



Australian Government

Australian Accounting Standards Board

Australian Financial Reporting Framework – NFP Private Sector Project Plan

Technical Director: Kala Kandiah

Technical Principal: Clark Anstis

Senior Project Manager: Fridrich Housa

Project Manager: James Barden



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AUTHORS

James Barden Project Manager 03 9617 7643

Fridrich Housa Senior Project Manager 03 9617 7618

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Commented [JB1]: Note to Board members:
Approval of the project plan to be recorded subject to the Board's decision.



TABLE OF CONTENTS

1	PROJECT PROPOSAL/EXECUTIVE SUMMARY.....	4
1.1	Overall objective of the project	4
1.2	status as at November 2019	4
1.3	Background.....	5
1.4	Key issues in current Financial Reporting regime.....	5
1.5	Relevant recommendations from ACNC legislative review	6
1.6	What additional evidence is needed and why?.....	6
1.7	Who are the impacted stakeholders and why?	7
2	OBJECTIVES AND PROJECT OUTCOMES	7
2.1	What are the objectives and outcomes of this project?.....	7
2.2	cross-cutting Projects.....	10
3	PROJECT TEAM AND RESPONSIBILITIES.....	12
3.1	WHAT SPECIALIST KNOWLEDGE IS REQUIRED AND HOW TO SOURCE IT?	12
3.2	What are the project reporting requirements?	13
4	Assumptions, risks & other considerations	14
4.1.1	Assumptions and constraints	14
4.1.2	What are the key project delivery risks?.....	14
4.1.3	Specific sector considerations (FP/NFP/Public or industry-specific).....	16
4.1.4	Relevant Standards, Legislation and Regulations	16
4.1.5	Interaction with IASB.....	16
4.1.6	Interaction with Australian Auditing Standards	17
4.1.7	Consideration of New Zealand Accounting Standards.....	17
4.1.8	Consideration of GFS (public sector entity projects).....	18
4.1.9	Consideration of IPSASB (public sector entity projects)	18
4.1.10	Other consideration – IFR4NPO.....	18
4.1.11	Other consideration – UK Charities SORP	18
5	PROJECT TIMELINE	20
5.1	When are the deliverables due?.....	20
5.1.1	Major milestones.....	20
6	STAKEHOLDER ENGAGEMENT AND COMMUNICATION	26
6.1	Stakeholder engagement	26
6.2	Communication	27

1 PROJECT PROPOSAL/EXECUTIVE SUMMARY

1.1 OVERALL OBJECTIVE OF THE PROJECT

The objective of the project is to lead the development of a simple, proportionate, consistent and transparent financial reporting framework for all not-for-profit (NFP) private sector entities in Australia.

Features of such a framework include:

- a single set of reporting thresholds for all Australian NFP private sector entities, backed by simple and objective criteria, developed in collaboration with other regulators
- simplified recognition and measurement accounting framework/s that are capable of being audited and enforced
- development of standards addressing service performance and other information integral to financial reporting in the NFP sector, such as remuneration reporting, fundraising, volunteer services, related parties to the extent justified by evidence

1.2 STATUS AS AT NOVEMBER 2019

The Board removed the NFP private sector from the scope of the proposals to remove SPFS in ITC 39¹ in September 2018.

In November 2018², the Board decided to begin consultation with NFP regulators and other stakeholders, and to propose the following tiers of financial reporting for discussion purposes:

- Top Tier: >10m revenue – prepare GPFS Tier 1
- Mid Tier: 1m to 10m revenue – prepare NZ Tier 3
- Bottom Tier: <1m revenue – prepare NZ Tier 4

The Board also supported enacting the Tiers through AASB 1053 if consultation indicated other regulators are comfortable with this.

Since then staff have been in contact with the ACNC, the Treasury, and the state-based consumer affairs regulators. Based on conversations, it appears that most stakeholders would prefer:

- Top Tier: >5m or 10m – GPFS Tier 2 (publicly accountable GPFS Tier 1)
- Middle Tier: >500k to 5m or 10m – Modified Accrual (NZ Tier 3 appears welcomed)
- Bottom Tier: <500k – AIS for ACNC-regulated, cash accounting for others (NZ Tier 4 appears welcomed)

Commented [JB2]: Question to the Board 1:
Is the Board comfortable to update its preferred option consistent with this, with discussion primarily focussed on whether the middle tier caps out at \$5m or \$10m?

¹ See [AASB News Alert](#) for more information

² Agenda Paper 10.1 was a private Board paper and hence is not linked. If Board members would like to be emailed a copy of the paper please contact staff.



1.3 BACKGROUND

In 2014 the FRC's Financial Reporting Taskforce published a report [Financial Reporting – Issues, Recommendations and Summary of Observations](#) from its investigation into Australia's financial reporting requirements. The report shows that the current financial reporting requirements for all sectors are complex. The Taskforce recommended that a new reporting framework is developed to define appropriate reporting requirements based on an entity's risk profile and public accountability and the likely users of an entity's financial reports.

Additionally, the reporting entity concept which is embedded in the Australian reporting framework in determining if entities prepare general purpose financial statements (GPFS) or special purpose financial statements (SPFS) has resulted in unsatisfactory outcomes based on the [AASB Research Report No. 1 Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements](#) published in 2014.

