for SMEs and that this number dropped to 47.5% for the Consultation Paper and 42.0% for the draft Exposure Draft.

Our survey therefore indicates that by February/March 2010, just under half of the respondents to the survey were familiar with the requirements of the Consultation Paper or draft Exposure Draft and a small majority were aware of the requirements of IFRS for SMEs. Given that those who responded to our survey are were more likely to be aware of the issues surrounding reduced differential reporting, we feel that these percentages (47.5% and 42.0%) probably overstate the general level of awareness in the population as a whole.

(c) the definition of public accountability (which is used to identify those for-profit entities that must apply Tier 1) and whether there are categories of entities in the Australian environment that should be cited as examples of publicly accountable entities other than those already identified in paragraph 26;
No comment

(d) whether you would require any other classes of public sector entities, such as Government Departments, Government Business Enterprises or Statutory Authorities, to be always categorised as 'Tier 1' reporting entities and, if so, the basis for your view;
No comment

(e) the clarification of the meaning of GPFSs and modifying the way the reporting entity concept is used;

There was inconsistency amongst the Australian entities that were part of our survey when it comes to the application of current AASB Standards for reporting entities and/or entities required to report under the Corporations Act (2001). The findings indicate that some entities may need to change their reporting practices to comply with Para. 30 of ED192: "the phrase 'preparation in accordance with Accounting Standards' means the application of all applicable Accounting Standards in a tier and not a subset of them".

We asked non-public practice respondents to indicate which standards were used for their GPFSs. Of the 117 non-public practice respondents, GPFSs were produced by 83 (70.9%) entities in the sample. Only 57 (68.7%) of these were prepared using full IFRS. Of the remainder, 10 (12.0%) entities used IFRS measurement and recognition with reduced disclosure (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, AASB 1031 Materiality and AASB 1048 Interpretation and Application) and 7 (8.4%) used simplified measurement and recognition with the same reduced disclosure.

Reporting entities
When we asked the 117 non-public practice respondents to indicate whether their entities were reporting entities, 78 indicated that they were. Looking at the reporting standards used for these reporting entities, we discover that 9 (11.5%) do not claim to produce GPFSs. Of the 69 (88.5%) that do produce GPFSs, 49 (71.0%) claim to use full IFRS, while 8 (11.6%) use full IFRS measurement and recognition with reduced disclosure and 6 (8.7%) use simplified measurement and recognition with reduced disclosure.

Finally, we looked at which of the reporting entities also claimed to report under the Corporations Act (2001) and found that 48 of the 69 reporting entities which claimed to produce GPFSs were Corporations Act entities. Of these, 34 (70.8%) use full IFRS, and of the remainder, 5 (10.4%) use full IFRS recognition and measurement with reduced disclosure and 6 (12.5%) use simplified recognition and measurement with reduced disclosure.

Also of interest in the sample were the 9 entities that claimed to be reporting entities but did not produce GPFSs. Of these, 7 claimed to produce SPFSs; 3 of which used full IFRS for the SPFSs and 4 of which used full IFRS measurement and recognition with reduced disclosure.

The responses provided by the 77 public practice respondents also show that multiple standards are used in the preparation of GPFSs for reporting entities. In particular, we asked private practice respondents to indicate the breakdown of standards used for all their GPFSs for unlisted reporting entities, and found that only 29 respondents indicated that 100% of these GPFSs were produced using full IFRS. Twelve of the public practice respondents indicated that no standards were used for some of their GPFSs (of these, 2 respondents claimed to use no standards for all of their GPFSs). Thirty of the respondents indicated that they use full IFRS measurement and recognition with reduced disclosure for some portion of the GPFSs for unlisted reporting entities, and 27 of the respondents indicated the same for simplified measurement and recognition.

Non-reporting entities

Non-reporting entities are the group in our sample most likely to be impacted by the proposed change to differential reporting. We were unable to isolate those that would be directly impacted by this proposed change. Included in this group of entities are those which will be required to apply standards or to switch from producing SPFSs to GPFSs, with the possibility of an increased burden. For this reason, we present the findings of the survey for this group looking both at the current standards used for those entities which currently prepare GPFSs and those that produce SPFSs (there is an overlap).

Thirty nine of the non-public practice survey responses were from non-reporting entities. Fourteen of these responses indicated that they currently prepare GPFSs. Again, there was no consistency in the standards used for the preparation of the GPFSs, which we further disaggregated by the type of entity ("for profit", "not-for-profit private", "not-for-profit public" and "other") as indicated by the respondents. Nine respondents producing GPFSs were from non-reporting for-profit entities, and 4 of these used full IFRS while the others were divided between full IFRS measurement and recognition with reduced disclosure (2) and simplified measurement and recognition with reduced disclosure (1). One of the entities recorded using no standards to prepare GPFSs, one respondent was unsure and one reported using "other" standards, while full IFRS was the preferred standard for the remaining not-for-profit private entity and the not-for-profit public entity.

Thirty two of the 39 non-reporting entities in our sample produced SPFSs. Most commonly, these SPFSs were produced using full IFRS measurement and recognition with reduced disclosure (43.8%) and simplified measurement and recognition with reduced disclosure (37.5%). Only 3 respondents (9.4%) reported using full IFRS for their SPFSs.

We also asked the public practice respondents to tell us about the SPFSs they produce for their clients that are not required to present under the Corporations Act (2001). Nineteen of the 77 respondents indicated that they prepare 100% of the SPFSs for large entities[1] using full IFRS measurement and recognition with reduced disclosure, and 23 of them indicated that they use simplified recognition and measurement for 100% of their SPFSs for small entities. 61.0% of the respondents appear to use the same standard across all of their SPFSs for small entities.

For the 94.8% of the public practice respondents who reported preparing SPFSs for small entities not required to present under the Corporations Act (2001), the most commonly reported standard used was simplified measurement and recognition with reduced disclosures.

By size of entity

An analysis of the standards selected by different entities (as reported by non-public practice respondents) to produce GPFSs and SPFSs is presented in the two tables below. Table 1 splits the sample by consolidated annual revenue, using self-selected categories provided by the respondents. Table 2 splits the sample by average asset value in the same way as Table 1. The detail in these tables shows the wide variety of standards used to prepare reports for different sized entities.

[1] We defined "large" and "small" using the ASIC criteria i.e. small is two of : consolidated revenue < $25 million; assets < $12.5 million; < 51 employees.

Table 2: Standards used by non-public practice respondents by Consolidated Annual Revenue (n=117)

Annual revenue	Frequency	%	Reporting Standards Used	GPFS		SPFS	
				Frequency	%[2]	Frequency	%
< $10 million	41	35.0%	Full IFRS	16	39.0%	3	7.3%
			Reduced Disclosure	3	7.3%	5	12.2%
			Simplified	3	7.3%	8	19.5%
			Unsure	4	9.8%	1	2.4%
			No Standards	0	0.0%	2	4.9%
			Other	2	4.9%	3	7.3%
≥$10 million and < $25 million	19	16.2%	Full IFRS	10	52.6%	2	10.5%
			Reduced Disclosure	2	10.5%	2	10.5%
			Simplified	2	10.5%	7	36.8%
			Unsure	1	5.3%		
			No Standards	4	21.1%	0	0.0%
≥$25 million and < $100 million	28	23.9%	Full IFRS	15	53.6%	6	21.4%
			Reduced Disclosure	4	14.3%	8	28.6%
			Simplified	2	7.1%	2	7.1%
			Other	1	3.6%		
≥$100 million and <$500 million	11	9.4%	Full IFRS	2	18.2%	1	9.1%
			Reduced Disclosure	0	0.0%	7	63.6%
			Simplified	0	0.0%	1	9.1%
> $500 million	18	15.4%	Full IFRS	14	77.8%	2	11.1%
			Reduced Disclosure	1	5.6%	4	22.2%
			Simplified			2	11.1%
			Other	1	5.6%	2	11.1%
Total	117	100.0%					

[2] Columns do not add to 100% because some respondents do not prepare GPFSs. Similarly, for SPFSs.

Table 3: Standards used for GPFSs by Average Asset value (non-public practice respondents) n=117

Average asset value	Frequency	%	Reporting Standards Used	GPFS Frequency	GPFS %	SPFS Frequency	SPFS %
<$12.5 million	49	41.9%	Full IFRS	18	36.7%	5	10.2%
			Reduced Disclosure	3	6.1%	5	10.2%
			Simplified	5	10.2%	11	22.4%
			No Standards	1	2.0%	1	2.0%
			Unsure	4	8.2%	2	4.1%
			Other	2	4.1%	3	6.1%
≥$12.5 million and < $100 million	34	29.1%	Full IFRS	18	52.9%	3	8.8%
			Reduced Disclosure	3	8.8%	8	23.5%
			Simplified	1	2.9%	6	17.6%
			Other	1	2.9%	1	2.9%
≥$100 million and < $250 million	10	8.5%	Full IFRS	3	30.0%	3	30.0%
			Reduced Disclosure	3	30.0%	4	40.0%
≥$250 million	24	20.5%	Full IFRS	18	75.0%	3	12.5%
			Reduced Disclosure	1	4.2%	9	37.5%
			Simplified	1	4.2%	3	12.5%
			Other	1	4.2%	1	4.2%
Total	117	100.0%					

The data presented above from this survey suggests that there is not a uniform application of the reporting entity concept in Australian entities at present, in as much as this translates into the selection of Accounting Standards for GPFSs.

(f) the extent and nature of the proposed disclosures under the RDR (Tier 2), including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFSs;
No comment

(g) any particular disclosure requirements that:
(i) have been retained in the RDR that you consider should be excluded from the RDR, and your reasons for exclusion;
(ii) have been excluded from the RDR that you consider should be retained, and your reasons for retention;
No comment

(h) transitional provisions for entities applying Tier 1 or Tier 2 for the first time and moving between Tiers;
No comment
(i) whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals;
No comment

(j) whether, overall, the proposals would result in reducing the costs of preparing GPFSs that would remain useful to users

In the Consultation Paper, the AASB maintains that the IASB has identified the user needs of SMEs in the preparation of IFRS for SMEs (p. 23) and that the disclosure principles of the RDR have been benchmarked to the disclosure principles applied in IFRS for SMEs (p.29). In this survey, we included preliminary questions regarding the users of the financial reports of Australian entities, which were answered by the public practice respondents (n=77) and non-public practice respondents (n=117). Our question was very broad, and did not specify whether the reports in question were SPFSs or GPFSs. Respondents most commonly selected management and owners (either in the form of shareholders, equity holders or members) as the users of their reports, followed by the banks and other financial institutions. What was interesting in the responses was the large number of government institutions which were shown as recipients of Australian financial reports. In the survey, we asked respondents to provide us details of these government entities that they were required to report to – other than the ATO and ASIC. There are approximately 46 different government entities that are recipients of the reports of our sample. This number excludes those respondents who used a generalized description of the government entities. It may therefore be important to consider carefully the needs of different government entities and other users when finalising a reduced reporting standard in the Australian setting.

Chapter 4: Adjudicating public and private interests in lobbying for the Australian Reduced Disclosure Requirements standard

4.1 Abstract

A consultative process initiated by the Australian Accounting Standards Board (AASB) to create an Australian standard for Small and Medium-sized Entities (SMEs) provided an opportunity for users and preparers of financial statements to lobby for the inclusion of their views. This consultative process raises questions regarding its role in conveying the notion of public interest to accounting standard setters. This paper presents evidence of self-interest and promotion of the private interests of influential stakeholders and clients, obtained by surveying financial statement users and preparers, and interviews with AASB members and comment letter writers. This is the first study known to the author which incorporates the views of the writers of comment letters about a national accounting standard for unlisted entities. It raises a challenge to the global accounting profession regarding its role in protecting the public interest in the standard setting process, to counter disengagement by users of financial statements.

***Key words**: Lobbying, public interest, non-publicly accountable entities, standard setting*

A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest (Accounting Professional & Ethical Standards Board: 100.1).

4.2 Introduction

Accounting professionals are required to act in the 'public interest' (Accounting Professional & Ethical Standards Board, 2010). Although the notion of public interest is highly contentious and has been examined in the literature[58], Neu and Graham (2005) raise the question of how the notion of acting 'in the public interest' can be claimed by accountants and professional bodies when there are private interests at play. For example, should we expect that the notion of public interest is considered in representations to standard setters in response to calls from standard setters for comment? Acting as stakeholders in the standard setting process and communicating their views to standard setters or lobbying for a particular position in a standard being drafted is well within the boundaries of accountants' duties[59], and whether their communications are in their private or public interest can be examined in answer to this question.

[58]The notion of 'public interest' is highly contentious. In 2001 a new journal, *Accounting and the Public Interest*, was created, and in 2005, AAAJ published Vol.18 No. 5 as a special issue devoted to explorations of 'public interest'. This research does not seek to define or determine the meaning of 'public interest', merely to question whether the notion is attainable.

[59]Some accountants respond to standard setters' calls for input to Exposure Drafts, invitations to comment, discussion and consultation papers, round-table discussions, consultative and focus groups, project and interpretation advisory panels and calls for formal comment letters (AASB, 2011b; IASB, 2012).

This study examines the case of the development of a financial reporting standard for non-publicly accountable entities in Australia, where stakeholder input was encouraged by the Australian Accounting Standards Board (AASB). Communication between stakeholders and the AASB spanned the period from the first introduction of the draft International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) by the International Accounting Standards Board (IASB) in 2007 to the period immediately following the decision by the AASB to release its own differential reporting standard in 2010. Because of the large numbers of SMEs in Australia (over 99% of Australian businesses employ fewer than 100 employees (ABS, 2010)), these calls from the AASB for interaction with stakeholders generated a relatively large number of responses[60], and heated debate in the media[61]. What is not known is whether these responses and media debate were the result of widespread participation in the standard setting process by financial report users and accounting professionals, or whether the responses came from a small concentration of participants.

