



Australian Government
Australian Accounting Standards Board

Not-for-Profit Roundtables

October 2019

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- Update on Australian Financial Reporting Framework project
- Update on R&M compliance disclosures
- Update on proposed NFP definition
- Implementation issues
- Related assurance considerations





Sub-projects related to NFP (private) framework:

- Reporting Service Performance Information & Management Commentary
- Remuneration Reporting
- Fundraising



NFP- private sector: How to achieve uniform national financial reporting?

Uniform thresholds

Proportionate reporting requirements

Possible Options

Top Tier

>\$X Revenue

Existing recognition & measurement + T2 disclosures?

Middle Tier

Between \$X-X Revenue

Simple accrual Accounting?

Bottom Tier

< \$X Revenue

Cash accounting?
• Voluntary for ACNC (AIS otherwise)
• Mandatory for others

1

NZ Tier 3

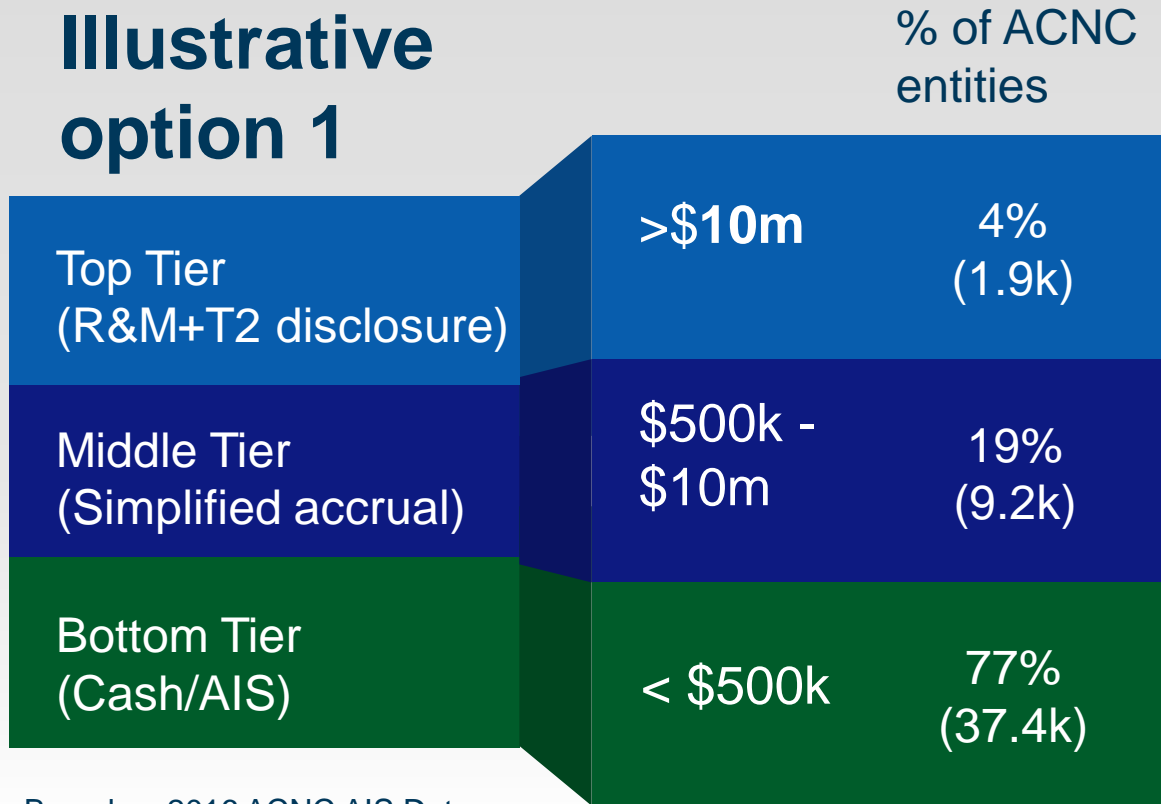
2

IFRS for SMEs



NFP- private sector: Tier options?