The Board decided to undertake a project to address FRC's recommendations, with that project now being split into three distinct pieces:

- Project 1 – Not-for-Profit Private Sector Financial Reporting Framework Reform
- Project 2 – For-Profit Private Sector Financial Reporting Framework Reform
- Project 3 – Public Sector Financial Reporting Framework Reform (applicable to for-profit and not-for-profit public sector entities other than WoG and GGS)

Project 1 and Project 3 are underway and addressed separately, this Project Plan is specific to Project 2.

For a history of decisions made in previous stages of the project see the [project summary](#).

1.4 KEY ISSUES IN CURRENT FINANCIAL REPORTING REGIME

[Research Report No.5 Financial Reporting Requirements Applicable to Charities](#), [AASB Discussion Paper Improving Financial Reporting for Charities](#) and [feedback from related outreach](#)³ outlined the following key issues:

- **duplication and inconsistency of regulatory requirements across different regulators**⁴ – there are diverse reporting requirements between ACNC and each state-based regulator
- **difficulties in determining financial reporting requirements** – the reporting entity concept is difficult to apply and similar entities often reaching different conclusions
- **lack of comparability, consistency and transparency between financial reports** – similar entities prepare very different financial reports, with some preparing self-assessed SPFS and some preparing GPFS. Further academic research⁵ identified that **only 26% of charities state compliance with the recognition and measurement (R&M) requirements** in Australian Accounting Standards (AAS), whilst 30% of charities state non-compliance with R&M. It is not clear whether or not the remaining 44% of charities apply all R&M.

³ See also [feedback from earlier outreach](#) in January 2016 identifying the same issues

⁴ See also [AASB Research Report No. 10 Legislative and Regulatory Financial Reporting Requirements](#)

⁵ See [AASB Research Report No. 11 Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities](#)

- **the cost of reporting in the sector is high** – the average burden on charities complying with ACNC requirements is approximately \$108k per annum. On the other hand, poor quality reporting has been found to result in a loss of trust, impacting income.
- **a perception there are few or no users of NFP private sector financial reports.** However, a common theme identified is that while donors and other users may not specifically look at the financial information of an entity, **there is an expectation that financial information is being looked at by ‘somebody’** (i.e. the regulator is acting as a ‘super user’). In addition, the financial statements of ACNC registered charities are available on the public record for free, so there may be many users that entities are unaware of.

In respect of the extent, **every charity registered with the ACNC has to prepare some type of financial information** – either a financial report in accordance with AAS or an Annual Information Statement. This leads to a much more diverse population of entities to set standards for, compared to less than 1.3% of economically significant entities in the for-profit private sector being required to publicly lodge financial statements with ASIC⁶. For this reason, unlike in the for-profit sector, a single framework of recognition and measurement requirements may not be sufficient to meet the varying level of resources, expertise and public interest in the NFP private sector.

1.5 RELEVANT RECOMMENDATIONS FROM ACNC LEGISLATIVE REVIEW

The *Australian Charities and Not-for-Profit Commission Act 2012* was subject to review in 2017, with findings presented in [Strengthening for Purpose: Australian Charities and Not-for-profits Commission Legislative Review 2018](#). The report recommends “further work be undertaken by the ACNC, AASB and AUASB, in consultation with the sector and other stakeholders, to consider further changes to the financial reporting framework for registered entities. Those changes could include but are not limited to:

- the possible removal of references to ‘special purpose financial statements’ from the ACNC Act;
- potential reporting in relation to fundraising and administration costs;
- potential reporting in relation to service/social performance;
- any necessary or desirable changes to, or clarifications regarding, the definition of ‘related party’ in the context of the sector (discussed below); and
- guidelines for the disclosure of remuneration paid to members of the governing board of a registered entity (i.e. responsible persons) and senior executives”.

The recommendations in the report are currently awaiting government response.

1.6 WHAT ADDITIONAL EVIDENCE IS NEEDED AND WHY?

A significant amount of research has already been completed to define the issue (see section 1.4 above). Staff do not propose any additional formal research. Rather, further evidence is proposed to be gathered via consultation on solutions to the issues, such as gathering views on user needs based on their feedback to proposals made by the AASB.

Commented [JB3]: Question to the Board 2:
Does the Board agree that no further academic evidence is needed at this time, and to instead gather further feedback on the proposals via outreach?

⁶ See [AASB ED 297](#) paragraph BC92

1.7 WHO ARE THE IMPACTED STAKEHOLDERS AND WHY?

Impacted stakeholder	Why?
NFP private sector regulators, primarily including ACNC, state-based consumer affairs commissioners and the Treasury.	Regulators of NFP entities
NFP private sector organisations	Preparers
Professional services firms, especially small-mid sized firms	Provide audit/assurance and accounting advice to NFP entities
Donors/users, including government grant donors	Users of NFP financial reports
Academics	To provide relevant insight from research and provide education upon completion

2 OBJECTIVES AND PROJECT OUTCOMES

2.1 WHAT ARE THE OBJECTIVES AND OUTCOMES OF THIS PROJECT?

The project is expected to have the following outcomes in order to satisfy the objective:

- **Project Outcome 1: Revisions of reporting thresholds defining the tiers of who needs to prepare financial statements** based on evidence-informed and objective criteria
- **Project Outcome 2: Establish reporting tiers and specify financial reporting requirements for each tier** proportionate to the resources and user needs of entities; capable of being assured and enforced.