This paper examines whether financial report users do not participate because they rely on others to represent them and what were the motives and methods used by those who participated. These questions are

[60]Invitation to Comment 12 had 71 responses made publicly available by the AASB, and Exposure Draft 192 had 77 responses, 36 of which were released in the identical emails document.
[61]See Section 4.4.

addressed by surveying and interviewing financial statement users[62] and preparers about lobbying activities. In the context of the standard setting process for reduced disclosure reporting in Australia, the survey identifies motives for not participating and the lobbying methods used by participants. It also provides insight into perceptions of the effectiveness of different methods of lobbying. Having established a low level of participation and reliance on professional bodies amongst survey respondents, the motivation of lobbyists to become involved in this standard is explored through interviews with comment letter writers who responded to the AASB's Exposure Draft 192 (ED 192).

The paper proceeds as follows. Section 4.3 covers relevant literature on standard setting, lobbying, and the public interest. Section 4.4 provides a brief discussion of the Australian reduced disclosure reporting standard, and incorporates the coverage of this standard setting process in the media. Section 4.5 describes the survey design; Section 4.6 elaborates on the research method used in the survey and interviews. The survey results are covered in Section 4.7, and the interview results are discussed in Section 4.8. The conclusions drawn from the discussion can be found in Section 4.9. Section 4.10 contains the reference list for this paper and the appendices can be found in Section 4.11.

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[62]Ethics approval was obtained for the survey and interviews. A copy of the letter from the Macquarie University Ethics Review Committee is included in Appendix 4.5.

4.3 Literature review

Standard setting bodies engage in negotiation and consultation to attempt to reflect the public interest in their financial reporting standards. This is supported by their stated missions: through the IASB, the IFRS Foundation states that it seeks to produce ‘high quality, understandable, enforceable’ (The IFRS Foundation, 2011) financial reporting standards, in the public interest. In Australia, the AASB is also ‘committed to developing, in the public interest, a single set of high quality, understandable accounting standards’ (AASB, 2011a). What is meant by these claims concerning the public interest is unclear. Baker (2005 p. 701) concludes that the accounting profession seems unable to ‘determine precisely what the meaning of the public interest is or may be’, but observes that ‘the values and activities of the public accounting profession [are conflated] with serving the public interest’. Joseph (2007 p. 51) contends that the focus on providers of capital assumes that ‘the public interest is served when scarce resources are allocated through the profit motive’, justifying the focus on reporting being decision-useful for these particular users. An examination of campaign contributions supports the conclusion that the accounting profession favours business rather the broader public (Thornburg and Roberts, 2008). There is nevertheless support for a broader ideal: Dillard and Ruchala (2005 p. 610) include in their definition of public interest the ‘general wellbeing of the ongoing community and its members’, encompassing the interests of traditional stakeholders such as management and equity holders as well as more diverse interests, for example, the ‘natural environment’.

To gauge the interests of stakeholders, standard setters invite their engagement during the consultation process. If a wide range of constituents does not take up this invitation to engage in the standard setting process, or if insufficient time has been allowed for constituents to inform themselves, consult, reach conclusions, and coherently relay these conclusions to influential parties, it is possible that the standard setter may not be fully aware of the full range of stakeholders’ views. In this case, the public represented may be limited to a few categories of active respondents, contrary to the definition of Dillard and Ruchala. In the absence of an invisible hand directing the selection of options from competing requirements, the selection of elements of a standard may be adjudicated by standard setters based on a bias towards primary users, as established in the *Conceptual Framework*, for example, resource providers (or, in the case of the FASB, a focus on investors and creditors; see Baker, 2005). Further, the outcome may be unnecessarily skewed if one party or parties have greater influence, numbers, or power, and act in their own self-interest (Larson, 2008; Zeff, 2002).

The accounting *Framework* places the decision-making needs of a *wide range of users* as the key objective of financial reports (AASB, 2011a p.

24). In their quest for *general purpose* reports that satisfy the common needs and requirements of the majority of users, local and international standard setters have to make choices based on a range of factors, including ‘political economic factors, such as macro-economic policy making, economic development, and industrial reorganization’ of specific countries (Baker, Biondi and Zhang, 2010 p. 108). However, as Cooper and Sherer (1984 p. 212) argue, ‘it is logically impossible to make social choices that are rational, reflect individual preferences and are not dictatorial’. Their ‘political economy approach’ advocates research which recognizes three important elements. The first of these is recognition that the interests of ‘elites’ are often favoured in selections between different accounting treatments (also see Cooper and Robson, 2006 p. 423; Gilfedder and Ó hÓgartaigh, 2001). Secondly, society’s historical and institutional characteristics – in particular the composition of the business sector (for example the prominence and power of large corporations, oligopolies and monopolies), as well as the role played by the state – should be included in the analysis (Cooper and Sherer, 1984 p. 218). Thirdly, research should recognize that human motivation plays a role in decision making and this extends beyond the motivation of economic self-interest into other types of self-interest that may be less easy to measure, such as social acceptance, self-esteem, legitimacy and improvement of working conditions (Cooper and Sherer, 1984 pp. 218-9).

Contrast the approach of Cooper and Sherer to that of Sutton (1984). Rather than having a political motivation, Sutton's rational choice model suggests that the decision to become involved in lobbying for a particular view has a direct bearing on the cost-benefit equation of doing so. The rational choice model assumes that the motivation to lobby for a particular position on accounting standards is a perceived increase in wealth. Lobbying carries costs which include the time to acquire the technical expertise to understand and provide meaningful comment on an accounting standard. Holding a position contrary to those held by other influential parties or clients is also likely to carry indirect costs, for example loss of business or damage to reputation. Potential benefits include protection of confidential information, the lowering of preparation costs, or access to previously unavailable information. There are also potential institutional benefits from successful lobbying, associated with improvement in influence and perceived status in the accounting community.

If participants in the lobbying process act according to Sutton's (1984) rational choice model, then it is important to ascertain which methods participants believe are the most effective. This paper responds to a call in an earlier study by Georgiou (2004, p.235), to 'establish the general applicability of Sutton's model' by 'investigating corporate lobbying in different countries' — in this case, Australia. As a result, the survey instrument used is an adaptation of Georgiou's (2004).

As previously explored by Georgiou (2004), the first research question in this paper is:

RQ 1: What was the perceived effectiveness of different methods of communicating with the AASB?

Prior studies have identified that financial report users do not participate extensively in the different phases of the development of standards (Gilfedder and Ó hÓgartaigh, 2001; Larson, 2007; Georgiou, 2010; Jorissen, Lybaert, Orens and Van der Tas, 2010). Given this low incidence of direct user involvement in the standards lobbying process, it follows that their lack of advocacy might result in this group being disadvantaged by the resultant standards. This view is supported in the literature in studies which examine comment letter submissions, as summarised in Durocher, Fortin and Côté (2007). Georgiou (2002 p. 704) suggests that 'the remarkably low number of comment letter submissions means that either the majority of parties use other methods of participation or they do not participate at all in the process'. As Cooper and Robson (2006 p. 427) point out, 'the concern with the user has increasingly been narrowed to include only one type of user, the "investor" … [this] suggests the dominance of a pro-capital orientation for those who are involved in accounting rule making' (also see Gilfedder and Ó hÓgartaigh, 2001).

Young (2003 p. 629) contends that the discussion of users in the body of the standards merely stifles criticism of the inclusion or exclusion of disclosures, and that ‘relevance and usefulness are rarely connected to any discussion of how users of financial statements employ accounting information in their decisions’. Gilfedder and Ó hÓgartaigh (2001) suggest that because report users often have diversified portfolios, they do not face the same risks as preparers of reports, and hence may not feel the need to participate in the standard setting process. Preparers of reports risk having to change their business models and so are more likely to engage in the process.

The second research question addresses engagement in the standard setting process arising from ED 192 by asking:

RQ 2: Did interest in ED 192 result in widespread participation by financial report users and accounting professionals directly or indirectly in the development of the standard?

The free-riding approach that Durocher et al. (2007) and Georgiou (2010) suggest is taken by users and by those who do not participate in the process in order to avoid the cost of lobbying may not necessarily produce standards that are in the public interest. If Cooper and Sherer (1984 p. 208) are correct in suggesting that ‘social welfare is likely to be improved if accounting practices are recognised as being consistently impartial’ then the existence of these free-riders threatens impartiality because their views may not be known or incorporated in accounting standards. Although it is possible that stakeholders believe that their positions are insignificant, or adequately represented by the positions of others, they may also be ill-informed, ill-equipped or too poorly funded to be able to present a valid alternative position and may not be ‘free-riding’ at all. Sutton’s (1984) rational choice model does not contradict this assertion. Georgiou’s (2004) study of lobbying behaviour, which adopts Sutton’s (1984) rational choice model, finds that there is a high correlation between the comment letter writers and those using other methods of lobbying. This corresponds with being sufficiently well-informed to present a position on a standard. However, Sutton (1984) contends that the lobbyist pays the cost of promoting the public good of those whose interests coincide by the promotion of the public interest free of charge. It is therefore no coincidence that Georgiou (2010) finds that those who do not overtly participate in the lobbying process may be involved in indirect lobbying through professional bodies. In addition, other studies conducted by Georgiou (2002; 2004) indicate that those who do not lobby feel that they are well represented by professional and industry bodies. However, Gilfedder and Ó hÓgartaigh (2001 p. 102) suggest that this concentration of consultation amongst the ‘limited public’ may be ‘more a discourse of the powerful than an “extensive” public consultation’.

Further, the third research question addresses the motives of non-participants by considering:

RQ 3: Did financial report users and accounting professionals not participate because they relied on others to represent them?

The public interest served by general purpose financial statements is also difficult to define. Cooper and Sherer (1984) cite research which suggests that the clientele of the accounting profession (large investors and corporations) share a ‘commonality of interest’ with the profession, which acts to exclude the interests of other classes and groups. This view is supported by Larson (2008) who finds instances in which auditors’ views correspond with those held by their major clients. De Lange and Howieson (2006 p. 1019) refer to the competing agendas of ‘a multitude of lobbying corporations, influential national accounting standard-setters, various governments, regional associations and economic blocs, and national capital market regulators all vying to place their mark on accounting standards’. Broadbent and Laughlin (2005 p. 207) suggest that ‘what is seen as the public interest remains in the government’s control and is therefore mutable’.

The motives of participants in the standard setting process are an important measure of the desire to incorporate either public or self-interest. These motives and methods of participation are explored by the final research question:

RQ 4: What were the motives and methods used by those who participated?

The needs of users of financial statements are not homogeneous, but acting in the public interest adds to the perceived legitimacy of an independent national standard setting body, professional accounting bodies and trade organizations. Young and Williams (2010 p. 509), in their examination of the Financial Accounting Standards Board (FASB), argue that value judgements made by the standard setter contribute to a 'moral and social order'. They claim that '[f]or accounting standards to have this moral status, they must emerge from a process in which alternative values and multiple perspectives are openly debated' (Young and Williams, 2010 p. 520). Government has a 'watching brief' (Broadbent and Laughlin, 2005 p. 209) which ensures that the accounting profession conducts itself in a way that demonstrates that its actions are in the public interest. Tensions arise between governments and the accounting profession when 'accounting actions lead to perceived negative economic consequences' (Broadbent and Laughlin, 2005 p. 211). Broadbent and Laughlin concede that governments, in turn, may be motivated by their own self-interests (Broadbent and Laughlin, 2005 p. 226), which they believe at the time to be in the public interest.

In the post-IFRS adoption era (i.e. post 2005 in the European Union and Australia), governments of IFRS-adopting countries have relinquished control over the standards which govern the production of general purpose reports to the IASB. However, local regulators can decide what types of entities are required to adopt which standards. The role of local standards boards has therefore changed, as has their ability to act in what they believe to be the public interest. Kevin Stevenson (Stevenson, 2010 p. 308), current chairman of the AASB, writes, ‘It is natural to grieve over the “lost babies” (those often born in great travail) replaced by IFRS equivalents … and, more importantly, over what may seem to be a diminished or lost role. To act in the public interest and be thwarted!’ National standard setters may still have the option of designing localised accounting standards, or amending IFRS to suit local conditions. Whether or not this divergence of local standards from IFRS is in the public interest is also discussed in the literature. Baker et al (2010 p. 108) contend that the ‘actions of various national accounting standard setters which allow or require accounting methods that differ from IFRS may be based on political economic factors rather than the needs of capital markets’. This contrasts with those IFRS adopting countries which have embraced a one-size-fits-all approach as a result of convergence.

In summary, from the above literature it is clear that standard setters need to incorporate the decision-making interests of a wide range of diverse constituents in order to maintain their position as protectors of the ‘moral and social order’ (Young and Williams, 2010 p. 509). In this process, they seek representations from individuals who may wish to minimise costs and maximise benefits (Sutton, 1984), or who may represent elites motivated by self-interest (Cooper and Sherer, 1984). Users are traditionally under-represented in this process. They may be engaged in free-riding (Georgiou, 2004) or be intimidated or ill-informed. Their interests are not clearly defined, understood or even homogenous. The IASB has assumed the role of international standard setter, which expands the problem of conflicting needs to an international setting. National standard setters may respond to this by creating their own localised standard if they believe the international standard does not incorporate national public interest. All of these issues compound the difficulties for standard setters acting to incorporate these varied needs into standards which serve the public interest.

4.4 Background to the Reduced Disclosure Requirements (RDR) standard

The requirement for a financial reporting standard tailored to the needs of users of financial statements of small and medium sized entities (SMEs) and entities in developing countries first found its way onto the active agenda of the IASB in 2003 (Ram and Newberry, 2010). In so doing, the

IASB recognised the problem that SMEs and developing nations had in implementing IFRS. This problem had been recognised in other countries. For example, in the United Kingdom, the Accounting Standards Board had implemented an accounting standard for smaller entities, known as Financial Reporting Standards for Small Entities (FRSSE). After much consultation, the IASB's project resulted in the release of IFRS for SMEs in July 2009.