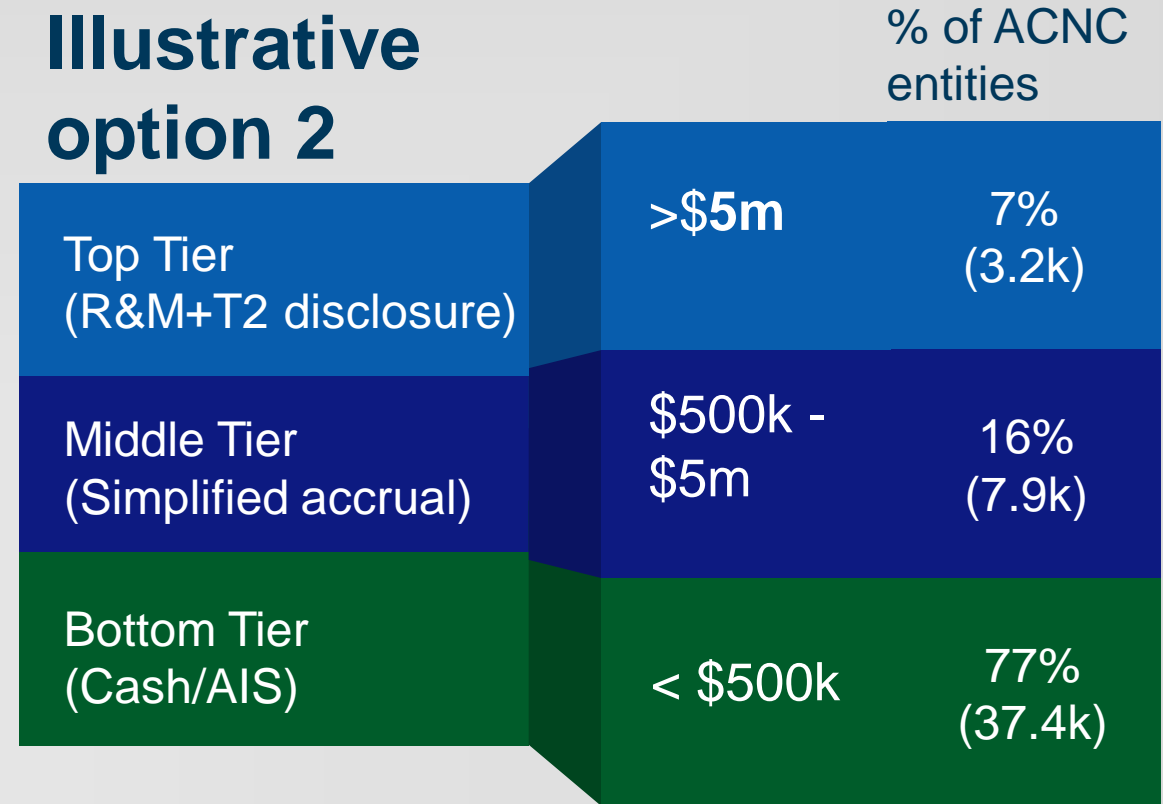
Illustrative option 1



Based on 2016 ACNC AIS Data

Total: 48.5k

Illustrative option 2



Total: 48.5k



In comparison, less than 1% of for-profit entities have to lodge **any** type of financial report





Targeted consultation

AASB to consult on options with key stakeholders and regulators to gather feedback

AASB developing options of differential reporting and continuing consultations with regulators

Public consultation document

Based on feedback from targeted consultation, AASB to develop ED and consult with public



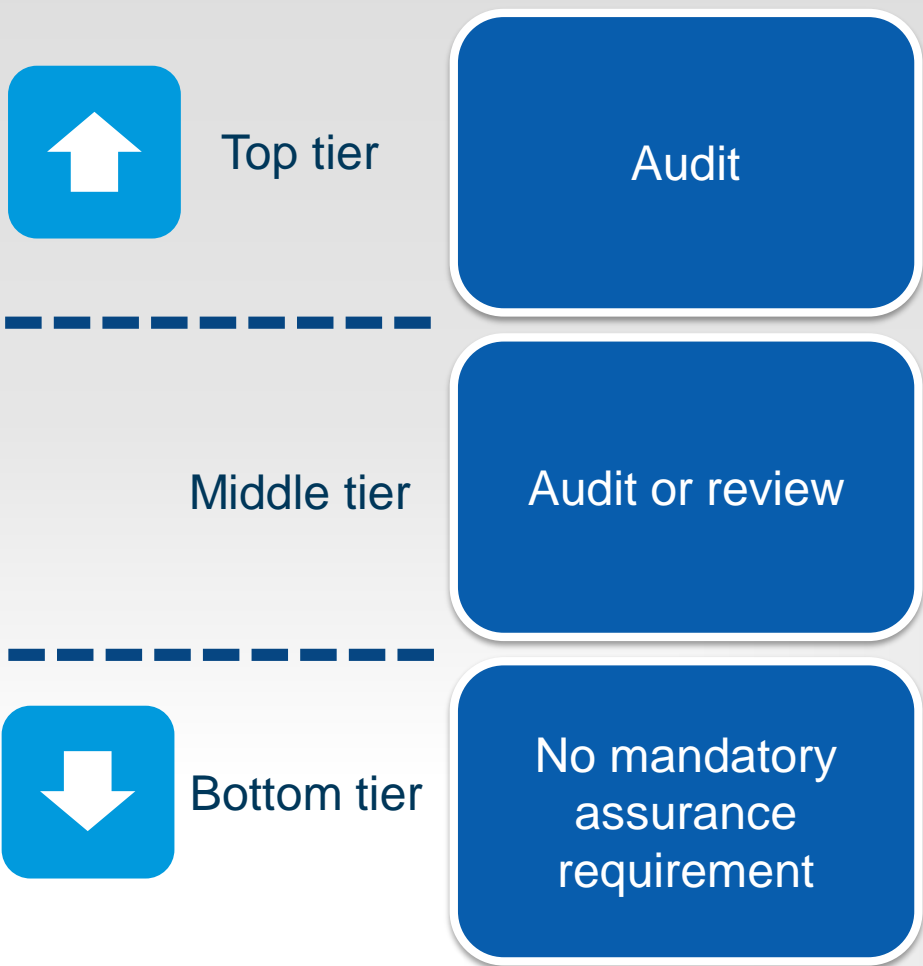
Change reporting requirements

Following consultation and reflecting feedback as appropriate, enact changes by:

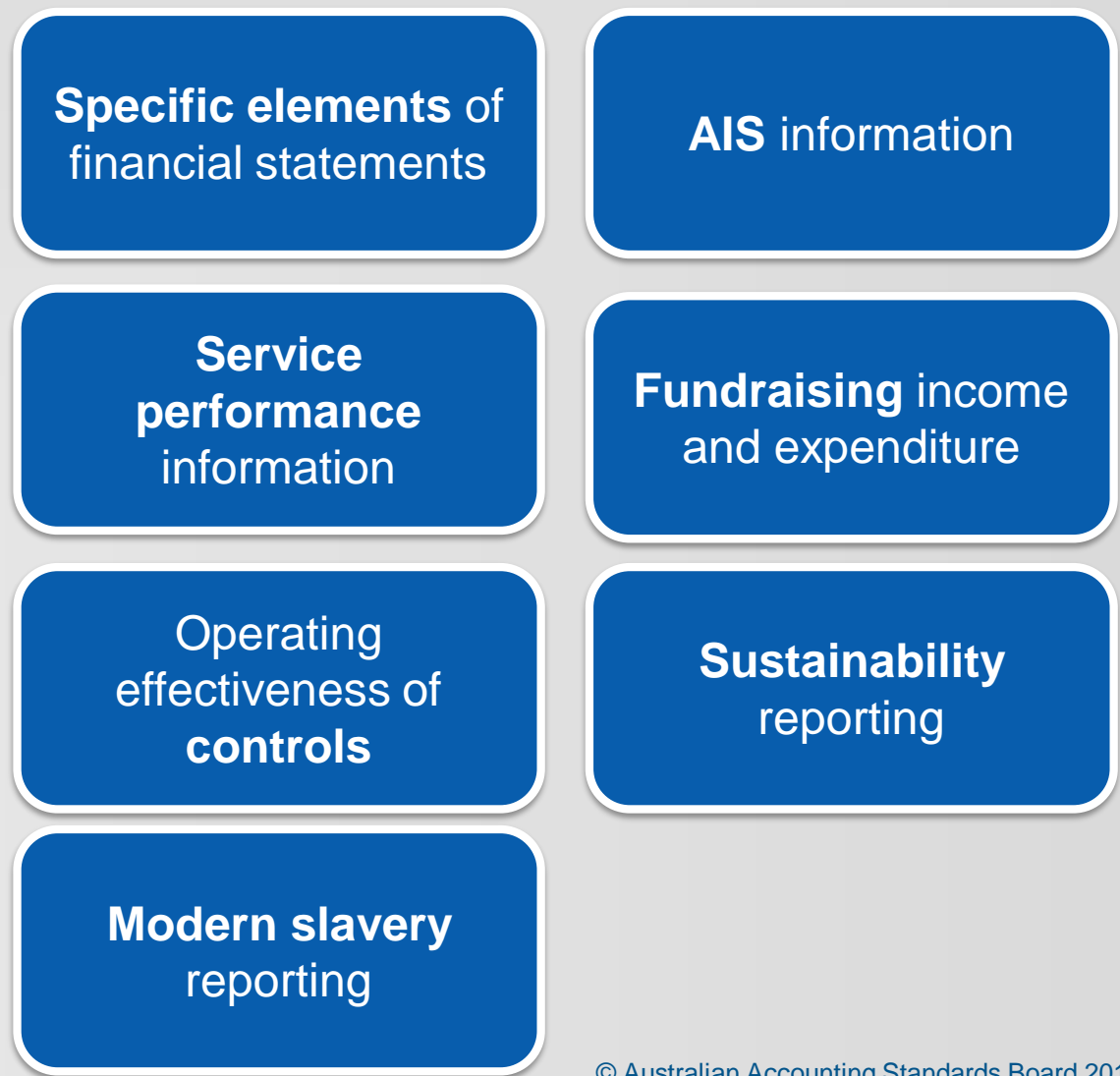
- AASB to place new requirements directly into accounting Standards (via AASB 1053); and/or
- Regulators changing legislation



Clear assurance requirements



What can be assured under AUASB Standards?





Sub-projects related to public framework:

- Reporting Service Performance Information & Management Commentary
- Remuneration Reporting
- Insurance contracts
- Fair Value Measurement
- AASB 1049



Objective



Clarify and simplify the Australian financial reporting framework for the Australian Public Sector



Develop objective criteria to determine which public sector entities should be required to prepare and publish general purpose financial statements (GPFS)



Determine the financial reporting requirements that would apply to the financial statements





The project will be carried out in three phases Research and initial consultations (underway)

- Project led by FRC's Public Sector working group
- AASB Issued research paper and discussion paper
 - [Research Report No 6 – Financial Reporting Requirements Applicable to Australian Public Sector Entities](#) (May 2018)
 - [Discussion Paper – Improving Financial Reporting for Australian Public Sector](#) (June 2018)
- Commenced initial consultations with principal stakeholders



Detailed discussions and further design work (2020-2021)



Review, acceptance and approval (2021-2024)



What is the AUASB doing?



- Assurance requirements are **set by** each **Auditor General**



- AUASB focus is on addressing challenges raised by ACAG
- Public Sector Project Advisory Group established to assist the AUASB with developing and issuing public-sector specific guidance
- Initial focus on public-sector challenges with:
 - Terms of Engagement
 - Engagement Leader responsibilities
 - Going Concern



↔ Changes since ED

- **NFP entities only**
 - preparing SPFS
 - lodge with ACNC or ASIC, such as:
 - medium/large charities (250k + revenue)
 - companies limited by guarantee
 - Must comply with AASB 1054 *Australian Additional Disclosures*
- Overall assessment - R&M complies, does not comply or **not assessed with AAS**
- If no legislative requirement to consolidate or equity account to determine reporting requirements (e.g. ACNC)
 - No need to determining if interests in subsidiaries, associates or joint ventures





What to do...?

- Based on what you know:
 - **Step 1** – for each material disclosed accounting policy:
 - Disclose whether R&M does not comply with AAS or has not been assessed
 - No extra disclosure if comply
 - **Step 2** – Make overall assessment (exclude consolidation & equity accounting):
 - **Complied** (no instances of non-compliance or non-assessment)
 - **Not complied** (> 0 instances non-compliance)
 - **Not assessed** (> 0 instances non-assessment)
- Separate disclosures for interests in other entities



Effective date

- 30 June 2020 year ends



Charity A...

- Is a not-for-profit entity
- Does not have any subsidiaries or associates or joint ventures
- Prepares SPFS that has accounting policies:
 - some do not comply with R&M; and
 - some have not been assessed.

Illustrative disclosure

...

These SPFS **do not comply** with **all the recognition and measurement requirements in Australian Accounting Standards**.

The accounting policies that do not comply with Australian Accounting Standards include:

- [accounting for income where recognition of certain types of grant income has been deferred until the related expenses are incurred, which does not comply with AASB 1058 *Income of Not-for-Profit Entities*; and
- insert further details including an indication where material recognition and measurement requirements in Australian Accounting Standards have not been complied with].

The accounting policies disclosed [in note X] that have not been assessed for compliance with Australian Accounting Standards include:

- Long-service leave; and
- Depreciation of property, plant and equipment.



Assurance Insights – Auditors and the FRF

What have we seen in practice?

Yang, Y. 2018, The Informational Value of Auditing, PhD dissertation, UNSW Sydney.