The following table outlines the expected changes and benefits:

Issue	Changes expected	Expected benefits
<p><u>Reporting thresholds defining Tiers of financial reporting</u></p> <p>ACNC: <\$250k = Bottom tier \$250k-1m = Middle tier >\$1m+ = Top tier</p> <p>Other state-based regulators of non-charity: Diverse and varied – see AASB RR No. 5 & No. 10</p>	<p><u>Reporting thresholds defining Tiers of financial reporting</u></p> <p>Single set of financial reporting thresholds for all NFP private sector entities (ie streamlined tiers for ACNC and state-based regulators). Ideally located in each of the relevant pieces of legislation, however can be implemented through AASB 1053 (ie legislation identifies who has to prepare financial reports in accordance with accounting standards, then</p>	<p><u>Reporting thresholds defining Tiers of financial reporting</u></p> <ul style="list-style-type: none"> - Simpler to understand and determine when to report - More consistent level of reporting between entities of same size



Issue	Changes expected	Expected benefits
	accounting standard specifies the tiers of financial reporting. For eg entities with >\$250K revenue lodge with state regulator, but if less than say \$500k do cash accounting financial reports)	
<p><u>Financial reporting framework applicable to each tier</u></p> <p><u>ACNC:</u> Bottom = no financial statements, AIS only Middle = apply AAS incl. SAC 1 Top = apply AAS incl. SAC 1</p>	<p><u>Financial reporting framework applicable to each tier</u></p> <p>Removal of SAC 1 and ability to self-assess reporting requirements and prepare SPFS</p> <p>Development of simplified & proportionate financial reporting frameworks for entities smaller NFP private sector entities⁷.</p>	<p><u>Financial reporting framework applicable to each tier</u></p> <p>Higher quality reporting – all financial reports on public record would be some form of GPFS (or AIS) – user needs more appropriately met. Less judgement/risk required of preparers and auditors.</p> <p>Financial reporting frameworks more proportionate to resources and user needs of entities leading to cost savings. Significantly easier to understand. Also enhances enforceability.</p>

Urgency/importance?

Staff consider the urgency and importance of this project to be **‘high**. The reasons include:

- The issues identified above illustrate that stakeholder needs – both preparers and users – are not currently being met. Importance for preparers and/or preparation of SPFS may increase as a result of the first-time adoption of AASB 16 *Leases*
- The AASB should be advanced enough in its thinking to ensure timely input and action to the Government’s response to the ACNC Legislative Review – this is an important opportunity because given other regulators are discussing revising reporting thresholds, it is an extremely opportune time to also reform financial reporting requirements.
- Most of AASB’s substantial research on this project has been completed – delay of the finalisation could put the research findings at risk of a need to update
- Having the FP and NFP private sectors operating on two different conceptual frameworks and continuing to permit NFP private sector entities to continue to prepare SPFS, is not appropriate & sustainable outcome. As the IASB develops accounting standards based on the revised conceptual framework this would become increasingly difficult to maintain consistency (where required) given the existence of two conceptual frameworks.

⁷ Staff have compared options for simplified tiers in [Comparison of Standards for Smaller Entities](#)

What are the project milestones/deliverables?

The deliverables of the project are as follows. Details of the timing and proposed content of the deliverables is available in Section 5.

Milestone/deliverable 1: Targeted consultation materials to promote conversations with targeted stakeholders on options for tiers and financial reporting frameworks

Milestone/deliverable 2: Targeted outreach to determine an appropriate single option to propose in an Exposure Draft

Milestone/deliverable 3: Exposure Draft proposing a single option for the not-for-profit private sector for public comment

Milestone/deliverable 4: Public consultation on proposed option in Exposure Draft

Milestone/deliverable 5: Final pronouncement, including:

- Issuance of new accounting standards for bottom and middle tiers
- Amending standard to enact new tiers of reporting

Milestone/deliverable 6: Education materials

Link to AASB Strategic Objectives

#	Strategic Objective	Link to this project
1	Develop, issue and maintain principles-based, Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced. For 'publicly accountable' entities maintain IFRS compliance; for others, use IFRS Standards (where they exist), and transaction neutrality (modified as necessary), or develop Australian-specific standards and guidance.	Directly addressing. This project will consider, and develop if appropriate, Australian-specific standards/GPFS frameworks where evidence informs the Board that IFRS Standards and transaction neutrality do not meet the needs of users of certain NFP entities' financial reports.
2	With the AUASB, play a leading role in reshaping the Australian external reporting framework by working with the regulators to develop objective criteria on: <ul style="list-style-type: none"> • who prepares external reports (including financial reports) • the nature and extent of assurance required on these external reports. 	Directly addressing. The objective of this project is to implement this strategic objective in the NFP Private Sector.
3	Actively influence IASB, IPSASB standards and other international accounting and external reporting standards and guidance, by demonstrating thought leadership and enhancing key international relationships.	Indirectly addressing. This project will likely inform and/or influence the work of the IFR4NPOs Project.
4	Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.	Directly addressing. This project has to date, and will continue, to engage directly with stakeholders in the NFP sector.
5	Influence initiatives to develop standards and guidance that meet user needs for external	Directly addressing (potentially via sub-projects). This project will include the