When international reporting standards were adopted in Australia from 2005, they applied to all reporting entities regardless of size, 'not-for-profit' status and whether or not the entities were listed on the ASX. The cost and benefit of preparing General Purpose Financial Statements (GPFS) for 'non-publicly accountable' and unlisted entities covered by this broad application of IFRS was a contentious issue. As a result, many commentators supported the IASB's initiative to produce IFRS for SMEs (see, for example, Grant Thornton, 2009). Australian entities and the AASB were involved in the consultation process for IFRS for SMEs, but the AASB eventually released its own RDR standard in July 2010. The RDR standard incorporates a reduction in disclosure requirements while maintaining the measurement and recognition principles of IFRS.

The RDR was introduced in July 2010 in the form of AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2

Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements. The introduction of these new reporting requirements created a new tier for the preparation of GPFS (for publicly accountable for-profit private sector entities and some government entities (AASB, 2010d)). These entities were granted relief from preparing GPFS using full IFRS, which they had been required to use since 2005. In introducing these new requirements, the AASB drafted their own standard based on recognition and measurement principles of full IFRS, rather than adopting the IASB's standard for non-publicly accountable entities, i.e. IFRS for SMEs. The change represents 'Stage 1' in a two-stage implementation which was suggested by the AASB. 'Stage 2' will examine the removal of the reporting entity concept in Australia, and possibly extend the production of GPFS to some entities that currently produce Special Purpose Financial Statements (SPFS).

The release of AASB 2010-2 and AASB 1053 followed a lengthy consultation period for IFRS for SMEs, both in Australia and internationally. The time taken to consult on IFRS for SMEs 'reflects the significant level of consultation undertaken by the IASB in its development' (Kemp, 2009 p. 64). The AASB responded to the 2007 release of an Exposure Draft (ED) for IFRS for SMEs by inviting the local profession and stakeholders to participate in the debate via ITC 12 (AASB, 2007a). In ITC 12, the AASB suggested that it would use the IASB's IFRS for SMEs for a second tier of requirements, because ‘it would be inefficient to develop and maintain a separate Australian small GAAP’ (AASB, 2007a p. 22). However, the AASB also introduced the possibility of an alternative option for differential reporting: ‘IFRS for SMEs should not be seen as the only option in developing a differential reporting framework’ (AASB, 2007a p. 22).

In the period between the IASB’s release of its ED in 2007, and the final release of IFRS for SMEs in July 2009, the merits of reducing the reporting burden on Australian entities was debated in the Australian press. Several surveys of Australian accountants were conducted to establish the need to simplify reporting. CPA Australia reported in October 2007 that ‘seventy per cent of respondents believe IFRS for SMEs is necessary and desirable to provide a specific framework for financial reporting by SMEs, while 61 per cent believe SMEs should be given the option to choose between full IFRS or the proposed IFRS for SMEs’ (Anonymous, 2007; Lynch, 2007). Their survey also found that ‘Some 64 per cent of Australian respondents believe that IFRS for SMEs should be applicable to large unlisted companies that do not have public accountability’ (Anonymous, 2007). Similarly, a survey conducted by Grant Thornton Australia found that ’80 per cent of respondents, who included accountants, chief financial officers and directors, wanted the system simplified, particularly for smaller companies’ (McIntyre, 2009).

Speculation about the entities to which the new standard would apply also appeared after the AASB started discussing this in May 2007[63](Buffini, 2007; Fenton-Jones, 2007). The AASB proposal extended the production of GPFS to entities lodging on a public register, and amended the definition of lodgement on a public register to include annual lodgements with the Australian Securities and Investments Commission (ASIC) and tabling in Parliament. The AASB also proposed reducing the number of entities with a 'reporting obligation' by the introduction of size thresholds (Australian Senate Standing Committee on Economics, 2007). Concerns arose about the level of disclosure required for wholly owned private subsidiaries, which would place excessive cost burdens on entities like banks, with little gain (Kellerman, 2007; Lynch, 2007). Stakeholders also were concerned about associating the standard with SMEs (through its name), as it seemed too onerous and costly for small businesses and even some medium-sized ones. Some supported the introduction of an objective reporting standard, which simplified recognition, measurement and disclosure (Fenton-Jones, 2007).

In the period between July 2009 and December 2009, as Australia waited to hear whether the AASB would allow the adoption of IFRS for SMEs, lobbying intensified in the Australian press. Support for the new IFRS for SMEs standard was mixed and the dividing line appeared to be the

[63]This speculation was driven by the possibility of a change to Australia's reporting entity concept, which governs which entities have to produce GPFS

difference in recognition and measurement from full IFRS, which, while driving down costs for some entities, would increase the costs of others (Anonymous, 2009; Fenton-Jones, 2009a). There were concerns expressed about '[p]otential confusion in the marketplace, the need for additional training, comparability and transition issues between the two versions' (Kemp, 2009 p. 65). The reduction in costs resulting from reduced disclosure for some non-publicly accountable reporting entities, which in Australia were forced to report using full IFRS at the time, were welcomed. At the same time, the increased potential costs for non-reporting entities arising from a possible change to the reporting entity concept were not (Durkin, 2009; Reilly, 2009). This challenge was recognized by the AASB: 'Stevenson concedes that it is going to be a difficult area for the AASB given that the overall aim is to reduce the reporting burden on these entities' (O'Connor, 2009 p. 27). Concerns about the possibility that the AASB would choose not to implement the IASB's standard immediately also appeared in the media (Fenton-Jones, 2009b; Reilly, 2009).

In December 2009, the AASB again called for input from stakeholders, by issuing a Consultation Paper entitled '*Differential Financial Reporting – Reducing Disclosure Requirements*' (AASB, 2009a) and a draft ED 192 (AASB, 2009b). In this Consultation Paper, the AASB explored three options for non-publicly accountable entities: to retain full IFRS, to implement IFRS for SMEs or to implement a third option, its own reduced differential reporting standard (now known as the RDR). The AASB supported the third option, which it expressed as deregulation. ‘This is big-time deregulation unless you are a company that has elected not to be a reporting entity and produce special purpose financial statements’ (Stevenson, quoted in Burgess, 2009 p. 6). The debate concerning which version of the standard to adopt (the RDR or IFRS for SMEs) caused friction in the Australian accounting profession. This was played out in the media. Those supporting IFRS for SMEs described the mood as ‘warfare’, with Stevenson claiming that maintaining IFRS was ‘taking their toys away’ (quoted in Mendham, 2010 p. 7). In the same article, Hicks of the Institute of Chartered Accountants in Australia (ICAA) claimed that the ‘AASB doesn’t like IFRS for SMEs’ and that its actions would impact private entities negatively (Mendham, 2010 p. 7). She also concurred that the area was full of controversy and lack of consensus between stakeholders. Opponents of the RDR also questioned why the AASB would move to a standard other than one approved by the IASB, reducing international comparability. Supporters of the RDR indicated a two-tier profession could develop if different measurement and recognition standards were allowed in Australian financial reporting (Fenton-Jones, 2010a).

Following a short consultation period and two round-table meetings, the AASB selected the RDR standard and released it for early adoption in July

2010. In adopting this new standard, the AASB elected to leave the decision on the reporting entity concept open for further consideration. After the release, debate continued to be reported in the media. The RDR was supported as a reduction in burden for those applicable entities that were using full IFRS (Stuart, 2010). However, the grumblings around not adopting IFRS for SMEs persisted (Fenton-Jones, 2010c; Kemp, 2010).

Lobbying the government also continued by stakeholders ‘to direct the AASB to allow simplified and less costly accounting for the non-listed market’ (Stuart, 2010). There was also pressure on the government to intervene from the opposition party in the Australian Government, who claimed they were being lobbied by ‘small business, accounting bodies and professional advisers’ about the choice of the RDR over IFRS for SMEs, and if elected would require the AASB to justify placing a ‘more demanding, more costly’ regime with ‘greater regulatory burden than other SMEs in the world face’ (Billson, quoted in Fenton-Jones, 2010b).

It is clear from the above discussion that there has been lobbying in the press and other media on the subject of a differential reporting standard. There has also been an attempt on the part of the AASB and others to engage in debate and to seek the views of the public. In the sections which follow, survey and interview data are used to examine further the process of participation in the development of the RDR standard.

4.5 Survey design

The survey questions discussed in this paper formed part of a larger survey instrument. The instrument contained 23 questions. After establishing whether respondents used, prepared or audited financial statements of Australian non-publicly accountable entities and some demographic information, including their position in their organisation, the survey instrument asked respondents for their views on which information should be included in the financial reports for unlisted publicly accountable entities. This paper limits its analysis to the last five questions in the survey instrument, which were adapted from Georgiou (2002; 2004)[64]. The adapted questions are:

1. Whether you have participated or not, please rate the effectiveness of each way of participating in the AASB standard-setting process suggested below' (see Table 4.1). Respondents were asked if they believed the specified method of participation had an effect on the final outcome of the process ('Effective') or not effective ('Ineffective'). They were invited to select 'Don't Know' if they did not know whether a particular method of participation was effective or not (Q19).
2. The AASB recently released two standards (AASB 2010-2 and AASB 1053) which allow reduced disclosure reporting for some entities. These are commonly referred to as the 'reduced disclosure regime'.

[64]The questions were adapted to discuss the case of AASB 2010-2 and 1053 specifically, and to incorporate only those options which were available to prospective lobbyists in this case.

Were you or your firm involved in ANY way in the discussion that preceded this suite of standards (for example, in person, by letter, or via a third party)?

Respondents were invited to answer ‘Yes’ or ‘No’ (Q20).

3. The AASB recently released a suite of reduced disclosure standards (AASB 2010-2 and AASB 1053). If you or your firm did not participate at all in the discussion preceding this suite of standards, tell us which factors of those listed below were relevant to your decision NOT TO PARTICIPATE? (You may select as many factors as are relevant) (See Table 4.2).

   Participants who responded ‘No’ to Q20 cited above were directed to this question (Q21).

4. The AASB recently released a suite of reduced disclosure standards (AASB 2010-2 and AASB 1053). Please select any of the methods presented below that you (or your firm) communicated your views on this suite of standards (you may select as many options as are valid). (See Table 4.2). Participants who responded ‘Yes’ to Q20 cited above were directed to this question (Q22).

5. Do you have anything extra you would like to tell us about your involvement in the standard setting process? (Optional) (Q23)

4.6 Research method

The four research questions in this paper were explored using the responses to the survey described in Section 4.5 and comments from unstructured interviews. The survey was distributed by the ICAA, the National Institute of Accountants (NIA)[65] and the Australian Institute of Company Directors (AICD). The ICAA and the AICD included a link to the electronic survey in their newsletters, while the NIA advertised it on Twitter and FaceBook. In addition, a small database of email addresses was collected with the consent of the respondents to an earlier survey[66], and these respondents were directly emailed a request to complete this survey. Prior to distribution, the survey was piloted by eight respondents drawn from the target population. Responses were received between January 28 2011 and March 7 2011. Potential survey participants were reminded twice to complete the survey, and were motivated by the offer of a small incentive prize draw.

The technical nature of the survey negates any concerns with authentication and access control. As suggested by Stanton and Rogelberg (2001 p. 204), '[i]f the research instrument … pertains to a very specific audience, there may be very little motivation for a non-sampled individual to respond'. Notwithstanding this, IP-addresses and time of day stamps were used to check for multiple responses. Respondents were

[65]Now known as the Institute of Public Accountants
[66]Reported in Chapter 3 of this thesis.

also required to indicate completion by clicking on a button labelled ‘Done’, which closed the survey window, thus preventing multiple submissions in error.

Concerns with non-response bias are valid. In particular, as is the case with many online surveys of this nature (Kaye and Johnson, 1999), it is difficult to compare the response rate to the entire potential population of newsletter recipients in the three professional bodies, because the number of recipients who opened the newsletter and were therefore aware of the existence of the survey itself cannot be counted. To combat this, the survey was accessed via a launch pad (accessed by clicking the link in the newsletter) which allowed estimation of the number of ‘active refusals’ (Stanton and Rogelberg, 2001 p. 206). This launch pad acted as a ‘visitation counter’, as suggested by Fleming and Bowden (2009). The launch pad contained further information about the purpose of the survey, with an additional link for commencing the survey itself. A total of 436 unique accesses were made to the launch pad during the survey timeframe. Of these 436 potential respondents, 172 commenced the survey (39%), of which 148 respondents (34%) completed the whole survey. In the analysis which follows, only the 148 complete responses have been used.

In order to further explore issues raised in the survey, interviews were conducted with writers of comment letters for ED 192. As the comment letters are made publicly available by the AASB, their authors could be contacted by email using email addresses provided and were asked if they would participate in the study. A total of seventeen potential interviewees were approached, based on accessibility and the level of detail in their comment letters. Twelve interviews were conducted face to face and one interview was conducted over the telephone. Included in the interviews were two members of the AASB, three partners in ‘Big 4’ firms, three partners in mid-tier firms, two senior employees of major financing and insurance entities, and four representatives of professional bodies (one interviewee was a member of the AASB as well as holding another position). One participant declined to speak on the record. In order to maintain confidentiality, the remaining interviewees have been identified as P1 through to P12 in this document.

The interviews were conducted in person by two interviewees and recorded. These recordings were transcribed and imported into NVivo 8, where the data was analysed into nodes using conventional content analysis. These nodes were derived directly from the data. The interviews did not follow a pre-determined course, but were unstructured. However, broad topics covered that are relevant to this paper included the motivations for the stance taken in the comment letter sent to the AASB for ED 192; round-table participation or lack thereof, motives for involvement in the process; the nature of contact with other comment letter writers and interested parties; and future possible actions. A description of the data collected using this method is presented in Section 4.8, following on from a discussion of the survey, presented next in Section 4.7.

4.7 Survey

Description of respondents

Survey respondents identified themselves as belonging to one of three mutually exclusive groups. The first group consisted of users of financial statements of Australian *non-publicly accountable* entities[67]. The majority of survey respondents (97 or 65%) identified themselves as users of these reports. The remaining 51 respondents (35%) did not identify themselves as users of the reports of non-publicly accountable entities. Of these, one group of 27 respondents identified themselves as preparers or auditors of reports for these entities, and the other group of 24 respondents were neither users nor preparers or auditors of financial statements of non-publicly accountable entities.