Framework	Declared on AIS		Described in Financials		Difference	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
SPFS	2,087	27.33%	3,202	41.93%	1,115	35%
GPFS	5,493	71.93%	4,146	54.29%	(1,347)	(32%)
Not disclosed	57	0.74%	289	3.78%	232	80%
Total	7,637	100%	7,637	100%		

Framework	Described in Financials		Described in Auditor's Opinion		Difference	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
SPFS	3,202	41.93%	2,852	41.42%	(350)	(12%)
GPFS	4,146	54.29%	N/A	N/A	N/A	N/A
Not disclosed	289	3.78%	N/A	N/A	N/A	N/A
Total	7,637	100%	7,637	100%		



* **AUASB Bulletin:** Auditors Responsibilities and the Financial Reporting Framework

- Auditors to evaluate:
 - ASA 210 – precondition to accepting engagement, determine whether the financial reporting framework (FRF) is acceptable.
 - ASA 700 – evaluate whether:
 - significant accounting policies have been appropriately disclosed and they are consistent with the financial reporting framework; and
 - the financial report adequately refers to or describes the financial reporting framework.
- Form an opinion on whether the financial report is prepared in accordance with the applicable FRF (e.g. Australian Accounting Standards – Simplified Disclosures).



Proposals to:

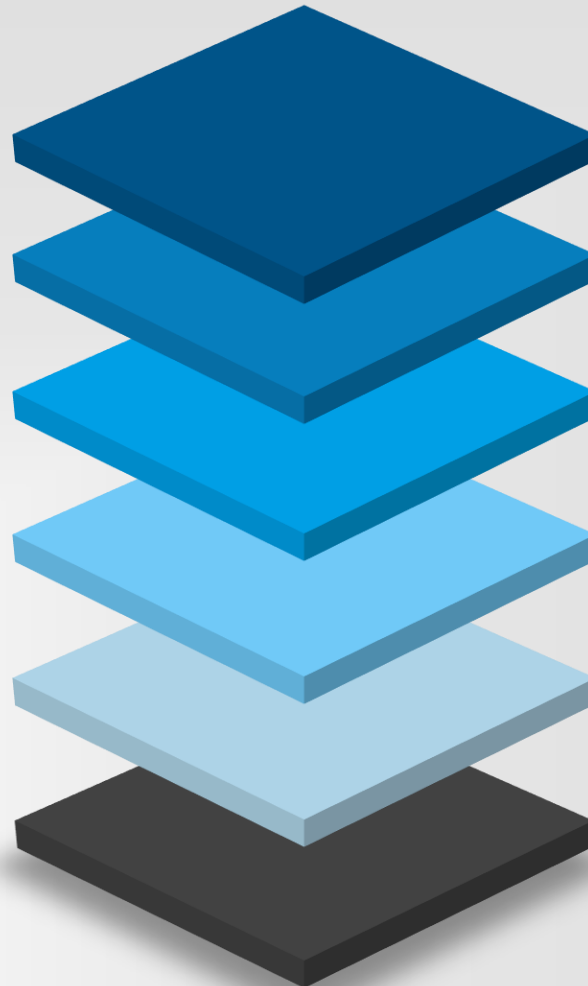
Retain “not-for-profit entity”



Remove existing NFP definition in – AASB 102, 116, 136



Include revised definition in AASB 1057 based on NZ definition of ‘public benefit entity’