	reporting integral to financial reporting.	consideration, and development of guidance on service performance information and remuneration reporting.
6	Monitor and respond to, or lead on, emerging issues impacting the development of accounting and external reporting standards, including changing technologies.	Not addressing.
7	Develop guidance and education initiatives, or promote development by others, to enhance the consistent application of accounting and external reporting standards and guidance.	Indirectly addressing. Expected that appropriate education initiatives will be considered depending on the outcome of the project, including working with academics to influence universities include NFP accounting requirements in their accounting course curriculums.
8	Build a high performing team that operates efficiently, effectively and within budget, complying with all relevant legislation and Commonwealth Government requirements	Indirectly addressing. Project will require high levels of cross-team engagement, including engaging external experts, given magnitude and subject matter knowledge required for sub-projects.

2.2 CROSS-CUTTING PROJECTS

Cross-cutting projects/other projects

Service Performance Reporting & Management Commentary

Service performance reporting has been noted as an important missing piece for users/donors. As noted above, the ACNC Legislative Review also recommended its development. As such, it seems complementary to a reform of the NFP financial reporting framework that the service performance reporting project runs alongside this framework project to effectively dovetail into the broader reform of the reporting framework. However, Staff consider this should not delay the underlying outcomes of revised tiers and frameworks of financial reporting – service performance reporting for large entities (ie top tier) can be finalised after the reform of the reporting tiers and framework. Noting that NZ Tiers 3 and 4 already include service performance reporting requirements already..

The Board's SPR project has been ongoing for several years. In 2015, the Board issued ED 270 *Service Performance Reporting*, which proposed a service performance reporting framework based off the IPSASB's non-mandatory guidance RPG 3 *Reporting Service Performance Information*. Feedback to that ED was support of the initiative, however identified concerns with the proposed framework, including concern that it may not be commensurate to other legislative reporting frameworks, such as the PGPA Act in the public sector.

In December 2016, the Board lowered the priority of the SPR project and deferred its redeliberation until an independent literature review was completed. That literature review is now in completion stages, expected publication Q1 2020.

The IASB is also revising its Practice Statement 1 *Management Commentary*. The outcome of that project could likely be an appropriate base for the way forward on Service Performance Reporting as there is now significant overlap – the key disclosures in management commentary are – entity purpose, strategies and business models to achieve purpose, outcomes of current year towards purpose, linking with financial outcomes.

Remuneration Reporting



The Board added a project on remuneration reporting to its work program following its last agenda consultation in May 2017. Remuneration reporting is particularly relevant to this project as, similarly to service performance reporting, the ACNC Legislative Review also recommended development of further guidance/ to require large registered entities disclose the remuneration paid to responsible persons and senior executives on an aggregated basis (recommendation 15).

Remuneration reporting is an important topic to be addressed, however staff do not consider it necessarily needs to be run concurrently to the reform of the framework. This is because:

- It will require support from other regulators, which could delay the AASB's work
- AASB 124 *Related Party Disclosures* does already require some disclosure of Key Management Personnel remuneration

Commented [JB4]: Question to the Board 5:
Does the Board agree that the remuneration reporting project does not necessarily need to run concurrently with this project?

Conceptual Framework – Amendments for NFP Entities

As a result of the intended adoption of the revised *Conceptual Framework for Financial Reporting* in Australia for NFP entities, the Board will be required to consider any modifications required to the new framework to reflect any NFP-specific concepts that should be included. Staff consider that this project would involve considering the modifications already made to the current *Framework for the Preparation and Presentation of Financial Statements*, and adapting and adding to those concepts based on analysis of the new framework.

Staff recommend that that project is completed prior to the revision of the financial reporting framework (this project), so that the revised framework is able to be adopted as part of the reform.

Commented [JB5]: Question to the Board 6:
Does the Board agree that the Conceptual Framework – Amendments for NFP Entities project should be run to similar timing as this project?
If yes, would the Board like Staff to bring a project proposal to the next Board meeting?

Definition of a Not-for-Profit Entity

The definition of a not-for-profit entity will affect the scope of the proposals in this project. Staff consider it important that the Board has finalised its deliberations on the definition of a not-for-profit entity prior to the completion of this project so as not to cause undue disruption to implementation. Further decisions related to the interaction of the two projects will be discussed as part of the definition of a not-for-profit entity project.

Fundraising

Following its agenda consultation in 2015, the Board added a project to its work program to develop a generally accepted definition of 'fundraising' and related disclosure requirements. This project was classified as low priority at the time for the Board and has not yet started.

Similar to remuneration reporting, fundraising is an important topic to be addressed, however staff do not consider it necessarily needs to be run concurrently to the reform of the framework. This is because it will require support from other regulators, which could delay the AASB's work.

Commented [JB6]: Question to the Board 7:
Does the Board agree that the fundraising project does not necessarily need to run concurrently with this project?

Volunteer Services

In developing AASB 1058 *Income of Not-for-Profit Entities*, the Board decided that the recognition of volunteer services would be optional for not-for-profit private sector entities, primarily as a short-term solution, in light of the considerable due process required to finalise any changes to the recognition of volunteer services that may have delayed the finalisation of AASB 1058 (see AASB 1058 BC111-BC112). Additionally, the Board decided not to require disclosure of an entity's dependence on volunteer services, so as not to pre-empt the outcomes of the Board's future Service Performance Reporting or Volunteer Services projects (see BC124).