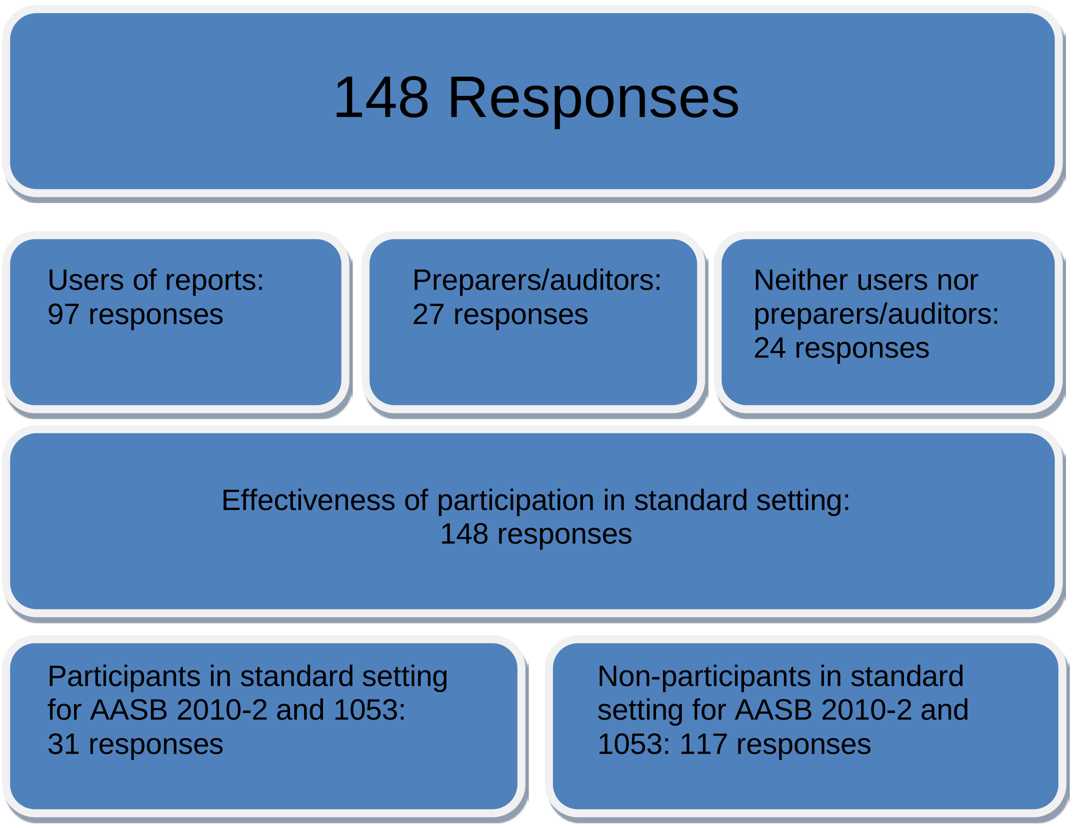
There were three major questions. The first question examined perceptions of effectiveness of different methods of participation in

[67]In the survey, non-publicly accountable entities were defined as excluding listed entities on the ASX or other exchanges, and entities that control other people's money, for example banks and mutual funds.

standard setting processes. This question was completed by all of the respondents. Based on their own classification, the respondents were then divided into two groups: those who had participated in standard setting relating to the development of AASB standards 2010-2 and 1053 (31 respondents) and those who had not participated (117 respondents). These two sub-groups were asked relevant questions based on their participation or non-participation in the development of these two standards, as described further in the next section.

Figure 4.1 summarises the flow of respondents through the survey, as described above.

Figure 4.1: Diagram of split of respondents



Discussion of survey findings

The questions in this survey were adapted from prior studies conducted by Georgiou (2002; 2004)[68]. The questions sought to examine the perceptions of respondents regarding the effectiveness of different methods of communicating their perspectives to the AASB. Their purpose was also to ascertain how participants in the process had communicated with the AASB in creating AASB 2010-2 and 1053, and the reasons non-participants had chosen not to take part. All respondents were asked to rate the effectiveness of different ways of participating in the AASB standard setting process. The findings from this question (Q19) are shown in Table 4.1.

[68]The questions were adapted to discuss the case of AASB 2010-2 and 1053 specifically, and to incorporate only those options which were available to prospective lobbyists in this case.

Table 4.1: Effectiveness of methods of participation

Does the specified method of participation have an effect on the final outcome in the AASB standard setting process? Select 'Don't Know' if you do not know whether a particular method of participation is effective or not.

Participation method	Ineffective: Number of respondents %	Effective: Number of respondents %	Don't know: Number of respondents %
Submitting comment letters in response to AASB's invitations to comment	13 (9%)	63 (43%)	72 (49%)[69]
Participating in AASB public round-table meetings	15 (10%)	57 (39%)	76 (51%)
Participating in field tests	5 (3%)	59 (40%)	84 (57%)
Communicating your view or your firm's views to AASB members in pre-arranged private meetings	14 (10%)	46 (31%)	88 (60%)
Communicating your view or your firm's views to AASB members through other means (e.g. telephone conversation, meeting at conferences)	26 (18%)	31 (21%)	91 (62%)
Communicating your view or your firm's views to AASB technical staff in pre-arranged private meetings	17 (12%)	41 (28%)	90 (61%)
Communicating your view or your firm's views to AASB technical staff through other means (e.g. telephone conversation, meeting at conferences)	21 (14%)	34 (23%)	93 (63%)
Commenting in the media	47 (32%)	24 (16%)	77 (52%)
Communicating your view or your firm's views to a professional or industry body at briefing sessions	19 (13%)	64 (43%)	65 (44%)
Communicating your view or your firm's views to a professional or industry body via letter or email	19 (13%)	65 (44%)	64 (43%)
Communicating your view or your firm's views directly to a representative of a professional or industry body	17 (12%)	63 (43%)	68 (46%)
Communicating your views or your firm's views to another party that you believed to be influential in the standard setting process.	10 (7%)	29 (20%)	109 (74%)

[69] Percentages may not add to 100 per cent due to rounding

The high level of ‘Don’t Know’ responses to this question (the majority in all cases) was expected from the prior literature[70]. This category also captured respondents who felt that the questions were not applicable to them[71]. Unfortunately, the high level of ‘Don’t Know’ responses also restricts the ability to use this data for meaningful cross-analysis in the other two questions.

Consistent with Georgiou (2004), those respondents who expressed an opinion believed that the most effective method of participation was via a professional or industry body, either via email, letter or direct communication. Comment letters to the AASB, participation in field tests and public round-tables were also judged to be effective. The least effective method identified by respondents was commenting in the media. Some respondents expressed the view that the AASB and the professional bodies were guilty of not listening, having their own agenda or desired outcome, and that localised standards were a waste of resources. For example:

> … the AASB have their own agenda and simply DO NOT LISTEN[72] to what is practical and what is used by financial institutions in assessing SME performance.

---

[70]See Section 4.3.
[71]The omission of a ‘Not Applicable’ column in this question was deliberate. The question sought respondents’ opinions on the different methods of participating in standard setting, whether applicable to them or not.
[72]Respondent’s emphasis

> Heavy reliance is placed on ICAA/CPA Australia to advocate what is best for its members.
> It is my belief that any request to communicate about standard-setting is irrelevant as the organisations involved have already decided what they intend doing irrespective of what accountants out in field might say.

> International standards should be adopted as national deliberations are a waste of resources.

The following two questions in the survey split respondents into those respondents (or their firms) who were 'involved in any way in the discussions that preceded this suite of standards' —the 'reduced disclosure regime', or AASB 2010-2 and 1053. There were 31 respondents who were involved in discussions preceding RDR in some way, and 117 respondents who were not. Table 4.2 shows the influencing factors selected by those respondents who had not participated in the development of the standard (Q21).

<u>Table 4.2: Reasons for not participating</u>

If you (or your firm) did not participate at all in the discussion preceding this suite of standards, tell us which factors of those listed below were relevant in your decision not to participate (multiple factors possible)

Factor	%	Freq
We are unaware of accounting standards in general	6	7
We lack the expertise to identify the impact of the proposed changes	20	23
No material impact of proposals on our company's financial statements	31	36
No material impact of proposals on our company's directors' and senior managers' compensation contracts	13	15
No material impact of proposals on our company's borrowing agreements	18	21
It was too costly to comment	10	12
No material impact of proposals on our client's financial statements	12	13
We did not believe that our comments would have had any effect on the AASB's position	38	44
We communicated our position directly to the AASB through other means	1	1
We believe that our professional or industry body adequately represented our position	46	54
We believe that our external auditors adequately represented our position	11	13
We were not aware of the AASB's proposals	14	16

While no single reason was selected by a majority of the sample, a large proportion of the respondents believed that their professional or industry body represented them adequately, and/or believed that their comments would not have influenced the AASB's decision. Inability to influence the AASB's position does not necessarily mean that a contrary position to that of the AASB is held by the respondent, as one possible reason for this response is agreement with the AASB's decision. However, it is possible that the opposite is also true, and this may reflect the frustration felt by constituents in respect of their ability to change the AASB's position.

The comments provided by those who selected the ‘Other’ option add insight to the reasons that the involvement in standard setting is low. The comments indicated lack of resources and time to prepare responses, as well as respondents who perceived that the changes were not relevant, or were immaterial or inapplicable to their entities. One respondent lamented the short exposure period:

> … not aware in time to comment. Limited resources in the sector and a lack of network contact to disseminate information meant we became aware too late to add anything.

Analysis of this question from the perspective of users and non-users of these financial statements reveals that the most common choice of users was adequate representation by their professional body (51%). This option was also selected by 40 per cent of non-users. As expected, a similar number of non-users also reported that the impact of proposals on their company’s financial statements was not material (40%).

The responses to the third question in the survey completed by the 31 members of the sample who had participated in the development of AASB 2010-2 and AASB 1053 are shown in Table 4.3. These respondents were asked to indicate the methods that they used to participate and to add any reflections on this process (Q22).

Table 4.3: Methods of communication

Please select any of the methods presented below that you (or your firm) communicated your views on this suite of standards (multiple selections possible)

Participation method	%
Submitting comment letters in response to AASB's invitations to comment	58
Participating in AASB public round-table meetings	36
Participating in field tests	7
Communicating your view or your firm's views to AASB members in pre-arranged private meetings	10
Communicating your view or your firm's views to AASB members through other means (e.g. telephone conversation, meeting at conferences)	26
Communicating your view or your firm's views to AASB technical staff in pre-arranged private meetings	13
Communicating your view or your firm's views to AASB technical staff through other means (e.g. telephone conversation, meeting at conferences)	26
Commenting in the media	16
Communicating your view or your firm's views to a professional or industry body at briefing sessions	45
Communicating your view or your firm's views to a professional or industry body via letter or email	42
Communicating your view or your firm's views directly to a representative of a professional or industry body	39
Communicating your views or your firm's views to another party that you believed to be influential in the standard setting process.	26

The respondents who participated in the process had written comment letters in reply to the AASB's invitation to comment, and had also communicated with the professional and industry bodies (at briefing sessions, by letter or email and directly to a representative). Very few commented in the media or participated in field tests. The respondents also identified other methods of participation, including involvement in discussion groups held by professional bodies, representation to a senate enquiry, and direct approaches to regulators.

Open-ended comments (Q23) about involvement in the standard setting process displayed the respondents' views on Australia's lack of influence in the development of international standards, for example, '… [p]retty much a waste of time as IFRS is set by the IASB and influenced by the FASB. Australia has no real say'. Respondents also expressed views on the inability to have their opinions heard and valued, for example:

> I have a considered opinion based on years of working with non-disclosing reporting entities, but I'm a very small fish in a big pond!
>
> Unfortunately because we are regional based although well connected with large financial institutions our views did not seem to rate.

Finally, respondents commented on the motives of the standard setter and others involved in the process, for example:

> One wonders if the ever increasing burden placed on private companies created by standard setters is due to the fact it stimulates business for the accounting firms they have an interest in!
>
> Years of pain and frustration - you wouldn't believe it. And when they were finally convinced, it became **their** 'brilliant idea'.
>
> … hold the view that focus has been on large SME's and [probably understandably] really small entities especially not for profit clubs/associations have not been considered.

The majority (90%) of the 31 respondents who had participated in the standard setting process self-identified as users of reports for non-publicly accountable entities. Of these users of reports, 61 per cent had submitted comment letters, 46 per cent had communicated with one or more professional bodies (briefing sessions and email or letter), and 39 per cent had participated in an AASB public round-table meeting. An analysis of the comment letters regarding ED 192 reveals that the majority of the letters were addressed from accounting firms, professional bodies and other preparers of financial statements. This involvement in the process by self-identified ‘users’ of financial statements challenges the assertion that users are not involved in the process. Rather, it seems to suggest that commentators wear multiple hats[73] when participating in the process.

Georgiou (2004) found that comment letter writers also used other methods of lobbying. He observed that the comment letter writers are also more likely to use what he calls *indirect* methods of lobbying i.e. methods which do not directly engage with the standard setter, such as commenting in the media, or communicating ideas to professional bodies. In the cross tabulation analysis presented in Table 4.4 similar findings are shown. Participants in the process who did not write comment letters favoured communication via industry bodies (62% at briefing sessions,

[73]These respondents identified their current job titles as: partner, director, principal, CFO, head of reporting, head of research/technical director, audit and assurance manager or consultant, senior accountant, operations manager, writer of accounting textbooks and manager of financial reporting. This, and the distribution of the survey by two accounting professional bodies, suggests that many of them are also accountants.

46% via letter and email and 39% via a representative of the body). The majority of participants who wrote comment letters also attended the AASB's round-table sessions (56%) and communicated in other ways.