Provide implementation guidance



Provide illustrative examples

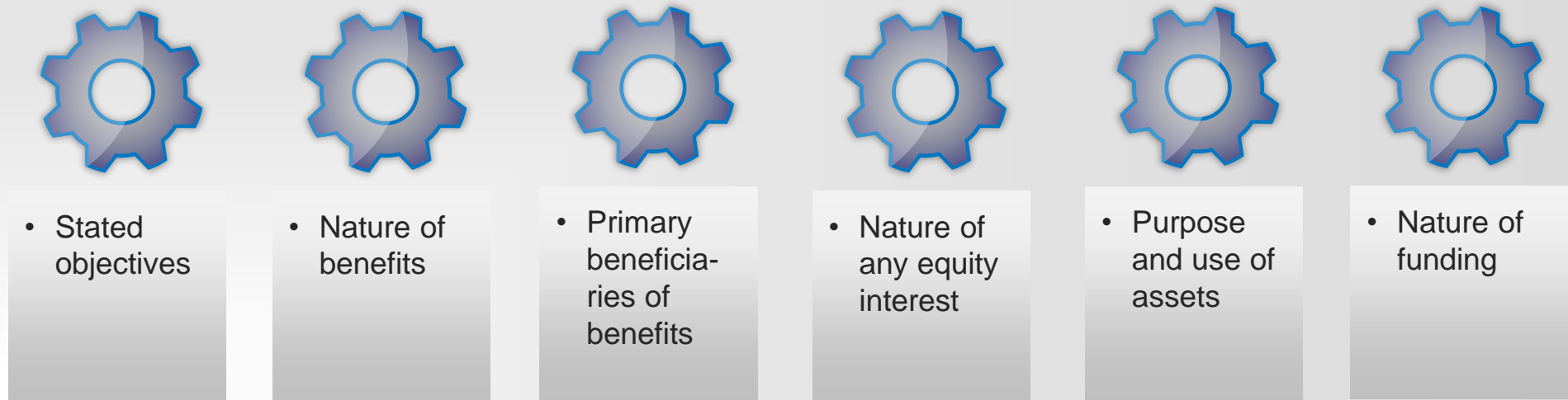


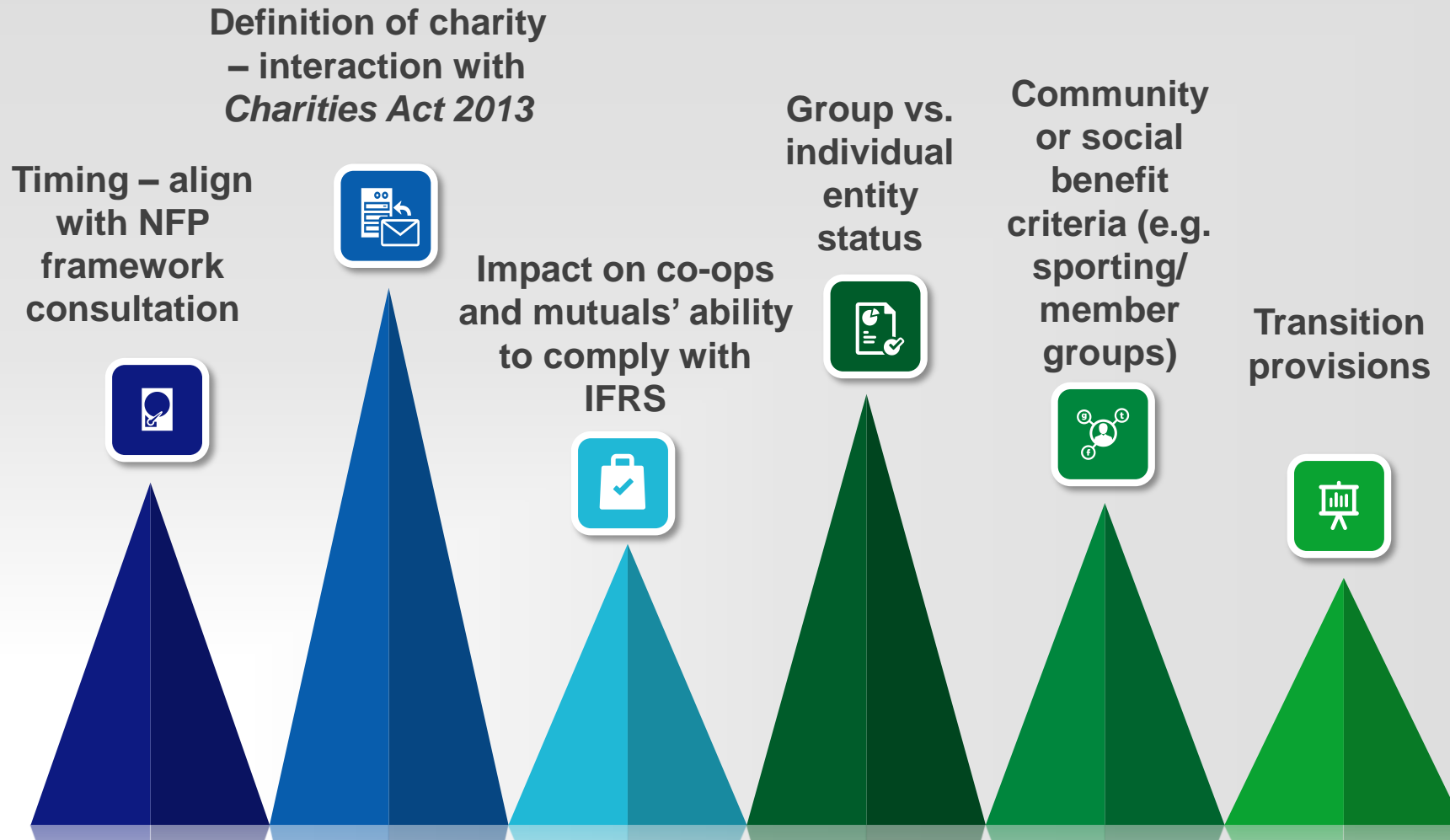
No transition relief for initial application

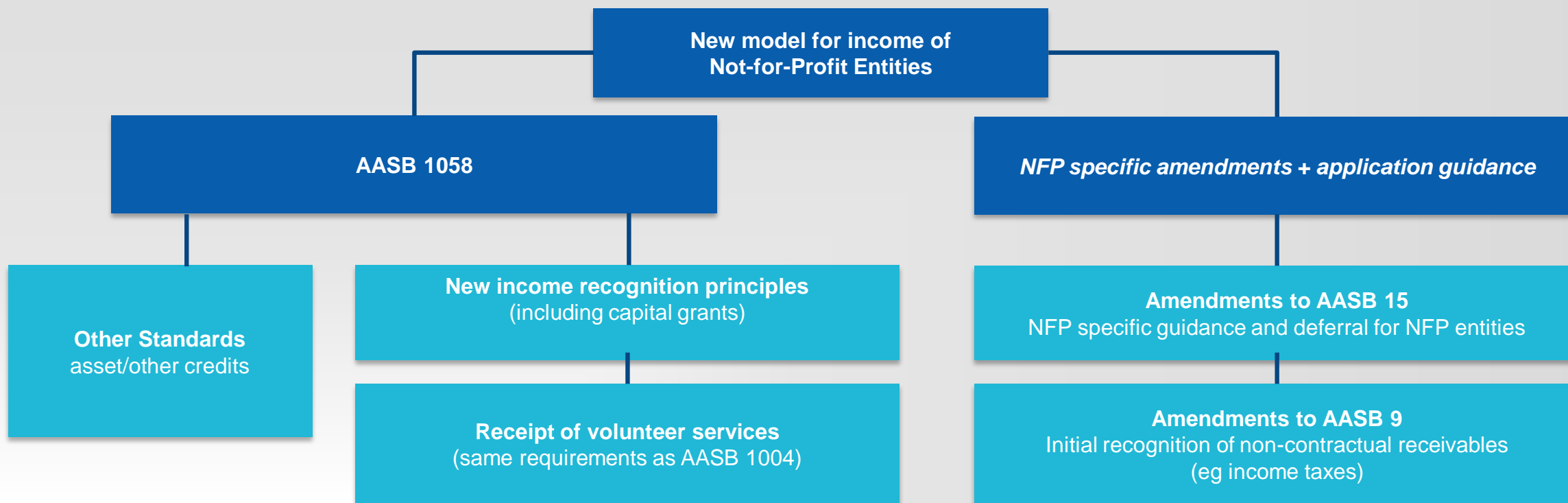


- Need both elements:
 - *primary objective to provide goods or services for community or social benefit; AND*
 - *equity provided to support primary objective not financial return to equity holders*

Key indicators for determining entity classification



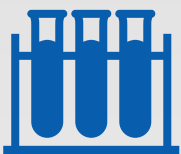




Effective periods beginning on or after 1 January 2019 – ie FY 2019/2020



Identifying sufficiently specific performance obligations



Accounting for research grants



Accounting for upfront school fees



Concessionary leases

AASB guidance



Application guidance
(AASB 15 App. F)



Illustrative examples
(AASB 15 IEs)



Illustrative examples
(AASB 15 IEs)



Application guidance
(AASB 15 App. B)



Temporary exemption

Staff guidance



Income of NFP
FAQ 4, 6-8



Webinar
(YouTube)



Income of NFP
FAQ 5, 8



Income of NFP
FAQ 6-7



Significantly below-market terms principally to further entity objectives.