Staff recommend that consideration of volunteer services may be complementary to reform of the NFP private sector framework, and as such recommend Staff develop a project proposal for the Board to consider the need/urgency further.

Commented [JB7]: Question to the Board 8:
Would the Board like staff to develop a project proposal to consider undertaking the volunteer services project foreshadowed in AASB 1058?

Concessionary leases

The Board provided a temporary exemption from the requirement for entities to recognise a right-of-use asset acquired in a concessionary lease at fair value upon initial recognition. That exemption was provided partially in anticipation of the Board's reform of the NFP private sector financial reporting framework (ie this project). The Board will be required to consider whether to provide permanent relief from this requirement, or whether to lift the temporary exemption before the finalisation of this project.

Commented [JB8]: Question to the Board 9:
Would the Board like staff to develop a project proposal to consider the temporary exemption for concessionary leases?

AASB 1058 Post-Implementation Review

In accordance with its due process, the Board will be required to undertake a post-implementation review of AASB 1058 in approximately 3 years time (ie two years after the standard has been applied). Outcomes of that Post-Implementation Review may identify additional changes that are required for the NFP private sector in respect of income recognition.

3 PROJECT TEAM AND RESPONSIBILITIES

Name(s)	Role	Responsibility
<i>Kala Kandiah</i>	Technical Director	<ul style="list-style-type: none"> Strategic and technical advice Reviewing Outreach with strategic stakeholders (eg other regulators, outreach events)
<i>Clark Anstis</i>	Technical Principal	<ul style="list-style-type: none"> Legal and technical review of amendments
<i>Fridrich Housa</i>	Senior Project Manager	<ul style="list-style-type: none"> Strategic and technical advice and/or recommendations Planning and resource oversight Reviewing Content expert Outreach with key stakeholders
James Barden	Project manager	<ul style="list-style-type: none"> Technical drafting and/or recommendations Project planning and management Content expert Outreach with all stakeholders

3.1 WHAT SPECIALIST KNOWLEDGE IS REQUIRED AND HOW TO SOURCE IT?

The AASB had a secondee from the ACNC to lead the development of the Research Report, Discussion Paper and related outreach. As such, considerable networks and legitimacy of the AASB's work has been built already. Staff do not recommend any further external consultants or secondees as the project moves into standard setting. However, expertise may be required

for the related sub-projects such as service performance reporting and fundraising (to be considered in those respective projects).

Advisory Panel/Group

Given the major changes and significant stakeholder interest, staff recommend forming an advisory group of practitioners, auditors, users and other stakeholders representing all sector, in particular the middle and lower tiers.

The Board currently has a Conceptual Framework Project Advisory Panel that has been used to consult on other financial reporting framework issues. Staff considered that a sub-panel could be created for interested panel members related to the NFP private sector, however, staff consider that that project advisory panel may not contain sufficient representations of the small/middle tiers. Staff further consider this in section 5 (including a question to the Board in that section).

3.2 WHAT ARE THE PROJECT REPORTING REQUIREMENTS?

Report name	Report Preparer(s)	Report Recipient(s)	Reporting Frequency
Project Management Status Reporting	Project Manager	Portfolio Management Team (Internal)	Fortnightly
Priorities and Work Program Reporting	Project Manager/Senior Project Manager	AASB Board	Each Board Meeting



4 ASSUMPTIONS, RISKS & OTHER CONSIDERATIONS

4.1.1 Assumptions and constraints

Assumptions made in this project plan are:

- The ACNC and other NFP private sector entities will agree on, and support, the proposals by the Board in respect of tiers and financial reporting framework
- The population of a middle tier would be significant enough to warrant a modified R&M framework
- Other NFP stakeholders, include preparers, professional services firms and users will view the reform as a positive outcome
- That there will be sufficient resources including funding for engagement of external consultants and experts to complete this project including the relevant sub-projects

Constraints of this project include:

- Timing of engagement and consultation with regulators not within AASB's control
- Getting in-principle agreement with regulators (ACNC and other regulators) could take time
- Limited data on the number and financial characteristics of non-ACNC regulated NFP entities

4.1.2 What are the key project delivery risks?

Risk	Risk assessment	Potential impacts	Mitigation strategy	Residual risk
Regulators do not come to an agreement on a preferred tier	High	The Board may have to make decisions without agreement of regulators	Regular and targeted consultation with other regulators	Moderate
Regulators disagree with the AASB's proposals	Moderate	The Board may have to change proposals significantly	Regular and targeted consultation with other regulators to understand and resolve issues	Low
Implementation of new tiers/framework viewed as adding red tape compared to SPFS	High	Reputational impact for AASB. Proposals may not be accepted on cost/benefit basis.	Demonstrate costs/benefit analysis; engage closely with stakeholders during outreach and understand potential costs	Moderate