<u>Table 4.4: Cross tabulation analysis of response methods used by comment letter writers</u>

For participants in the standard setting process: Please select any of the methods presented below that you (or your firm) communicated your views on this suite of standards (multiple selections possible)

		Comment letter	
	Participation method	**Non-user N=13**	**User N=18**
Direct Methods	Participating in AASB public round-table meetings	8%	56%
	Participating in field tests	8%	6%
	Communicating your view or your firm's views to AASB members in pre-arranged private meetings	0%	17%
	Communicating your view or your firm's views to AASB members through other means (e.g. telephone conversation, meeting at conferences)	15%	33%
	Communicating your view or your firm's views to AASB technical staff in pre-arranged private meetings	0%	22%
	Communicating your view or your firm's views to AASB technical staff through other means (e.g. telephone conversation, meeting at conferences)	15%	33%
	Commenting in the media	0%	28%
Indirect Methods	Communicating your view or your firm's views to a professional or industry body at briefing sessions	62%	33%
	Communicating your view or your firm's views to a professional or industry body via letter or email	46%	39%
	Communicating your view or your firm's views directly to a representative of a professional or industry body	39%	39%
	Communicating your views or your firm's views to another party that you believed to be influential in the standard setting process.	15%	33%

The study finds that many respondents were uninformed or uninvolved in the standard setting process for the reduced disclosure reporting standard in Australia. Further, it finds that the respondents believe that the most effective method of participation is via a professional or industry body, with the next most effective method comment letters to the AASB. Effective representation by professional bodies is also cited as the most common reason for non-participation in the process, as well as a perceived inability to affect the AASB's position by participating. These findings correspond with Georgiou (2002; 2004) and emphasise the important role played by professional bodies in the standard setting process.

Respondents who participated in the process used a variety of communication methods; however, the most frequent were the writing of comment letters and representations to their professional bodies. Many also participated in the two round-table sessions held by the AASB. To understand whether participants believed that their participation in this standard setting process was effective, comment letter writers and standard setters were interviewed. The findings from these interviews are discussed in Section 4.8.

4.8 Interview findings

The survey highlighted the importance of those involved in the standard setting process as representatives of those who were not involved, and their participation and motivations were therefore further examined via interviews with ten writers of comment letters in response to ED 192. They were interviewed to obtain their views on the effectiveness of the round-table sessions, their discussions and collaboration with one another, and the motivation and effectiveness of their participation as a whole. In addition, two members of the AASB were interviewed. These face to face interviews were conducted in 2011, after the release of the RDR, in Sydney and Melbourne. Most interviews lasted, on average, for one and a half hours.[74]

Round-table sessions[75]

The AASB advertised and held two round-table meetings in March 2010, one in Sydney and the other in Melbourne, after the end of the discussion period for the Exposure Draft. These round-table meetings were well attended, by representatives who were 'mostly from the big end of town and accounting bodies' (P8), although there was an unusually high level of interest – there were 'different people in the room and a lot of people in the room' (P6) and there were 'a few people in the room that wouldn't normally come and watch a round-table' (P6). According to P12, 'the one on ED 192 was full, which shows that there is interest in this topic'. Interviewees were asked about their participation in these round-tables.

Participants reported that the two round-table meetings were very different in terms of atmosphere: 'If you'd gone to the Melbourne round-table, you

[74]See Section 4.6 for further information regarding the selection of interviewees.
[75]These round-table meetings were organised by the AASB to hear comments on ED 192. They were attended by a number of the interviewees. This section explores their perceptions.

would’ve got a completely different picture … where Sydney was quite lively and divided, Melbourne was the other way’ (P7). While the Sydney round-table meeting was described as ‘angsty’, and ‘hijacked’ by some members who did not allow the others to speak (P4), there was support for the use of round-table meetings from the participants. In particular, round-tables allow for testing and refining the ideas expressed in comment letters (P8): ‘In a sense I think there has to be a bit more weight on it, wouldn’t deny the discussion, face-to-face discussion is interactive if you get to explore the views’ (P7). In addition, new perspectives might be explored or elaborated upon in these sessions ‘things do come out in the round-tables that don’t come out in the submissions’ (P7). Round-tables also allow those with competing opinions to be heard, and to hear, and perhaps be persuaded by, other perspectives. As commented by one interviewee (P9):

> It’s important for people to have the opportunity to sit there and have a discussion, and to see other people’s points of view as well, face to face, eyeball to eyeball, rather than have a situation where you hear about things … third hand, on the phone.

This interaction between stakeholders therefore supplements the perspectives expressed in comment letters, which are ‘one-way traffic to the standard setter without further possibility of explanation’ (P9), and are often exaggerated to make a particular point (P4).

The interview participants' perspectives on the success or failure of the round-table meetings were divergent. This standard was hotly debated, so this is not an unexpected outcome: 'I've seen a number of debates like this in the past … you've got competing views and they go on forever and as soon as one is selected it disappears' (P7). Some of the participants felt that they were not listened to – '… the AASB will do what they want to do' (P3) – or that their perspectives were not considered to be important: '[i]n terms of the data that we presented … I don't say that they were dismissive of it but they wanted to get to the user' (P10). One interviewee identified the Sydney round-table meeting as a significant turning point in the deliberations on the new standard:

> … there was a classical point in that development where [individual identified] sort of interjected and said … 'we're not arguing against [the] RDR … we want the option of SMEs'. Well the opposition lost the debate at that point (P7).

In terms of whether the round-table sessions thus described satisfy the need to incorporate the interests of the decision-making public is not clear from the interviewees' comments. In this case, the interviewees' perception that there was a wider range of participants in the round-tables than is common might suggest that a wider range of views could be expressed. This is countered by the perception of the discussion being 'hijacked' by lobbyists with specific intentions and by the perception of some participants that the outcome was predetermined. The opportunity to express an opinion in an open forum is particularly important when there is evidence that comment letter writers discuss and refine their positions together, and may only express elements on which consensus can be reached in joint written submissions. This notion is explored in the next section.

Evidence of cooperation and discussion between stakeholders

The standard setting process offers opportunities for free debate and the expression of as many different views as possible, either by consultation with the standard setters, or via comment letters or round-table sessions. Participants in the process either dilute their representations to standard setters in order to reach consensus from divergent views, or allow the standard setter to learn from the diverse opinions expressed by multiple commentators where consensus cannot be reached. Many comment letters come from professional bodies, government bodies and church organisations. As found in the survey results, many respondents rely on these organisations to represent them fairly and well; however, these organisations have the views of a diverse membership to represent. For many, it is in their interest to be seen to be acting *in the public interest* – 'There's a leadership aspect as far as public interest. It's a balancing act.' (P6) – which is not always easy to disassemble from the multitude of self-serving positions held by members. In order to establish how participants' views were framed, enhanced or diluted by their interactions with other stakeholders, interviewees were asked about their interaction with other stakeholders.

Interviewees provided examples of how they were included in the discussions of other organisations and entities. For example, one interviewee mentioned a committee made up of members of one of the accounting professional bodies (P6):

> We take to that committee topics we think that will interest that committee and we use that as a means of getting input. That's a discussion group so it is fairly open.

At this committee, one of the aims is to 'encourage more different perspectives around the room' (P6). These collaborative events were corroborated by other interviewees, for example:

> … we had various discussion groups … we were getting feedback from those groups (P10).

> … get the big six together on the phone and talk about where everyone is at … actually the person in the company who's drafting the submission (P6).

> … even in Australia the big firms sit down certainly with [a professional body] and agree and give feedback into [their] submissions, so we almost have a double bite of the cherry (P1).

Cooperation and discussion is not only facilitated by professional and government organisations. There are other, inter-entity cooperative groupings as well. Interviewees commented on this with varying degrees of openness, for example:

> You know, there was a lot going on behind the scenes as well of course (P7).

> We hear the input of the technical accountants. We then balance that off with practising directors in the market (P11).

> We've got a number of our members that are on … the FRC, the overseeing body of the AASB (P11).

> It's funny, David Tweedie[76] is on record as saying he thinks there is a technical mafia among the large firms and that they all tend to consult with each other on a private basis, which does exist – there is an informal network (P12).

P4 commented on separate meetings organised by key and target groups, which were described as 'effective' and generating a 'high level of debate'. Other than these formal and informal groups, membership of which is normally by invitation, interviewees indicated that they sought feedback and interaction from other parties, particularly practising accountants (P9; P11) and elicited feedback via calls in newsletters and online: '… we

[76]Former Chairman of the IASB

actually go out … with a call for any expressions of interest. I'd have to say, quite frankly, you don't get a lot back.' (P11).

Different organisations, including the AASB, organised public forums at which this standard was discussed. These forums were attended by a variety of stakeholders, and stimulated discussion amongst participants: 'There's constant dialogue going … I must have done a dozen presentations or more to various financial reporting type conferences, and you have dialogue at every one of those' (P7). Stakeholders also had the opportunity for informal discussions with the AASB: 'we know a lot of the people down at the AASB anyway, so they often seek informal views anyway' (P5). In addition, the professional bodies collaborate or discuss their positions amongst themselves. Where possible, they try to present a unified front in their comment letters. This was not possible in this case, and the ICAA and CPA Australia (CPAA) submitted a joint comment letter while the NIA submitted their own.

While these cooperative discussion forums help stakeholders to form opinions that represent the views of their constituents, they have some shortfalls. In a situation where constituents disagree on fundamental perspectives, it is difficult for stakeholders to decide which view represents the public interest: 'This one was very hard because usually it's … will we follow the Big 4 or will we follow the small?' (P6). There is the potential that stakeholders might feel pressured to comment in a particular way, so that they don't alienate key constituents or clients. There is also the risk that submissions will become diluted through the need to represent a unified position in a comment letter: 'If a letter is written on an Exposure Draft (ED) by a group, then only those aspects that the whole group can reach consensus on are reported from a particular group' (P4). Because P4 is part of many groups, s/he is therefore involved in multiple submissions of differing lengths to EDs. P7 also commented on this potentially diluting phenomenon: 'I came away from [a conference on differential reporting] thinking, well [a firm] put submissions in as if they're monolithic in their view, but I couldn't see it.'

The publicly visible expression of much of this collaboration is found in the comment letters submitted in response to the ED, in newspaper articles, and in submissions to government committees. The next section explores the motives for lobbying expressed by interviewees, all of whom were involved in writing or receiving comment letters to ED 192.

Motives for lobbying

Evidence from the interviews suggests that the comment letter writers might have motives other than the advancement of public interest. This ED was proposing an Australia-specific standard as an alternative to IFRS for SMEs. The AASB had a choice to follow the international standard setter, or to blaze its own trail. This meant that any comments to the AASB on this ED could actually influence the outcome, as opposed to possibly informing the AASB submission to the IASB, as would be the case normally. '[T]his one is actually different, so there's a lot more reason to be engaged with the AASB, because we make the issue, whereas it's their decision to make' (P11). The discussions around the RDR were not straightforward – described as 'touchy' (P11) – and had two opposing sides – those supporting the RDR and those supporting IFRS for SMEs. As expressed by P1, 'In the case of RDR there was a horrible polarised split'. In this competitive environment, interviewees indicated different influences on involvement in the lobbying process. In this section, some of the motives expressed by interviewees for involvement in the process will be examined, including emphasis on a particular point in order to make the point or correct an erroneous assumption; being seen to take a stand; image building with clients or other stakeholders; or just participating in the political 'game'. The interviewees' comments on the 36 identical letters classified as comment letter #40 by the AASB are included in this investigation.

The interviews provide evidence that comment letter writers are motivated to overemphasise a particular point to give it prominence in the discussion. Comment letters express an opinion that is 'not a balanced view', and respond to the views presented by the AASB in their consultation paper which were ‘one-sided’ and where the ‘impact on all entities was not thought through’ (P4). This view was shared by P11, ‘The AASB represents their own views as a standard setter; they don’t represent the views of preparers’. The AASB’s normal practice is to collate the ED comments and make this collation public. This was not done for ITC 12, which preceded ED 192, and comment letter writers responded to what they perceived was a difference in conclusions drawn from ITC 12, reflected in ED 192 (P8). Interviewees also admitted to having to respond to their clients’ interests, which may govern whether or not they make a particular stand. For example, P5 commented, ‘I think in reality we have to give recognition of the fact that our clients will read this and so sometimes we might not take a view.’ In contrast, P8 suggested that the views represented by large accounting firms (‘the big end’) were broad, and incorporated the end-user of the financial statements. P8 elaborated that these large accounting firms have to listen to their clients, whose interests are diverse and are also users in their capacity as managers, on boards, and with interests in other organisations. This means that big end submissions are not narrow, and can represent the user view. Practical and business considerations also play a role in determining the content of the comment letter. P5 commented:

> Oftentimes our views are influenced by how are we going to audit it. So, if it's in recognition and measurement, how are we going to audit it …We'll also come at it from a conceptual – what do we think is the right thing to do, but we also know that there's – you well know these are going to end up on the

> public record. So we often do end up having an influence as to what are our clients going to say on it.

Merging those competing views can be difficult, however, as commented by P11:

> … this is quite an unusual submission for us in that it has been reviewed at every possible level of the organisation. Having said that, it is extraordinarily difficult, and if we put it out to [our stakeholders] right now, I still think we would get huge division. So I'm not saying that this is a unanimous view. This is a line of best fit.

Such comments reflect the views of those interviewees who believed that there might be some impact from the process of writing comment letters. There were some letters written by those who believed that the outcome was predetermined, that the AASB was biased (P8) or that they had limited influence over the AASB (P11). The motives for engaging in this process of letter writing are less clear when the belief is held that this will not change the outcome of the process. A number of these organisations respond to multiple EDs annually, so it is possible that this event was simply another iteration of an expected, regularly performed task by informed technical staff. Some interviewees commented on the process as ‘a bit of a game’ (P8), ‘pure politics’ (P9) and admitted to ‘tak[ing] an extreme position to get movements’ (P4). This may be a necessary counter to the ‘appalling inertia’ of report users (P1), despite outreach to them from the comment letter writers. As P1 commented: ‘We tried to get feedback mechanisms from our users, from our SMEs, encouraged them…. [We] urged SMEs to make submissions’. Some would interpret this lack of feedback from report users as an indication that there was no problem to begin with. P8 stated, ‘The experience in Australia with non-reporting entities that haven’t been adopting recognition and measurement, there’s been, “where’s the complaints coming from?” They have been singularly absent’.