Originally

AASB 1058 & AASB 16 **initial recognition**

- measure ROU assets at fair value
- recognise income

Currently

Temporary **OPTION** at initial recognition

- measure ROU assets **EITHER** at cost or fair value

Subsequent measurement choice of cost or fair value (except WoG & GGS)

Note - **additional disclosure requirements** apply to “cost” option.



What have we seen in practice?

Yang, Y. 2018, The Informational Value of Auditing, PhD dissertation, UNSW Sydney.

218 different providers had issues with meeting the requirements of ASA 800 to include reference to SPFS in Opinion and/or issuing a ‘subject to opinion’.

	Audits	Errors	Error Rate
Top 10 firms by # of audits	2,426	21	0.87%
Remaining population	5,228	227	4.34%

Auditor’s Opinion	Frequency	Percentage
Unqualified opinions <u>without</u> explanatory language	6,296	82.26%
Unqualified opinions <u>with</u> explanatory language	587	7.67%
<i>Explanatory language related to Going Concern</i>	283	3.70%
<i>Explanatory language not related to Going Concern</i>	304	3.97%
Modified Opinions	771	10.07%

Modification (including EOM)	Frequency	Percentage
Limitation of scope (mostly related to controls over cash)	780	57.44%
Going Concern (Financial dependency)	214	15.76%
Matters relating to the electronic presentation of FS	168	12.37%
Going Concern (Current financial situation)	139	10.24%
Significant Uncertainty over comparatives (opening bal.)	90	6.36%
Material Misstatement due to departure from Australian Accounting Standards	58	4.27%
Total modified opinions including EOM	1,358	

AUASB issued documents that can help

Guidance on auditing
fundraising revenue

Guidance on dealing
with **grant acquittals**

Audit and Review
report templates on
ACNC Website

Are there areas where more guidance is required?
AUASB seeking feedback through **Guidance Statement Discussion Paper**





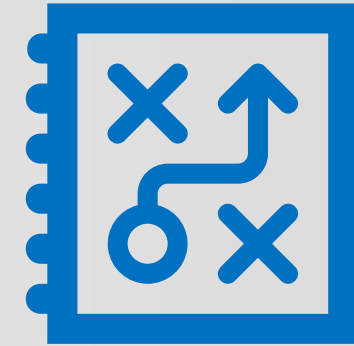
Disclosure of R&M compliance in SPFS – review the requirements and **assess the impact**

<https://www.aasb.gov.au/Work-In-Progress/Pending>



Monitor progress and engage in consultations – sign up for **weekly newsletter!**

<https://www.aasb.gov.au/News/AASB-Weekly-Update>



Guidance available to help navigate accounting standards' implementation issues

<https://www.aasb.gov.au/Hot-Topics>



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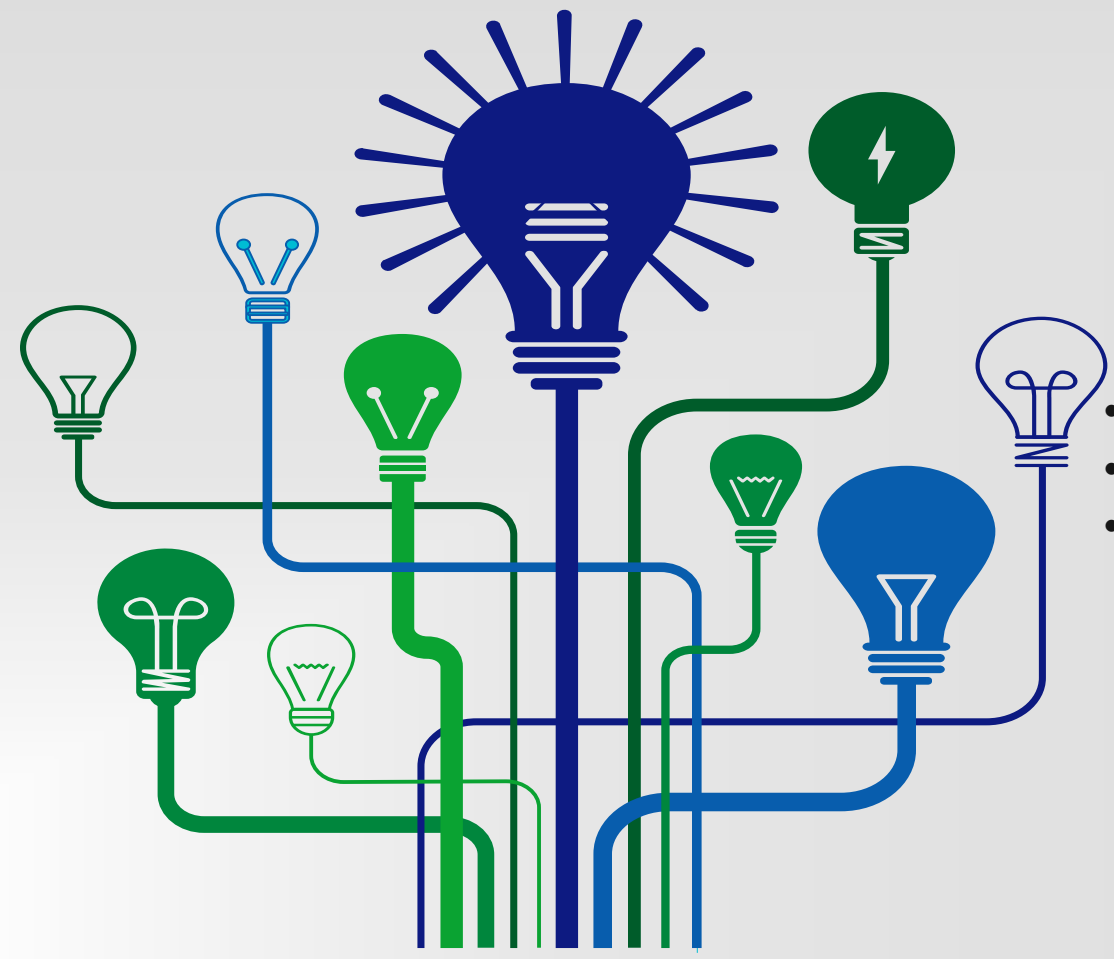
AASB Roundtable: ED 295 *Simplified Disclosures for Tier 2 Entities*
Not-for-profit private and public sector session