Risk	Risk assessment	Potential impacts	Mitigation strategy	Residual risk
Sub-projects don't run to schedule	Moderate	Could delay the implementation of reform if sub-projects deemed integral. Otherwise, main project could still be finalised without finalisation of sub-project, eg remuneration reporting	Close monitoring of Board's program and re-allocating resources where needed	Low
Low engagement during outreach	Moderate	Issues may not be picked up early/only brought up at last minute causing delays	Build dedicated database and communicate strategy to gather interest	Low
Staff resourcing changeover	Low	Delays caused by handover activities	Stringent project planning and documentation for smooth handovers	Low
New tiers of financial reporting segmenting profession	Low	Some financial reporting accountants may only be skilled in NFP middle tier accounting if it is different from full R&M	Ensuring simplified tiers are not fundamentally divergent in their conceptual basis where possible	Low
Other regulators finalise ACNC legislative review without engaging AASB	Moderate	Could bring some changes premature to the Board finalising its proposals	Staying in contact and collaborating with Treasury/ACNC during Government's response	Low
Unexpected feedback/issues causing delay	High	More resourcing and/or time may be required to resolve and consult on solutions to issues – delaying project deadline	Wide and timely outreach on key proposals to understand issues early	Moderate
IFR4NPO (international NFP framework) preferred in Australia	High	AASB may be seen as 'rushing' and/or 'wasting time' with domestic standard-setting	Discuss option of IFR4NPO with other regulators to understand whether a preference in Australia	Low
Copyright over NZ Tiers 3 and Tier 4	Medium	The AASB would need to seek permission from the NZASB/XRB to use its copyright material.	Open conversations to seek permission early.	Low

4.1.3 Specific sector considerations (FP/NFP/Public or industry-specific)

This project addresses only the NFP Private Sector. Inherently there is a number of considerations that are relevant to consider during the project. This includes, but is not limited to:

- There are different users compared to the FP sector, and those users have different needs. Most importantly, it is understood there is a perception in the NFP sector that whilst not every donor looks at financial statements, they assume that *someone* (i.e. the regulator) has
- The population of entities is much more diverse than in the FP sector – see Section 2
- The sector has more limited resources, and prefer to expend their resources on their primary objectives as opposed to regulatory compliance

4.1.4 Relevant Standards, Legislation and Regulations

AASB Standards

Standard	Reason relevant
AASB 1053 <i>Application of Tiers of Australian Accounting Standards</i>	AASB 1053 sets out the current tiers of financial reporting. AASB 1053 will require amendment as a result of this project to set out the application of any new tiers of Australian Accounting Standards created as a result of this project.
AASB 1057 <i>Application of Australian Accounting Standards</i>	AASB 1057 will require amendment to clarify the application of the Australian Accounting Standards as a result of the changes to the framework.
SAC 1 <i>Definition of the Reporting Entity</i>	SAC 1 will be required to be amended or removed to remove the application of the reporting entity concept by NFP private sector entities.

ACNC Legislation

Legislation	Reason relevant
Australian Charities and Not-for-Profits Act 2012	May require amendment to enact revised thresholds for tiers of financial reporting, although not necessary if thresholds for tiers are to be enacted via AASB 1053; remove references to Special Purpose Financial Statements

Other legislation

Staff have identified over 25 other pieces of legislation that set out financial reporting requirements for not-for-profit private sector entities. A full list is not reproduced in this project plan, but is available in [Research Report No. 10](#).

4.1.5 Interaction with IASB

The IASB does not set standards for the not-for-profit sector. As such, there is no direct interaction with the IASB. However, if the IFRS for SMEs were to be the preferred option for a modified accrual framework then the interaction with the IASB may be increased.

4.1.6 Interaction with Australian Auditing Standards

Commensurate auditing and assurance requirements are integral to the reform of the Australian Financial Reporting Framework. The AUASB will be responsible for leading work with relevant regulators to determine, if necessary, the appropriate assurance requirements to be paired with a revised set of financial reporting tiers.

In respect of any new financial reporting frameworks applicable to NFP private sector entities, the AUASB staff will be closely consulted to ensure the auditability of any framework that is proposed by the AASB. Initial feedback from the AUASB Staff has indicated the expectation that any financial reporting framework developed by the AASB should already be capable of being audited or assured in accordance with the existing suite of Australian Auditing Standards.

AASB and AUASB Staff have been conducting and will continue to conduct regular liaison meetings to identify cross-cutting issues. The AUASB Board will also be consulted where necessary, upon recommended by the AUASB Staff.

4.1.7 Consideration of New Zealand Accounting Standards

The NZASB conducted a similar project to reform the financial reporting framework for all sectors in New Zealand several years ago. In respect of the not-for-profit private sector (known as 'not-for-profit public benefit entities' in New Zealand), key outcomes of that project was the creation of four financial reporting tiers and GPFS frameworks as follows:

Tier	Threshold	Financial Reporting Framework
Tier 1	<ul style="list-style-type: none"> public accountability; or Expenses >30m 	Tier 1 – based on IPSAS standards with full disclosure
Tier 2	<ul style="list-style-type: none"> No public accountability Expenses <NZD30m but >NZD2m Elects to be in Tier 2 	Tier 2 – based on IPSAS standards with reduced disclosure
Tier 3	<ul style="list-style-type: none"> No public accountability Expenses ≤NZD2m Elects to be in Tier 3 	Tier 3 – simplified accruals framework developed by NZASB
Tier 4	<ul style="list-style-type: none"> No public accountability Allowed by law to use cash accounting Expenses ≤NZD125k Elects to be in Tier 4 	Tier 4 – cash-based framework developed by NZASB

The NZASB financial reporting framework also contains a Tier 1/Tier 2 reporting standard addressing Service Performance Reporting, as well as including Service Performance Reporting within the Tier 3 and Tier 4 frameworks.