Another motivation for engaging in this process could be to gain authority or lobby for position in the accounting industry. This is commented on by interviewees from the perspective of the AASB using the RDR to position itself internationally as a standard setter. They also commented on their position relative to their clients and the industry in general. As far as the AASB’s positioning is concerned, P1 commented, ‘Is the RDR from an IFRS perspective actually quite a constructive sensible “wave the Australian flag” initiative? It is.’ P9 added:

> There are broader questions of sovereignty of the Parliament and law making, but also broader questions of Australia’s capacity to influence. You become submissive to the level that some people suggest we ought to, and you then put yourself in a position where you become irrelevant. …There may be an element of self-preservation in there.

As far as positioning oneself or one's firm through lobbying via comment letters, the interviewees commented on the visibility of publicly available comment letters. For example, P1 stated, 'There is a positioning element … We want to be seen as the common sense versus ivory tower', and elaborated, 'There's a political element of it. We want to be seen to be the ones having empathy'.

The motives of the 36 comment letter writers who sent identical emails supporting IFRS for SMEs in response to a letter-writing campaign are not known. The AASB batched these letters together into one document on their website. They were also dismissed by some interviewees, for example: 'letter writing campaigns [don't] work because … they all look exactly the same.' (P1). In contrast, others defended them vehemently. For example, P11 expressed outrage at the perception that the AASB had discounted these emails:

> The fact that someone signs a letter saying, 'I agree with what they said,' doesn't mean that they're to be dismissed, which is what they did. … Well, that's outrageous. The fact that it's a form letter signed by individuals doesn't mean that the person doesn't believe it; it just means they're too busy or they don't have the technical where-with-all to do it themselves.

P12 supported this view, 'I remember [the AASB were] quite dismissive of those but I don't think [they] should have been because it showed that submissions were being received from people who don't normally make them, aren’t familiar with them, and therefore need a template to know how to make a submission’.

Despite the evidence of competing and often self-serving interests, it would be erroneous to exclude comments of the interviewees regarding their role in protecting the public interest. Many of them represent members or clients who are not as technically proficient as they are, and the interviewees indicated their awareness of their accountability to the public in general. For example, P2 commented,

> … our clients generally, and particularly in the SME space probably don't have a lot of strong views one way or another on the technical merits or conceptual merits of the proposals…. Where they do have strong views is on the cost and practical implications of the proposals … sometimes in our letters … on the difficulties of implementation and the cost of implementation, we will reflect some of those concerns.

P6 discussed the difficulty of deciding on a position in such a polarised debate, and concluded that sometimes the public interest overrides the opinions of key constituents. P2 also commented on their responsibility to expose potential problems for different industries:

> But if we hear a whole industry saying this is going to be really difficult for us because this is the way we work and this is what this is going to mean, we will sometimes reflect those and our letters may suggest that the Board do

> more testing or more outreach with that particular industry to try and find out the practical difficulties of implementing.

In trying to decide which position to adopt, P11 described the decision as a ‘line of best fit, trying to get to a least-damaging approach’. P11 elaborated further,

> We just don’t want people to be lumbered with something which … we don’t believe is going to help people, other than those who clip the ticket. And we saw a lot of people putting points of view forward who had a huge vested interest in it.

P9 reflected on a similar problem, ‘not only do you want to make sure you’re doing the right thing, but you want to be seen to be doing the right thing.’

The discussion above reflects the quandary of many of the comment letter writers. While many of them strive to act in what they believe is the public interest, they are also pressured to act in their own self-interest. If self-interest can be projected and perceived as being *in the public interest*, then the positions proposed by comment letter writers become more palatable to dissenting constituents they represent. This protection of their image appears to be an important consideration for comment letter writers.

Discerning the *true* interests of the public from competing representations should be less of a problem if the standard setter is completely unbiased and has no self-interest of its own. However, in this case it appears that some interviewees believed that the AASB had an agenda, motivated by its positioning internationally, or by its own perspective, which was not necessarily that of users or preparers of reports. We can see from the discussion that the AASB was lobbied via the comment letters and newspaper articles. P7 commented on the media coverage, ‘You would’ve seen the rhetoric that went on in the AFR [Australian Financial Review]; that battle that’s been going on’[77]. The short time frame from proposal to implementation of this standard cut short the consultation period and possibility for feedback from potential stakeholders, limiting the discussion to a few vocal interested parties. It is questionable whether the AASB allowed itself time to hear enough views to establish the public’s best interest. This will need to be determined by further study now that the changes have been partially implemented. The interviewee’s reflections on the outcome of the process, as discussed in the next section, elaborate this point further.

Comments on the outcome of the process

The interviewees, who were lobbyists in the process to arrive at the RDR standard, were asked for their opinions on the outcome of the process. Many expressed their opinions on the success or failure of their efforts in terms of their initial positions; that is how much ground they felt they had

[77]See Section 4.4 for a discussion of lobbying in the media

gained or lost in the final outcome. They used words like ‘lost’ and ‘won’. For example, P4 felt that the AASB had moved closer to the desired outcome and so ‘won’ their point. Others (for example, P1; P6; P10) reflected on the fact that only part of the initial ED 192 was implemented. There was no change to the reporting entity concept in AASB 2010-2 and 1053, for example. The implementation allowed for disclosure relief for reporting entities that were non-publicly accountable, as these did not have to report using full IFRS. This concession on the part of the AASB to delay, research and revisit the reporting entity debate was applauded by interviewees as a successful outcome of the lobbying process. For example, P1 commented, ‘We've only done the easy bit of it at the moment. … in stage one there were only winners and it was very difficult to stop a proposal where there are only winners’. P6 elaborated, ‘They’re doing research … and that’s what we wanted’. P10 agreed, ‘I think they were right in delaying their decision not to proceed with their proposal’. Although there were still interviewees commenting on ‘vested interests’ (P9), ‘an abusive process’ (P11), the haste with which the standard was produced – ‘It was going to happen, it was rushed to happen’ (P1) – and of parties being ‘used by the forces of darkness’ (P11), some also reflected that the AASB seemed to have listened to their issues. P10 said, ‘It seems like they did listen because they implemented it in such a way that it provides relief’.

In a case where the opinions were diametrically opposed, and in standard setting in general, the interviewees appear to concede that the AASB has a difficult task in accommodating all the different views. As reflected on by P2: ‘The preparers would always sort of say less is more … whereas the users always say more information, more disclosure, so it's always a difficult balancing act.’

4.9 Conclusions

In this study, an Australian-based standard setting case is investigated using a survey based on Georgiou’s studies (2002; 2004). The reasons why non-participants do not engage in this standard setting process are examined. This study also questions which lobbying methods are perceived to be effective and which methods are used by those who participate. In particular, this paper focuses on four research questions: 1) What was the perceived effectiveness of different methods of communicating with the AASB; 2) Did interest in ED 192 result in widespread participation by financial report users and accounting professionals directly or indirectly in the development of the standard?; 3) Did financial report users and accounting professionals not participate because they relied on others to represent them?; and 4) What were the motives and methods used by those who participated?

The survey findings support Georgiou (2002; 2004): the majority of respondents did not participate in the lobbying process. They did not participate because of a perception that they were well represented by their professional body or professionals (auditors, in this case) and because they believed there would be no difference in the outcome as a result of their participation. This paper also finds that a large percentage of the survey respondents do not know which methods of participation are effective and which are not. Survey respondents who did participate in lobbying during the standard setting process for the Australian differential reporting standard wrote comment letters and communicated their views to industry and professional bodies. They were motivated by a variety of factors, for example the perception that a political game was being played; resistance to the power of the AASB; the interests of clients; the belief that their participation would make a difference; high visibility as a player in the standard setting process; disappointment at the apparent inertia by accountants; and concern about costs and practical implementation. Clearly political as well as economic drivers are evident in the voices of the interviewees who expressed a variety of motives for writing comment letters to the AASB.

If, as claimed in the rhetoric of the IASB and AASB, the ‘public interest’ is to be served in the standard setting process, then the results of this exploratory study suggest that since the survey respondents admit to a lack of technical knowledge combined with a reliance on industry and professional bodies, the responsibility of reflecting the public interest transfers to those who do lobby or participate, and to the standard setter who adjudicates between competing views. The interviews and examination of the comments in the media suggest that the public interest is important to some lobbyists and does feature in their consideration of the alternatives. Further, it appears that it is important to some lobbyists to be seen to be acting in the public interest. However, this paper also presents evidence to support the conclusion that there is a promotion of self-interest and the interests of influential stakeholders and clients: Comment letter writers report interaction with one another in arriving at their conclusions, which could compromise or dilute the diversity of standpoints reflected in the letters. Certainly, there is potential for private interests to be promoted at the expense of public interests in arriving at a compromised position. There is also evidence of a schism dividing stakeholders into two camps: those in support of the RDR proposed by the AASB and those in favour of IFRS for SMEs, at least as an option. It is unclear as to whether the promotion of either of these options by participants results from self-interest or is in the public interest. For example, it is preferable from a cost-benefit perspective that the financial statements of wholly owned subsidiaries use the same measurement and recognition principles as their parent company, thus favouring the RDR, but how specifically does this promote the interests of users of these financial statements (if, indeed, any exist)?

Notwithstanding the fact that the IASB conducted consultation and research into the requirements of the public when drafting IFRS for SMEs, and the AASB called for engagement with the users of Australian financial statements when drafting the RDR, this paper questions the notion of the 'public interest' as something which is possible to extract and defend when presented with a diversity of opinions. In this case, given the reliance on professional bodies to represent the interests of the users of the financial reports drafted in accordance with the standard, this paper also questions whether the design of the standard setting process is suited to extracting public interest, or merely acts as window dressing of due process.

This paper contributes to the literature by using two sources of data to determine the reasons for participation and non-participation in standard setting consultation. By incorporating interviews with the writers of comment letters for the first time, this study challenges the global accounting profession regarding its role in protecting the public interest in the face of user apathy and non-participation. The findings contribute to the extant literature by examining participation by stakeholders in the process of developing the standard. Findings from the research can be used to inform standard setters about the ineffectiveness of the current consultative process in encouraging wide participation, and the reasons for lack of engagement of major stakeholders in the SME sector.

Although there is evidence that those engaged in the process are wearing ‘multiple hats’ and are able to project the needs of their clients and themselves as users of reports, the standard setter is left with the unenviable task of trying to determine the line of best fit when adjudicating between mutually exclusive options. The line of best fit, which, by its nature includes compromises, will exclude the interests of some members of the public.

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4.11 Appendices

Appendix 4.1: Survey launch pad

The following information appeared on a web page on the Macquarie University website:

I am an accounting PhD student and I want to help make the reports that are produced for small and medium-sized entities (SMEs) as useful as possible. This short, completely anonymous survey will allow you to tell us what information you think should be on these financial reports in order to help you make decisions for your business or to help others using the reports prepared by you for your clients. It won't take you more than 10 minutes to do, and we need as many opinions as possible, so I hope you will spare the time to add yours.

Who am I? My name is Karen Handley (karen.handley@students.mq.edu.au] and I am a PhD Candidate in the Department of Accounting and Finance at Macquarie University.

Who are my supervisors? Associate Professors Sue Wright [sue.wright@mq.edu.au, Ph:(02)9850-8521] and Elaine Evans [elaine.evans@ mq.edu.au, Ph:(02)9850-6477] of Macquarie University.

What will we do with what we find out? The results of this survey will be aggregated and reported in conferences and a journal article. This will make the results available to accounting professionals and standards setters who can change reporting standards.

How will we treat the information you provide? We have been careful to ensure that we can't identify you from your responses. This means that any data you provide will be treated with complete anonymity and will be made directly available to the researchers only. We will only present results in aggregated form in publications and submissions. If you want to be notified when the results appear in print, please email me at karen.handley@students.mq.edu.au.

What about ethics? The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through the Director, Research Ethics (telephone 9850 7854; email ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

Thank you very much for your help and time in completing this survey.

Click here to take the survey.

https://www.surveymonkey.com/s/WWV8DSY

Appendix 4.2: The survey questionnaire

A paper rendition of an extract from the online survey instrument appears in pages which follow.

Reporting for Non-Publicly Accountable Entities

THANK YOU VERY MUCH for your help and time in completing this survey. The whole survey should not take more than 15 minutes to complete.

1. What is your current job title?

For this survey, we are interested in the reports of Australian entities that are "non-publicly accountable". This EXCLUDES listed entities (on the ASX or other stock exchanges) and entities that control other people's money, for example banks and mutual funds.

2. Do you use the financial statements of the type of Australian entity described as "non-publicly accountable" above (other than your own business) at any time for any purpose?

☐ Yes:
Please go to Question 4

☐ No

3. Do you prepare or audit financial statements for Australian entities that are "non-publicly accountable" for your own entity or on behalf of a client?

☐ Yes

☐ No:
Please go to Question 6

4. Which of the following reasons below best fits your latest use of financial statements? Please select one option only.

- ☐ It is part of my regular function at work (please indicate your work function in the box below)
- ☐ I am using it in a professional capacity on behalf of a client (please indicate your profession in the box below)
- ☐ I am using the information for my private or personal use
- ☐ Other source (please provide us with some details in the box below)

Please provide details as requested above:

5. From which point of view did you look at the latest financial statements? Select one of the options on this list.

- ☐ Private investor
- ☐ Current shareholder
- ☐ Potential shareholder
- ☐ As a potential purchaser of the entity
- ☐ Institution granting credit
- ☐ Institution not granting credit
- ☐ Supplier
- ☐ Leasing company
- ☐ Insurance company
- ☐ Another creditor
- ☐ Customer
- ☐ Employee
- ☐ Member of a Trade Union
- ☐ Member of the Board of Directors
- ☐ Subsidiary company
- ☐ Competitor
- ☐ Regulator
- ☐ Tax office
- ☐ Consultant
- ☐ Journalist
- ☐ Student
- ☐ Academic researcher
- ☐ Auditor
- ☐ A government agency not shown in this list (please provide details below)
- ☐ In some other role? Please specify in the box below

Please provide any additional information requested above:

[Questions 7-18 have been deleted as they are not reported in this thesis]

THE QUESTIONS THAT FOLLOW RELATE TO THE STANDARDS SETTING PROCESS ITSELF.