October 2019

Kala Kandiah
Meina Rose

- Objective of today's session
- Structure of today's session
- What we are proposing
- Why we are making the proposal
- What methodology we used in developing the ED
- What the ED mean to you
- Facilitated discussion





Education

- proposals of ED 295
- approach taken
- impacted entities
- expected impact

Feedback

- On reduced disclosure
- On additional disclosures
- On any missing disclosures



No Removal of SPFS – Interim Measure ONLY



- **New standalone disclosure standard applicable to all Tier 2 entities to replace RDR**
- **Reduction in current Tier 2 disclosure requirements – name changed to make it clearer**
- **Reduction compared with previous ED proposals**



Scope – Who will the simplified disclosures apply to



RDR did not deliver the outcome expected and changes proposed by ED 277 were not enough

ITC 39 proposals for alternative Tier 2 framework not supported

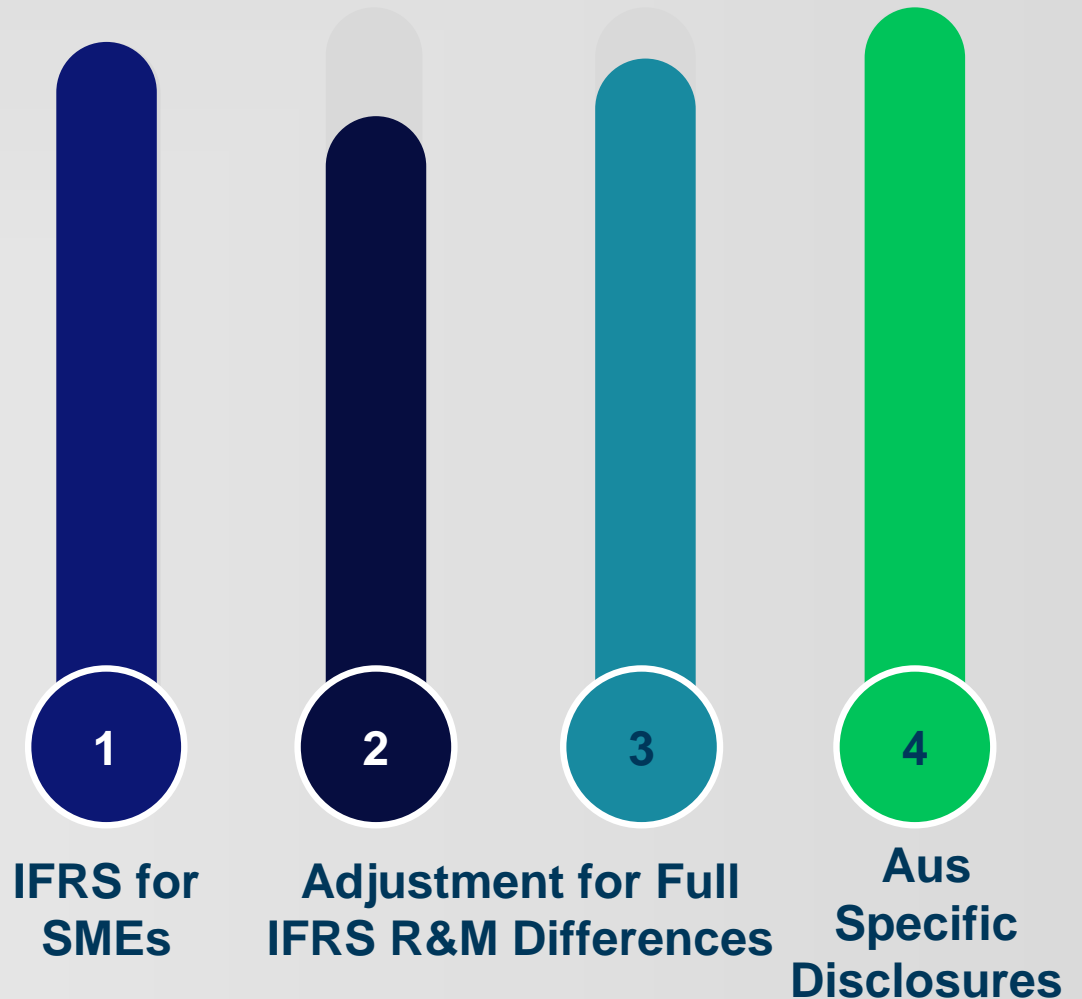
Balances user needs with costs to preparers

Provides immediate disclosure relief to tier 2 NFP entities while finalising the NFP reporting framework



Methodology – How did we develop the ED

- 1 Use IFRS for SMEs disclosures as a starting point
- 2 Remove disclosures that do not relate to R&M in full IFRS
- 3 Adapt disclosures where R&M principles significantly different
- 4 Add disclosures for topics not addressed or where Australian specific disclosures are required, and extended application to public sector and NFP private entities





**Considerable
reduction in
disclosures
compared to RDR**



**Option not to present
separate SoCiE in
some circumstances**



**Additional
disclosures not
currently in RDR**

Main reduction in disclosures compared to RDR

Revenue from contract with customers (AASB 15)

Financial instruments, including hedging (AASB 7)

Interests in Subsidiaries, Associates & JVs (AASB 12) and Business Combinations (AASB 3)

Leases (AASB 16)

Primary financial statements: Option of not including statement of changes in equity