In particular, as decided by the AASB in November 2018, the NZASB's Tier 3 and Tier 4 financial reporting frameworks will be considered as a possible option for the reporting frameworks that would be applicable to not-for-profit private sector entities in the smaller tiers of the financial reporting framework.

The NZASB is currently performing a targeted review of its financial reporting framework following its implementation approximately 5 years ago.

Interaction with the NZASB staff is planned as follows:

- Liaison meetings to discuss the results of the targeted review of the NZASB's financial reporting framework to understand any issues that may be relevant to Australia
- Targeted meetings to gather feedback on any specific issues identified by the AASB/Australian constituents with NZASB Tier 3/Tier 4 to identify whether similar issues were considered by the NZASB.

4.1.8 Consideration of GFS (public sector entity projects)

This project will not require consideration of GFS as it does not address the public sector.

4.1.9 Consideration of IPSASB (public sector entity projects)

This project will not require consideration of IPSASB as it does not address the public sector.

4.1.10 Other consideration – IFR4NPO

The [International Financial Reporting for Non-Profit Organizations \(IFR4NPO\)](#) initiative is a five-year project (commenced in 2019) coordinated by Humentum and CIPFA to develop the first ever NPO international financial reporting guidance, which can command support from the accounting community and NPOs, as well as the funders and regulators of NPOs.

IFR4NPO aims to bring clarity and consistency to the NPO sector which must win the trust of its many national and international stakeholders through consistent, high quality financial reporting. The initiative also endeavours to reduce the current burden and duplication of effort for both NPOs and funders in meeting multiple and, at times, conflicting financial reporting requirements.

The objectives of the IFR4NPO project are:

- Set a clear, consistent benchmark of what good financial reporting looks like
- Support stronger NPO financial management
- Support greater harmonization of funders' requirements to save time and administrative costs for funders and NPOs
- Provide basis for comparison between organizations and jurisdictions
- Satisfy demand amongst national standard setters

AASB Technical Director Kala Kandiah is a member of the Technical Advisory Group (TAG) of the IFR4NPO project, and as such Australia will have a significant level of influence over this project.

The Board could consider whether the standard produced by the IFR4NPO has merit for adoption in Australia, however there may be challenges such as timing, appropriateness and the magnitude of international adoption. However, the outcome will depend on which accounting standards the group uses for a basis, which may or may not provide the relief sufficient for the middle tier (see [Comparison of Standards for Smaller Entities](#))

4.1.11 Other consideration – UK Charities SORP

The Board has previously considered but dismissed the UK Charities SORP as a possible differential R&M framework (November 2018 Meeting), primarily due to the findings of the AASB Staff Paper [Comparison of Standards for Smaller Entities](#) illustrating that it wouldn't provide substantial relief as compared to applying Tier 2 GPFS.



However, the UK Financial Reporting Council is [currently reviewing the Charities SORP](#) to ensure it is meeting its objectives of providing information to users of charities financial reports. Staff will monitor this project and advise the Board of any relevant developments.

5 PROJECT TIMELINE

5.1 WHEN ARE THE DELIVERABLES DUE?

5.1.1 Major milestones

Milestone	Target (Board, stakeholders, other)	Date	Resources required
<p>TARGETED CONSULTATION Staff to prepare documents to use for consultation, including:</p> <ul style="list-style-type: none"> NZASB Tier 3 and Tier 4 Frameworks and Templates, including comment bubbles suggesting areas where amendments may be needed, for example to include related party/remuneration reporting, volunteer services, long service leave etc. IFRS for SMEs illustrative financial statements, including comment bubbles suggesting areas where amendments may be needed (similar to the above). 'best practice' examples of publicly lodged financial statements lodged in other countries with each of the proposed frameworks, as identified through professional body awards (or similar). <p>Staff do not propose drafting any new consultation documents as this would take considerable time. Instead, staff intend for consultation to be primarily verbal with some illustrations as outlined above. Staff do not propose discussing options further with the Board prior to consultation. Rather, staff propose considering options in more detail with the Board once regulators have expressed a preference.</p>	Board	Nov 2019	<p>Project Manager 40 hours</p> <p>Senior Project Manager 8 hours</p> <p>TD 4 hours</p> <p>Chair 2 hours</p>



Milestone	Target (Board, stakeholders, other)	Date	Resources required
<p>The objective of the document is to illustrate options to assist targeted stakeholders to agree on a single option for reform. The key audience of the targeted consultation document is proposed as:</p> <ul style="list-style-type: none"> • ACNC, Treasury, state-based and other regulators • Selected group of users, including in particular grant donors (to be selected) • Selected group of NFP preparers • Selected group of NFP auditors 			
<p>TARGETED CONSULTATION</p> <p>Once material is developed to foster conversation, outreach is proposed to undertake roundtables as follows:</p> <ul style="list-style-type: none"> ○ ACNC, Treasury and other state-based Consumer Affairs Commissioners, preferably members of the Fundraising working group of the Consumer Affairs Commissioners. ○ Group of NFP users and donors, and in particular government grant donors. ○ A working group of between 12-20 participants representing NFP preparers, particularly in the medium and small sectors, large accounting firms, a particular focus on medium and small sized accounting firms, and software providers of practitioners ○ The ACNC's Professional Users Groups, which focusses on regulatory reporting matters in the NFP sector • The objective of each session would be to illustrate the proposals in a practical way and seek feedback to identify a single option to use to progress to ED stage. 	Stakeholders	<p>Regulators: ASAP (Nov 2020 if possible)</p> <p>Others: February - March 2020</p>	<p>Project Manager: 50 hours</p> <p>Senior Project Manager: 50 hours</p> <p>Technical Director: 40 hours</p> <p>Chair: 40 hours</p>