We are interested in how involved you have been in the creation of accounting standards for SMEs.

In June 2010, the Australian Accounting Standards Board (AASB) released a new suite of accounting standards for non-publicly accountable reporting entities. These standards are commonly known as the "reduced disclosure regime". We are interested in your opinions of the process followed to finalise the reduced disclosure regime, and on your involvement in the process, if any.

The questions below relate to the methods by which you or your firm may participate in the AASB standard setting process.

19. Whether you have participated or not, please rate the effectiveness of each way of participating in the AASB standard-setting process suggested below.

Indicate if you believe the specified method of participation has an effect on the final outcome of the process ("Effective") or not ("Ineffective"). Select "Don't Know" if you do not know whether a particular method of participation is effective or not.

	Ineffective	Effective	Don't Know
Submitting comment letters in response to AASB's invitation to comment			
Participating in AASB public round-table meetings			
Participating in field tests			
Communicating your view or your firm's views to AASB members in pre-arranged private meetings			
Communicating your view or your firm's views to AASB members through other means (e.g. telephone conversation, meeting at conferences)			
Communicating your view or your firm's views to AASB technical staff in pre-arranged private meetings			
Communicating your view or your firm's views to AASB technical staff through other means (e.g. telephone conversation, meeting at conferences)			
Commenting in the media			
Communicating your view or your firm's views to a professional or industry body at briefing sessions			
Communicating your view or your firm's views to a professional or industry body via letter or email			
Communicating your view or your firm's views directly to representative of a professional or industry body			
Communicating your view or your firm's views to another party that you believed to be influential in the standard setting process. In the box below, specify (without identifying the individual) the nature of this contact			

Additional comments

20. The Australian Accounting Standards Board (AASB) recently released two standards (AASB 20102 and AASB 1053) which allow reduced disclosure reporting for some entities. These are commonly referred to as the "reduced disclosure regime". Were you (or your firm) involved in ANY way in the discussions that preceded this suite of standards (for example, in person, by letter, or via a third party)?

☐ Yes

☐ No

21. The AASB recently released a suite of reduced disclosure standards (AASB 20102 and AASB 1053). If you (or your firm) did not participate at all in the discussion preceding this suite of standards, tell us which factors of those listed below were relevant to your decision NOT TO PARTICIPATE? (You may select as many factors as are relevant)

- ☐ We are unaware of accounting standards in general
- ☐ We lack the expertise to identify the impact of proposed changes
- ☐ No material impact of proposals on our company's financial statements
- ☐ No material impact of proposals on our company's directors' and senior managers' compensation contracts
- ☐ No material impact of proposals on our company's borrowing arrangements
- ☐ It was too costly to comment
- ☐ No material impact of proposals on our client's financial statements
- ☐ We did not believe that our comments would have had any effect on the AASB's position
- ☐ We communicated our position directly to the AASB through other means
- ☐ We believe that our professional or industry body adequately represented our position
- ☐ We believe that our external auditors adequately represented our position
- ☐ We were not aware of the AASB's proposals
- ☐ Other

22. The AASB recently released a suite of reduced disclosure standards (AASB 20102 and AASB 1053). Please select any of the methods presented below that you (or your firm) communicated your views on this suite of standards (you may select as many options as are valid).

☐ Submitting comment letters in response to AASB's invitation to comment

☐ Participating in AASB public round-table meetings

☐ Participating in field tests

☐ Communicating your view or your firm's views to AASB members in pre-arranged private meetings

☐ Communicating your view or your firm's views to AASB members through other means (e.g. telephone conversation, meeting at conferences)

☐ Communicating your view or your firm's views to AASB technical staff in pre-arranged private meetings

☐ Communicating your view or your firm's views to AASB technical staff through other means (e.g. telephone conversation, meeting at conferences)

☐ Commenting in the media

☐ Communicating your view or your firm's views to a professional or industry body at briefing sessions

☐ Communicating your view or your firm's views to a professional or industry body via letter or email

☐ Communicating your view or your firm's views directly to a representative of a professional or industry body

☐ Communicating your view or your firm's views to another party that you believed to be influential in the standard setting process. In the box below, specify (without identifying the individual) the nature of this contact

Are there any other methods not listed above that you may have used?

23. Do you have anything extra you would like to tell us about your involvement in the standard setting process? (Optional)

24. Thank you for your participation in this survey.

As a sign of my appreciation for your participation, I will be doing a random draw to win one of three bottles of Hardy's "Thomas Hardy" 2001 Cabernet Sauvignon. If you wish to be entered into this draw, please provide us with your email address. Email addresses will not be distributed to any outside parties, nor will your responses be identified by them in any way.

(Optional press "Done" if you decide to skip this step. However, you cannot be entered in the draw without an email address to contact you.)

I would like to acknowledge the support of a research grant from the Institute of Chartered Accountants in Australia (ICAA). I also gratefully acknowledge the support from the ICAA, the National Institute of Accountants (NIA) and the Australian Institute of Company Directors (AICD) in distribution of this survey.

Some questions were adapted from other research studies. The references for these studies are:

COLE, V., BREESCH, D. & BRANSON, J. 2009. Are Users of Financial Statements of Publicly and Non-Publicly Traded Companies Different or Not? An Empirical Study, SSRN.

GEORGIOU, G. 2002. Corporate non-participation in the ASB standard-setting process. European Accounting Review, 11, 699- 722.

GEORGIOU, G. 2010. The IASB standard-setting process: Participation and perceptions of financial statement users. British Accounting Review, 42, 103-118.

Please press "Done" to end the survey. Your responses will be saved and you will not be able to change them.

Appendix 4.3: Interview request – Practitioner

Interview Topics

(a) Financial Statement Requirements

I have read your comment letter in response to Australian Accounting Standards Board (AASB) Consultation Document, IFRS for SMEs and the Exposure Draft 192. I am interested in the methods by which you arrived at your conclusions expressed in this letter. For example, how was emphasis placed on competing requirements, who do you think the recipients of these reports are, and what are their needs?

(b) User involvement in the standard setting process

Users of financial statements may have been involved in the process of finalising the differential reporting standard directly or indirectly. I would like to discover more about the ways in which you or your organisation might have been approached by potential recipients of the financial statements that will be produced using this standard.

(c) The differential reporting standard

In this section, I want to know about your role in the creation of the new standard.

Appendix 4.4: Interview request – Non-comment letter writer

Interview Topics

(a) Financial Statement Requirements

I am interested in your views on the IFRS for SMEs and the Exposure Draft 192, and the Reduced Differential Reporting framework embodied in AASB 2010-2 and AASB 1053. For example, who do you think the recipients of these reports are, and what are their needs?

(b) User involvement in the standard setting process

Users of financial statements may have been involved in the process of finalising the differential reporting standard directly or indirectly. I would like to discover more about the ways in which you or your organisation might have been approached by potential recipients of the financial statements that will be produced using this standard.

(c) The differential reporting standard

In this section, I want to know about your role in the creation of the new standard, if any. I am interested to find out whether you expressed your views on this standard to anyone during the development process and what the outcome was of this approach.

Interview approach

Potential interviewees were provided the general topic information provided in this Appendix and Appendix 4.3, depending on whether the interviewee was a comment letter writer or not. The interviews were semi-structured: At the outset, comment letter writers were asked to comment on their letter, and specific questions were raised by the interviewers relating to the positions taken in each letter. Where necessary, interviewees were asked to clarify certain points. Interviews then moved on to a number of different areas, including (but not limited to): their involvement in round-table meetings, and perceptions of the process, if they attended; any collaboration they had with other parties; any involvement from clients or members, as appropriate, that was sought, and how this served to influence their comment letter, if at all; their perceptions on the process and whether or not they felt their opinions had been heard or considered by the AASB; and in some cases, more technical information was sought – for example, about grandfathered entities, and how these would be impacted. All the interviews were structured appropriately depending on the input from the interviewee. However, in all cases, the required information was requested as appropriate.

Appendix 4.5: Ethics Approval

MACQUARIE UNIVERSITY

Research Office
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Phone **+61 (0)2 9850 8612**
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16 November 2010

Dr. Susan Wright
Faculty of Business and Economics
Macquarie University, NSW 2109

Reference: 5201001383(D)

Dear Dr. Susan Wright

FINAL APPROVAL

Title of project: **Ethics application: Standards setting for Australian Small and Medium-Sized Entities (SMEs): What are user requirements and how were users involved in the creation of the differential reporting standards?**

Thank you for your recent correspondence. Your response has addressed the issues raised by the Human Research Ethics Committee and you may now commence your research. The following personnel are authorised to conduct this research:

Susan Wright - Chief Investigator/Supervisor
Karen Handley - Co-Investigator
Elaine Evans - Co-Investigator

Please note the following standard requirements of approval:

1. The approval of this project is **conditional** upon your continuing compliance with the *National Statement on Ethical Conduct in Human Research (2007)*.

2. Approval will be for a period of five (5 years) subject to the provision of annual reports. **Your first progress report is due on 16 November 2011.**

   If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report on the project.

   Progress Reports and Final Reports are available at the following website:
   http://www.research.mq.edu.au/researchers/ethics/human_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

4. Please notify the Committee of any amendment to the project.

5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that might affect continued ethical acceptability of the project.

6. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at: http://www.research.mq.edu.au/policy

HUMAN RESEARCH ETHICS COMMITTEE
MACQUARIE UNIVERSITY

http://www.research.mq.edu.au/researchers/ethics/human_ethics

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide Macquarie University's Research Grants Officer with a copy of this letter as soon as possible. The Research Grants Officer will not inform external funding agencies that you have final approval for your project and funds will not be released until the Research Grants Officer has received a copy of this final approval letter.

Yours sincerely

Dr Karolyn White
Director of Research Ethics
Chair, Human Research Ethics Committee

Chapter 5: Discussion and conclusions

5.1 Introduction

This thesis explores accounting standard setting using the case of a financial reporting standard for Australian non-publicly accountable entities. This context provides a rich and complex research platform, as it includes a movement to adopt an alternative to a standard provided by the International Accounting Standards Board (IASB), a short implementation phase and issues which are as yet unresolved. By means of three research papers, found in Chapters 2, 3, and 4, this thesis has examined two research questions. These research questions are:

1. What were the issues facing standard setters (particularly the Australian Accounting Standards Board (AASB)) in devising a financial reporting standard for the small and medium-sized entity (SME) sector?
2. What was the nature of lobbying for changes to a financial reporting standard for the SME sector by some stakeholders and the reasons for disengagement from this process by other stakeholders?

In addition, Research Question 1 generates a number of subsidiary themes, including the categories of users of non-publicly accountable entities and their requirements from the financial reports of these entities; compliance with standards and awareness of proposed changes to those standards amongst stakeholders; and the issues raised by stakeholders during consultation in the standard setting process.

This chapter continues with a brief summary of each of the three papers in Section 5.2. Section 5.3 draws conclusions from the thesis as a whole, relating these to the literature presented in the introduction. In Section 5.4, the limitations are discussed, as are some avenues for future research in this area. Finally, Section 5.5 contains the references for this chapter.

5.2 Overview and findings of individual papers

This section includes an overview of each of the papers in this thesis and the major findings of each, in turn.

Paper 1 (Chapter 2): Reporting for SMEs in Australia: Issues arising from commentators in a standard setting process

Comment letters written in response to the AASB's Invitation to Comment 12 (ITC 12) were analysed to identify the issues facing standard setters and preparers of financial reports when attempting to devise a standard specifically for the SME sector. Elbannan and McKinley's (2006) propositions were used to provide insight into increased participation in the standard setting process.

The analysis found evidence of support for the reporting entity concept as implemented in Australia, as well as its removal. There were also calls for more legislative clarification which would remove the ambiguity in understanding of the concept and from which differences in application might arise. Commentators expressed alarm at the additional costs that would be incurred by currently non-reporting entities required to produce General Purpose Financial Statements (GPFS) in the future.

In addition, the analysis found some support for the notion that all statements made publicly available should be GPFS, but this was countered by widespread resistance to this change. There was also concern expressed regarding the other thresholds that would trigger GPFS, like public availability, public accountability and size.

Commentators noted the requirement for disclosure relief for reporting entities using full International Financial Reporting Standards (IFRS) that were not publicly accountable. However, concerns were raised in the letters regarding wholly owned subsidiaries being required to use different measurement and recognition rules under IFRS for SMEs.

Further the findings identify users of SME reports, why these reports were used, and what information needs to be reported. Categories of users identified included employees, equity holders, creditors, members and philanthropic investors. Although there was little information in the letters about the purpose of these reports, some commentators believed that needs were well satisfied by Special Purpose Financial Statements (SPFS). There was a need for information about solvency and liquidity as well as some specific requests for fewer mandatory disclosures, historical cost measurement as an option, related party disclosures and accounting policy disclosure.

Finally, referring to Elbannan and McKinley's (2006) propositions to explain participation in standard setting, there is evidence to support the first four of their propositions. There was heightened participation because of the increased uncertainty that would arise with changes to the reporting entity concept; the increase in information processing requirements arising from entities having to produce GPFS that were previously only producing non-standard-compliant SPFS; changes to institutionalised financial reporting practice, particularly for preparers of financial statements now required to adapt to a new standard; and greater demand for the scarce resource of accountants actually qualified and trained to produce GPFS complying with IFRS or IFRS for SMEs.

Paper 2 (Chapter 3): Reporting for SMEs in Australia: The gap between standard setters and practitioners

Australian accounting practitioners were surveyed during the consultation period for the AASB's Exposure Draft 192 (ED 192) to explore the issues facing the standard setter regarding compliance of Australian entities with existing financial reporting standards, and the identity of recipients of financial statements. In addition, the levels of awareness and knowledge amongst responding Australian practitioners of the changes to standards proposed by the AASB were examined during the time allowed by the AASB for consultation.

