

# W.W.Vick & Co.

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Mr David Boymal  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street  
WEST VICTORIA 8007

**By email:** [standard@asb.com.au](mailto:standard@asb.com.au)

Dear Mr Boymal,

## **ITC12: Proposed Differential Reporting Regime IASB Exposure Draft of a Proposed IFRS for SME's**

We strongly object to the ITC that abolishes the Reporting Entity Concept and instead deems any Entity (whether public, private or not-for-profit) that is required to lodge a Financial Report on a public register (e.g. ASIC, Association Act) as preparing 'general purpose financial reports'. This is a major change in the financial reporting requirement in Australia that has applied since 1991 and is contrary to the best interest of the Australian economy for smaller enterprises.

Contrary to the view expressed by the Australian Accounting Standard Board (AASB) in the ITC, we believe that the current Reporting Entity requirements result in a proven superior and effective differential reporting system that appropriately reflects the balance between the costs and benefits of financial reporting in Australia.

We acknowledge that the reporting entity concept is not perfect but accounting by its very nature is subjective. In our opinion the definitions of a reporting entity should be enhanced to make it easier to decide whether an organisation is a reporting entity

A significant number of smaller entities are SMEs that are required to prepare Corporation Act financial reports either as Large Proprietary Companies; companies limited by guarantee such as registered clubs and derive none of the benefits of harmonised international accounting standards that are intended for companies that have users who require general purpose financial reports. In short IFRS was intended for listed companies to enable comparability on the international stage not for small Australian entities who surely just have an obligation to their members to report on their financial health and net asset position.

In particular the AASB's proposed application of IFRS for SMEs:

- (a) is contrary to the Government's policy of reducing red tape;
- (b) is contrary to the 96% of the record 184 submissions made to the AASB on ED 148 concerning the Reporting Entity Concept; and
- (c) is inconsistent with the IASB's application of the IFRS for SMEs ED that only applies to Reporting Entities which are producing 'general purpose financial reports' for which the IFRS for SMEs framework is designed for.

What small business sees are the ongoing red tape costs of compliance with complex standards which have no obvious relevance to them, and which adds unnecessarily to the burden of regulation.

Surely the AASB, as regulators of accounting standards in Australia, have an obligation to the end user of financial statements being the shareholders or members of an entity. In the case of not for profit organisations such as registered clubs or some smaller institutions of a charitable nature the members have always struggled to comprehend the basic concepts of double entry historical cost accounting. The added burden of preparing accounts using IFRS for SME's would only make it more confusing for them.

The additional cost involved in having their accounts prepared on the basis of IFRS for SME's would far out way any benefits which might be obtained. Smaller entities such as licensed clubs have always relied on their auditors to assist in preparing their final statutory accounts for presentation to their members. Following the introduction of the new force of law auditing standards this assistance is now not possible because of independence issues.

These smaller not for profit entities do not have the financial resources to employ further staff or contractors to conduct work which has been traditionally done by their auditors.

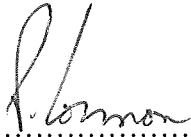
It is requested that the AABS seriously consider retaining the reporting entity concept which has worked well over the last 15 years. However we do support expanding the definition of a reporting entity to assist directors, management, auditors and even end users to better understand the difference between a general purpose report and a special purpose report.


Unfortunately it is our opinion that the AASB would find that most directors, management, staff and end users have never really understood the reporting entity concept and have relied on explanation and clarification from their auditors. Based on this premise how can it ever be expected for any of the user groups to understand and apply IFRS for SME's.

Mr Paul Connon of this firm attended the roundtable held in Sydney on 24 August 2007 and found it to be very informative, constructive and thought provoking.

It is hoped that the AASB will take heed of these discussions and other written submissions and retain the reporting entity concept in Australia.

Yours faithfully,  
**W W VICK & CO**

  
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Paul R Connon – Partner

  
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Peter P Vlahopol