Milestone	Target (Board, stakeholders, other)	Date	Resources required
Feedback of consultation <ul style="list-style-type: none"> Summary of outreach results Recommendation and decision on option to progress to ED stage 	Board	April 2020	Project Manager: 40 hours Senior Project Manager: 20 hours Technical Principal: 10 hours Technical Director: 10 hours Chair – strategic input – 2 hours
Exposure Draft – develop Exposure draft and related Basis for Conclusions to propose preferred option from targeted consultation. Either proposal or Basis for Conclusions to cover: <ol style="list-style-type: none"> Options for financial reporting thresholds to define revised tiers, and whether these should be enacted via AASB 1053. Tiers to be determined based on feedback from regulators. Options for proportionate financial reporting frameworks for each tier. Options considered and either proposed or dismissed include⁸: <ul style="list-style-type: none"> Bottom Tier: Cash-based standard - NZ Tier 4 	Board	June 2020: Pre-Ballot draft (view to approve if appropriate) Sep 2020: Ballot draft voting (if necessary)	Project Manager: 160 hours Senior Project Manager: 80 hours Technical Principal:

Commented [JB10]: Note to Board members:
6 month consultation period expected/planned – for Board decision at later date.

⁸ Building off [Comparison of Standards for Smaller Entities](#)



Milestone	Target (Board, stakeholders, other)	Date	Resources required
<ul style="list-style-type: none"> • Middle Tier: Options including: <ul style="list-style-type: none"> ○ IFRS for SMEs ○ NZ Tier 3 ○ IFR4NPO ○ UK FRS 102 (Charities SORP) • Top Tier: Options including: <ul style="list-style-type: none"> ○ Tier 1 AAS ○ Tier 2 AAS <p>3. Review by staff of chosen tier (for example NZ Tier 3 and NZ Tier 4) proposed to identify modifications (if any) that would need to be made to address the following key requirements for the financial reporting frameworks:</p> <ul style="list-style-type: none"> • Service performance reporting • Remuneration Reporting • Related Party Disclosures • Volunteer Services 			<p>20 hours</p> <p>Technical Director: 20 hours</p> <p>Chair – strategic input – 5 hours</p>
<p>Exposure Draft – issue</p> <ul style="list-style-type: none"> • Draft and issue communications, including details of outreach events, upon issuing standard • Outreach – public roundtables in Melbourne, Sydney, Brisbane, Adelaide, Perth • Outreach – interactive webinar 	Stakeholders	<p>June or September 2020: Issue ED</p> <p>October-Nov 2020: Public outreach</p>	<p>Project Manager: 100 hours</p> <p>Senior Project Manager:</p>

Commented [JB9]: Question to the Board 10:
 Whilst it may be too soon for the Board to decide whether to propose IFR4NPO as an option, does the Board support staff preparing an analysis of the advantages/disadvantages?
 Staff's initial considerations of the framework are as follows:

Advantages:

- Developed as a single international framework
- Expected to be based on simplified framework
- May be preferred as a framework anyway if international take-up is significant

Disadvantages:

- Will cause significant timing delays (project expected completion is 2024), which are major issue if reporting thresholds are changed preceding this (which is likely)
- Depending on outcome, may not meet needs of NFP private sector entities in Australia



Milestone	Target (Board, stakeholders, other)	Date	Resources required
			60 hours Technical Director: 40 hours Chair: 20 hours
Summary of feedback and redeliberation <ul style="list-style-type: none">• Summary of outreach results• Recommendation and decision on option to progress to final standard stages	Board	March/April 2021	Project Manager: 80 hours Senior Project Manager: 40 hours Technical Director: 15 hours Chair – strategic input -2 hours
Drafting final pronouncements <ul style="list-style-type: none">• Update of Exposure Draft based on agreed amendments with the Board. Includes:<ul style="list-style-type: none">○ Amendments required○ Drafting of amendments to chosen financial reporting framework (eg NZ Tier 3)○ Illustrative examples○ Basis for conclusions	Board	Pre-Ballot Draft April/June 2021 By 30 June 2021: Out-of-session, if necessary	Project Manager: 120 hours Senior Project Manager: 60 hours Technical Principal:



Milestone	Target (Board, stakeholders, other)	Date	Resources required
			30 hours Technical Director: 25 hours
Post-issuing pronouncements <ul style="list-style-type: none">• Communications on amendments• Education materials, raising awareness• Webinar	Stakeholders	July-Sep 2021	Project Manager: 80 hours Senior Project Manager: 40 hours Technical Director: 15 hours