The study finds that the majority of survey respondents had some knowledge of IFRS for SMEs and were willing to adopt it (particularly the case for accountants in public practice), but had lesser awareness of the AASB's alternative standard, the Reduced Disclosure Requirements (RDR) standard. Less than 50 per cent of the respondents were aware of ED 192 during the time available to comment on it. The paper also reports some compliance gaps, particularly with entities that declared themselves reporting entities but failed to use full IFRS. The most common standard used for SPFS was found to be full IFRS measurement and recognition with reduced disclosures. This is consistent with the option offered in the RDR for GPFS. Smaller entities reported SPFS using simplified measurement and recognition, with a large percentage reporting a complete absence of compliance with accounting standards.

Finally, the most commonly identified recipients or end users of financial statements were equity holders and management, banks and financial institutions, and a large number of distinct government bodies.

Paper 3 (Chapter 4): Adjudicating public and private interests in lobbying for the Australian Reduced Disclosure Requirements standard

This paper examines lobbying in the standard setting process, and explores the reasons for participation and non-participation and the perceived effectiveness of different methods of participation. Using a survey of 148 users and preparers or auditors of financial statements of Australian non-publicly accountable entities, and interviews with members of the AASB and ED 192 comment letter writers, this study sought evidence of public interest, self-interest and the promotion of private interests of stakeholders and clients in attempts to influence the AASB regarding the RDR standard.

The findings reveal that a majority of respondents did not participate actively in the development of this standard, perceiving that they were well represented by their professional body or auditors, and influenced by their perceived inability to change the outcome. The majority of participants were found to favour comment letters and communication with professional bodies as their preferred mode of participation. Participants' mixed motivations show political and power drivers, for example, game playing, resistance to the AASB's power and visibility. They also show genuine concern about the costs and benefits of the outcome.

This paper finds evidence of both concern for the public interest and promotion of self- and stakeholder-interests. It also presents evidence of interaction amongst comment letter writers and points to a schism which divides stakeholders into supporters of the RDR and supporters of IFRS for SMEs as an option.

5.3 Conclusions from the thesis as a whole

The process of setting standards involves more than just technical knowledge. It is one of reconciling parties with divergent views in such a way that the outcome is generally acceptable to the majority of stakeholders, and still satisfies the goal of producing decision-useful financial statements – in other words, it is a compromise. The process takes place within the constraints of very active lobbying by some interested parties (Tweedie, 2012) and complete silence from others whose involvement is warranted. Therefore, it is not surprising that when the AASB sought to introduce the RDR as an alternate standard to IFRS for SMEs, these political processes came into play. Within this context, this thesis provides evidence of issues that were not considered by the AASB in the determination of the standard, participation by some stakeholders pursuing both public and private interests and a lack of participation by others.

The findings of this thesis can be examined through a number of explanatory frameworks. According to Posner's (1974 p. 343) economic interest theory, 'people seek to advance their self-interest and do so rationally'. He contends that groups pursue their own private interests by lobbying regulators for legislation (or standards, in this case) that suit them, sometimes at the expense of others. This contention is also supported in Watts and Zimmerman's (1978 p. 113) positive theory of accounting which has at its core the fact that 'management lobbies on accounting standards based on its own self-interest'. The participants in the RDR debate displayed self-interested lobbying to protect their positions in the industry and to maintain client relationships.

Further, Posner elaborates that this pursuit of self-interest results in a requirement for regulation to correct market failures. In the case of the RDR, there are concerns that regulation is needed to correct the non-compliance with the reporting entity concept. In an efficient market, if there was a requirement in the market to produce IFRS-compliant GPFS, then non-publicly accountable entities would do so. The non-compliance in this case either signals an inefficient market which needs to be regulated, or the absence of users who require GPFS. This is at the heart of the debate around the removal of the reporting entity concept.

Self-interest extends to the standard setting body. There is evidence that the AASB is concerned about the public interest. The notions of public availability of financial statements, public accountability and size thresholds support this public interest perspective. However, while the AASB is meant to be independent and neutral, it is an organisation with its own goals and objectives which may conflict with the goals and interests of stakeholders at times. In the context of this thesis, the potential presence of self-interest arises through questioning the motivation for the proposed removal of the reporting entity concept (AASB, 2010a). Is it to remove the compliance issues that the AASB believes are rife in the marketplace (Boymal, 2007)?

ITC 12 contains evidence that the AASB, in their comments about subjective disclosure practices in industry resulting from the professional judgement of directors and auditors, believed that the reporting entity concept was flawed in practice. More interestingly, if the requirement to regulate arose from this flaw in the reporting entity, whose responsibility is it to regulate – the standard setter, or the Australian government?

Furthermore, why has this requirement not been fulfilled in the implementation of the RDR, which stopped short of the removal of the reporting entity concept? Perhaps the absence of an impact statement, and the subsequent research being conducted by the AASB before it proceeds with this change, signal the possibility that the AASB was not aware of the extent of the lack of compliance with standards prior to the consultation period for the RDR. This is consistent with Schiebel's (2008) findings in relation to the IASB.

Standard setting, while it calls for input from interested stakeholders, is not a democratic process. The standard setter has the final right to adjudicate between different options, which introduces a political element into the process and allows for lobbying from influential blocs of stakeholders. This identifies the AASB and these influential stakeholders as 'key agents of change' (Potter, 2005). As Gerboth (1973 p. 497) comments:

> In the face of conflict between competing interests, rationality as well as prudence lies not in seeking final answers, but rather in compromise – essentially a political process.

In this case, the AASB has chosen to diverge from a previously-held belief in universal accounting standards. In so doing, it establishes a permanent presence for itself as a standard maker, rather than a standard taker. Essentially, it avoids 'capture' by the IASB. The AASB's role as a standard maker will be further reinforced as a result of the three year window during which the IASB will not update IFRS for SMEs, even though there may be changes to IFRS[78]. As the RDR is a subset of IFRS, the AASB will be required to make decisions on the treatment of changes to IFRS in the RDR before the IASB is ready to rule on how these changes will affect IFRS for SMEs (see, for example, AASB, 2012c). The AASB will therefore be allowed to pre-empt the IASB's treatment of IFRS changes that could affect IFRS for SMEs in the future.

The AASB has justified its position on the RDR by the need to maintain IFRS 'transaction neutrality' embodied in the measurement and recognition principles of IFRS, rather than the altered principles of IFRS for SMEs. Resistance to this stance is evident in the submissions and interview comments. While the RDR satisfies the requirements of wholly-owned subsidiaries, is transaction neutrality clearly in the public interest for other non-publicly accountable entities? This prompts the question of whether the AASB is motivated by public interest to find the best fit for Australian non-publicly accountable entities, or by self interest in order to preserve its position as a standard setter? Alternatively, is the AASB considering both public and self-interest concurrently as it measures compromises designed to do the least possible damage while still delivering a good outcome?

[78]The IASB has commenced the first review with a call for information in June 2012. The closing date of this comment period is 30 November 2012 (AASB, 2012b).

Politics are also evident in the structure and execution of the consultations on this standard. The consultation process is controlled by a potentially self-interested party that is expected to rule in the public interest as if it is neutral i.e. the AASB. In this case, the AASB can be accused of manipulating: the timing of the release of the Exposure Draft and Consultation Paper (23 December 2010, which immediately precedes Christmas and the Australian summer holidays); the length of time to comment, which was relatively short; the questions under debate in the call for comment; and the number and execution of round-table sessions, the format of which followed the questions in the call for comment. There is evidence that the AASB had predetermined the outcome and the consultation period was merely a formality. The speed of its completion would support this contention. However, there also evidence that the consultation process had the effect of delaying the changes to the reporting entity pending further research by the AASB (AASB, 2010a).

Since the consultation process did not engage with all the stakeholders of these financial statements, the question remains as to whether there is a need to redesign these consultation processes designed for engagement with stakeholders of listed entities to reach the stakeholders of non-publicly accountable entities? This is further supported by the apparent pragmatic approach of smaller accounting firms who used a form letter to send 36 identical responses to ED 192, rather than compile their own individual letters.

Finally, the widespread disengagement of the user community, whom Young (2006) suggests standard setters identify as a ‘shadowy’ coherent group and whom Durocher and Gendron (2011) suggest to be a ‘docile group of actors’, is an issue. This thesis sought to bring these users out of the shadows by identifying them within categories. The research finds users identified as employees, equity holders or shareholders, creditors, members, philanthropic investors, management, directors, banks and other financial institutions, government entities, ASIC, ATO, leasing companies, Parliament, media and commentators, schools, insurance companies, unit holders of managed investment schemes, ASX, city councillors and ratepayers, corporate supporters and consultants. Unless the AASB can empirically determine the needs of these categories of users (Schiebel, 2008), the RDR will be criticised regarding costs and benefits associated with producing the financial statements, the ability of entities to provide decision-useful information and the fulfilment of stewardship and accountability requirements of the user fraternity.

In presenting these three papers on the standard setting process and financial reporting climate surrounding the development of a new accounting standard for non-publicly accountable entities in Australia, this thesis identifies the issues being debated at the time; provides original evidence of the reporting practices in place which gives rise to these issues; and a critical evaluation of participation in lobbying for changes to this standard. In the preceding discussion, a ‘multitude of factors’ (Potter, 2005 p. 276) have been examined relating to standard setting for Australian non-publicly accountable entities. These include resistance to changes to the reporting entity concept; evidence of non-compliance with existing accounting standards; concerns about additional costs arising from both extended application of standards and more onerous recognition and measurement principles in the RDR compared to IFRS for SMEs; lack of awareness and knowledge of this standard amongst those who were expected to comment on the change; reliance on professional accounting bodies by non-participants; evidence of game playing and self-interest amongst participants; and the AASB’s compromise of further research before it implements its desired solution.

Using a number of different data sources, notably, two surveys, comment letters, the media and personal interviews, this ‘multitude of factors’ is examined to reveal the ‘political, professional and social agendas of the actors involved’ (Potter, 2005 p. 276). This research is contemporary, as it precedes mandatory adoption of this standard, which is not until July 2013. In addition, elements of this research, most importantly changes to the reporting entity concept, are still undecided.

While this thesis focuses on an Australian standard commented on largely by an Australian business and professional community, the development of a financial reporting standard for Australian non-publicly accountable entities has implications beyond national borders. Many of the participants in this debate are members of larger, international communities, in the form of international accounting firms, informal groupings across firm boundaries and alignments with international professional bodies. In addition, many of them are considered ‘technical experts’ (Potter, 2005 p. 280) in the standard setting arena, and consult regularly with their international counterparts on the subject. The decision by the AASB to reject the IASB’s offering of IFRS for SMEs challenges these alliances.

5.4 Limitations and future research

The findings presented in this thesis are subject to a number of limitations, and also act as a precursor to future avenues of research. The aspect of this research which most limits the ability to generalise the results is the small sample sizes. The reason for this is because access to the members of the professional bodies is limited and controlled by the professional bodies themselves, and more targeted surveying is not possible using their membership databases. As a consequence, discussion of the survey results has been very clear to emphasise that they are not generalisable.

Another limitation is that targeting members of the professional bodies – notably the accounting professional bodies – excludes some users of financial statements who are not professionals or accountants. In addition, respondents classified themselves as users of financial statements. Given that the sample contained a large number of auditors, their use may not be representative of other users, whose views may be very different. For example, they may be less financially literate or familiar with accounting conventions. Further research should seek to target the users of these financial statements directly, possibly using professional polling firms to select and access samples. This would come at a cost, but would provide a much more inclusive sample.

Future research could also be undertaken to assess the training and continuing professional development needs of members of the professional accounting bodies relating to the RDR, in light of its imminent mandatory adoption.

Given that early-adopting entities have now had the opportunity to use the RDR, the knowledge of and demand for IFRS for SMEs may also have changed in the interim, which might have resolved the issues arising from the impediment of preferring IFRS for SMEs to the RDR.

As the AASB is still considering the role of the reporting entity concept and the application of the RDR in Australia, there is potential for more research to be done in this area. When the AASB releases the outcome of the research currently being conducted into the reporting practices in this sector using ASIC reports[79], there will be opportunity for academics to research the impact of changes to the scope of General Purpose Financial Statement reporting that may follow. In addition, should legislated size thresholds change as interviewees in this research indicated they might, this will have impact on those entities that are excluded from the need to comply with accounting standards. Research is limited in the arena of financial reporting that happens outside the scope of accounting standards, and will be even more important if the number of entities that fall outside the AASB's reach increases with changes in size thresholds.

The AASB could also undertake empirical research (Schiebel, 2008) into the nature and requirements of users of financial statements of non-publicly accountable entities. In assessing the impacts of the proposed changes to the reporting entity concept and changes to the RDR arising

[79]The AASB has commissioned research from Brad Potter and Peter Carey using ASIC data. The *Minutes of the 107th Meeting* of the AASB confirm that 'further research should be carried out on the impact of the ED 192 proposals on those entities currently preparing special purpose financial statements' (AASB, 2010a p. 4). According to an update released by the AASB in August 2012, progress has been made on this research: 'The thrust of the research is to profile the characteristics of lodging entities and their accounting policies with a view to shedding some light on (i) whether there is a consistency in the population of entities currently being treated as non-reporting entities; and (ii) the nature of the accounting policy choices being made by those entities' (AASB, 2012b p. 3).

from revisions to IFRS, the AASB could review the consultative processes to make them more inclusive of the wider stakeholder community. During the consultation period, additional time could be allowed for less sophisticated users to be informed about the ramifications of changes.

The AASB has still not completely resolved the issue of the reporting entity concept, and therefore the debate on differential reporting in Australia is not over. This implies a possibility that many of the issues discussed and analysed in this thesis will resurface in Australia in the near future, that lobbying the AASB will not cease, and that the best compromise in the public interest will again be questioned. It also means that there will be further opportunities for active research in this area, particularly as mandatory adoption of the RDR is imminent.

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