

15 November 2019

Ms K Peach  
Chair and CEO  
Australian Accounting Standards Board

Dear Ms Peach

**ED 295: GENERAL PURPOSE FINANCIAL STATEMENTS – SIMPLIFIED DISCLOSURES FOR FOR-PROFIT AND NOT-FOR-PROFIT TIER 2 ENTITIES**

I welcome the opportunity to provide comments on ED 295.

Overall, I am supportive of the proposals in ED 295.

There are 2 matters on which I wish to make comment:

**1. Materiality**

I understand that the Conceptual Framework states that information is material “if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting entity.”

As the Standard that ED 295 might become will be a stand-alone disclosure Standard for not-for-profit entities, and Tier 2 for-profit entities, I recommend that it include comments on materiality.

If this is not considered appropriate, given the way that the AASB has dealt with this in relation to other Standards, I suggest that some guidance be given within the Standard to alert people to the abovementioned information in the Conceptual Framework.

**2. Audit Fee Disclosures**

**(i) Reason for Disclosure**

BC 62 states that “This disclosure will assist in improving auditor independence and accountability...”.

I do not agree with this statement. I have seen no evidence that disclosure of audit fees makes any difference to independence or accountability of auditors. We have for many years had disclosure of audit fees, apparently for the abovementioned purpose. I’m not aware of any regulator asking a company to justify a significant reduction in audit fees from one year to the next. This appears to me to be evidence that the disclosures of audit fees have no bearing on independence.

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Directors are accountable to their shareholders, and others, and I have also seen no evidence that shareholders at Annual General Meetings or at other times question the level of audit fees.

I have been advised that an investor group has advised the AASB that they consider the information important. I'm not sure that this is sufficient for the AASB to require this disclosure.

The only people I have ever heard discuss disclosed audit fees are auditors using that information to prepare audit tenders.

**(ii) Materiality**

A question often arises as to whether the disclosure of audit fees is material information.

In my opinion, the discussion around materiality of audit fee disclosures is centred on the nature of the disclosure, rather than the quantum of the fees.

A preparer of financial reports must decide whether disclosure of audit fees is important information.

BC 62 as referred to above appears to give the AASB's opinion that disclosure of audit fees is important information. This is stated without any consideration of quantitative materiality considerations.

Does it therefore follow that a preparer of a financial report should never consider disclosure of audit fees immaterial, and therefore a financial report will not comply with Australian Accounting Standards if audit fees are not disclosed? Even if that is not the AASB's opinion, BC 62 certainly pushes people to think in that direction.

As noted above, in my opinion such disclosure is not material in many cases.

If the AASB considers that the disclosure is material, it follows that the AASB considers the disclosure to be material in almost all cases, if not all.

To alleviate the issues that will arise in relation to this matter I recommend that the AASB amend ED 295 to make clear its position on disclosure of audit fees. That is, if the AASB stands by BC 62 (notwithstanding the absence of evidence to support that opinion) the proposed Standard should make clear that materiality should not be considered in deciding whether or not audit fee disclosures are material.

If the AASB does not have that opinion, I suggest that it delete BC 62 and other similar information, and provide practical guidance to preparers on how to decide whether or not audit fee disclosures are required.

Alternatively, the AASB could remove the "requirement" to disclose audit fees from ED 295.

I am aware that my comments above on this matter might be considered equally relevant to Tier 1 Entities, and I would welcome the AASB's assistance for preparers of those financial reports in relation to this matter.

ED 295 particularly asked for comments on a number of items, and my comments on these are below:

**3. Overarching Principles**

I agree with the overarching principles on which the proposed Simplified Disclosures Standard is based and the methodology described in the ED.

**4. Replacement of current RDR framework**

I agree that these proposals should replace the current RDR framework, primarily as ED 295 has all disclosures in one Standard.

**5. Key Decisions and Judgements**

I agree with the key decisions and judgements, apart from:

- In relation to audit fee disclosures, as noted above.
- In relation to Business Combinations and Goodwill, I do not support the inclusion of a requirement to include a qualitative description of the factors that make up recognised Goodwill. In my opinion significant work is required in relation to goodwill generally (I do not understand why an amount paid to purchase future profits remains an asset after those profits have been earned, or not earned) and a decision on disclosures should be made after that.

**6. General Matters for Comment**

In my opinion, the proposals would result in financial statements that would be useful to users and the proposals are in the best interests of the Australian economy.

In relation to costs and benefits of the proposals, I do not consider that they will result in any significant costs. Many entities affected who are having their financial reports audited would already be complying with recognition and measurement requirements of Australian Accounting Standards, so, the proposals might change some disclosures, however I do not consider that this this will add a cost burden. Other organisations that are not complying with the recognition and measurement standards may have some additional cost, however for the entities of which I am aware this will not be a significant additional cost.

Should you wish to discuss any of these matters please do not hesitate to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read 'D K Swindells', written in a cursive style.

**D K Swindells**  
**Partner**