



## EXTRACT FROM MINUTES: AASB 23-24 SEPTEMBER 2009 MEETING

### Disclosure for Private Sector Not-for-profit Entities Project

Agenda Item 7

The Board had before it:

- (a) a memorandum from Robert Keys, Christina Ng and Maybelle Chia dated 7 September 2009 (Agenda paper 7.1);
- (b) Paper 3: *Threshold issues pertinent to service performance reporting by private sector not-for-profit entities* (Agenda paper 7.2);
- (c) Paper 1: Status report on IPSASB and NZ FRSB work on service performance reporting (as at 7 September 2009, to be updated as IPSASB and NZ FRSB make progress) (Agenda paper 7.3);
- (d) Paper 2: WORK IN PROGRESS - Report on staff research into domestic and international requirements and practices relating to service performance reporting (Agenda paper 7.4);
- (e) Paper 2A: WORK IN PROGRESS - Examples of statements of service performance (Agenda paper 7.4A);
- (f) AASB Project Outline: Disclosures by Private Sector Not-for-Profit Entities (August 2009) (Agenda paper 7.5); and
- (g) List of members of the AASB Private Sector Not-for-Profit Project Advisory Panel (as at 9 September 2009) (Agenda paper 7.6).

Staff reminded the Board of the views it had previously expressed on issues relating to service performance reporting in its:

- (a) draft *Process for Modifying IFRSs for PBE/NFP*, in particular paragraph 15 (see agenda paper 4.1.2 of this meeting); and
- (b) submission to the IPSASB on Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, in response to preliminary view 5, relating to the scope of financial reporting

The Board proceeded to discuss the threshold issues pertinent to service performance reporting, discussed in agenda paper 7.2, for the purpose of identifying working assumptions upon which the staff should base its ongoing work. In particular, the Board tentatively decided:

- (a) it has an interest in the form and content of service performance reports, irrespective of whether service performance information falls within the scope of general purpose financial statements. In that regard, the Board would be reluctant to take on a project that would not include a mandatory element falling within general purpose financial statements. The Board:
  - (i) adopted a working assumption that it will develop at least some mandatory requirements, expected to be in the nature of high-level principles, whilst acknowledging the challenges it might face in developing such principles. One principle to be considered is a 'through the eyes of management' approach (whereby the performance indicators reported are those used by the entity's management to monitor the entity's performance) as a means of identifying appropriate indicators of an entity's service efficiency, effectiveness and quality. The Board noted this



approach might be effective because it would not require the Board to be a subject matter expert on non-financial matters;

- (ii) decided that the focus should be on providing information that can be used by users as input to their analysis, rather than providing an analysis. However, this should not preclude analysed information that an entity's management might regard as pertinent to reporting service performance from being included in a service performance report; and
  - (iii) considered there might be merit in developing an illustrative example of the form and content of a service performance report once the Board has clarified its views on service performance reporting;
- (b) service performance information might comprise both financial and non-financial information of a quantitative or qualitative nature, including disaggregated/program financial information, which is pertinent to the entity's principal objective and assessment of service performance. What constitutes non-financial information within a general purpose financial statements framework is to be considered;
- (c) it is premature for it to conclude whether users of general purpose financial statements of not-for-profit entities need financial information that differs from the financial information needed by users of for-profit entities, but tentatively decided that a reasonable working hypothesis is not-for-profit user disclosures needs may extend beyond for-profit user needs. The Board noted that the presentation of the conventional financial statements is outside the scope of this part of the project;
- (d) in noting the concern of some that a significant amount of service performance information is too subjective/qualitative to go into general purpose financial statements, consideration on whether service performance information falls within or outside the general purpose financial statements should be revisited when the project has been developed further. The Board noted that the audit implications might influence the view of some if service performance information were to be included in general purpose financial statements. The Board also noted that if service performance information were to be subject to audit, that might add rigour to the quality of the information provided;
- (e) consideration should be given to identifying a constraining principle for the information the AASB might decide should be included in service performance reports. The Board directed staff to develop a draft paper on this issue for discussion at a future Board meeting. The paper should include consideration of at least the following possible constraints:
- (i) information that explains amounts recognised in the financial statements; and
  - (ii) information that is directly related to the principal, not-for-profit, objective of the entity;
- (f) staff should include in their ongoing research examples in practice of good service performance reporting by not-for-profit and for-profit entities in the private and public sectors; and
- (g) consideration should be given to the implications for service performance reporting if an entity has a multi-year plan or vision.

The Board also considered the range of entities that might be affected by this project and decided to:

- (a) formally consider the project in the light of its *Process for Modifying IFRSs for PBE/NFP*, before determining whether the project should have implications for for-profit entities. In the meantime, the focus will continue to be on not-for-profit entities; and
- (b) reconsider whether the project should have implications for public sector entities after it has discussed the project with the New Zealand Financial Reporting Standards Board (FRSB). The AASB noted that the FRSB's project on service performance reporting has a scope of



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both private and public sector not-for-profit entities. The extent to which the respective projects might be progressed jointly will be discussed at the forthcoming joint AASB/FRSB meeting in October 2009.

The Board also noted that the information relating to Queensland regulations, included in agenda paper 7.4, was out of date and Ms Highland offered to provide staff with the updated materials.

Action:

Staff

Ms Highland