Other income & expense disclosures; income tax reconciliation; impairment; and discontinued operations



Increase in disclosures compared to RDR

Hedging disclosures:
Cash flow hedges –
periods when cash flows
are expected to occur/
affect profit or loss
Fair value hedges:
separately amount of
change in FV of hedging
instrument & hedged item

Leases of lessees:
maturity analysis of future
lease payments
Lessors: variable lease
payments recognised as
income and **loss**
allowance for lease
receivables

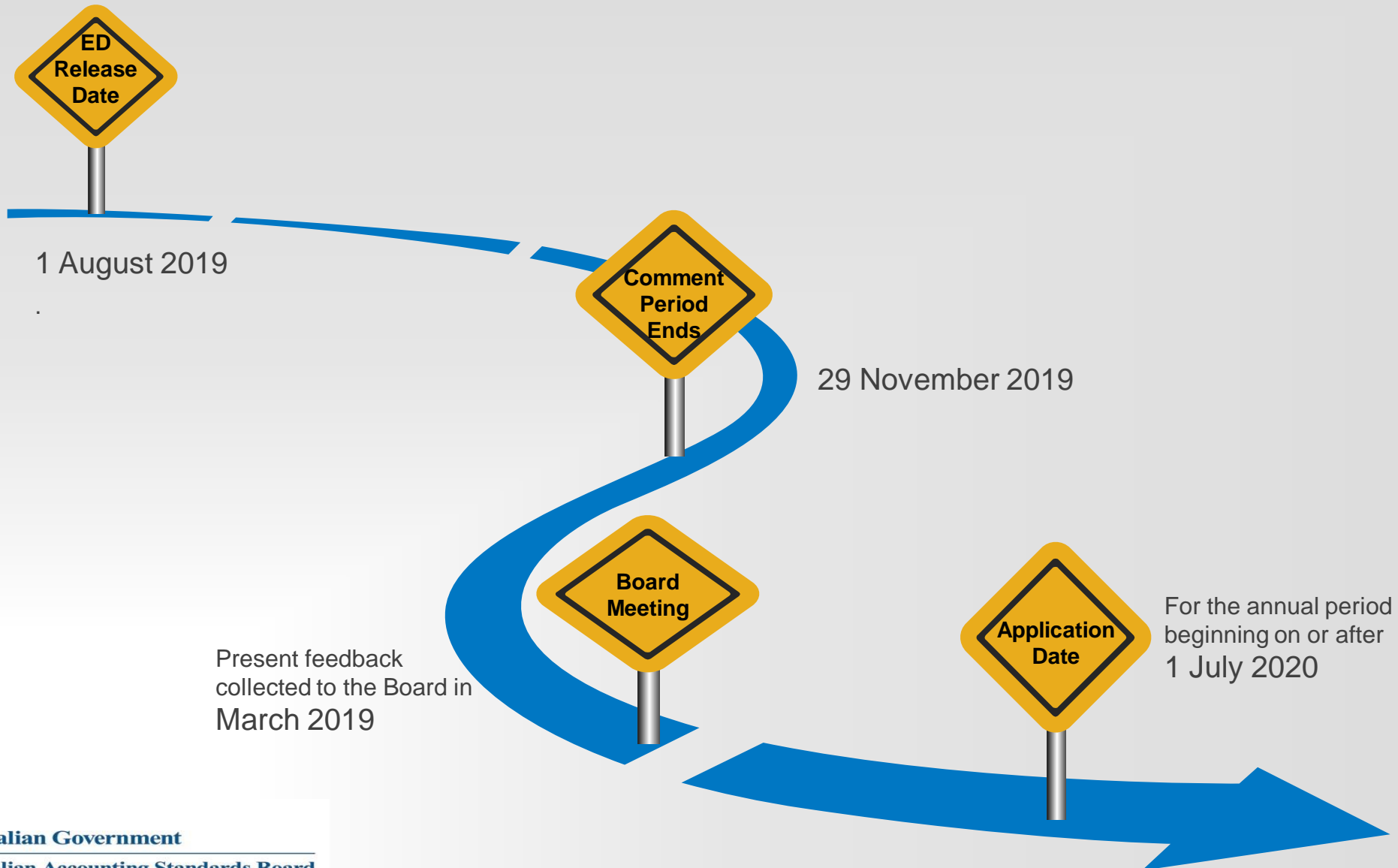
Defined benefit
plans (**some not**
required
under full IFRS),
Other long-term
benefits and
termination benefits

Business
combination:
qualitative factors
that make up
goodwill

Other – General
information about
the entity
(domicile etc.)
and audit fees



Timeline



- **Question 1** Do you agree that the proposed Simplified Disclosures should replace RDR?
- **Question 2** Do you agree that the Simplified Disclosures should also apply to Tier 2 NFP entities?
- **Question 3** Do you agree with the approach to include all the disclosure requirements for Tier 2 entities in one stand-alone standard?
- **Question 4** Should Tier 2 NFP entities be given the option of not having to prepare a separate statement of changes in equity?
- **Question 5** Do you agree with the proposed effective date?
- **Question 6** Would you adopt it early if it was available now?



- **Question 7** Do you have any comments on the NFP-specific disclosures?
- **Question 8** Do you agree that the disclosures to be removed from current RDR, as identified in the handouts on your tables, are not needed for tier 2 entities?
- **Question 9** What are your views regarding the additional disclosures noted on slide 10 and in the handout on your tables?
 - Additional disclosures compared to RDR (ie disclosures included in full AAS but shaded in RDR)
 - Additional disclosures compared with full AAS
- **Question 10** Are there any disclosures missing that should be added?
- **Question 11** What would you estimate to be the cost savings in moving from RDR to Simplified Disclosures?





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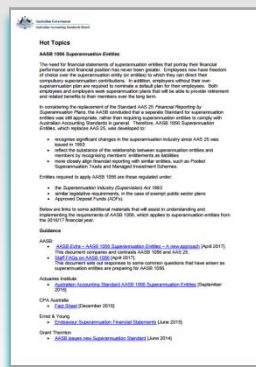
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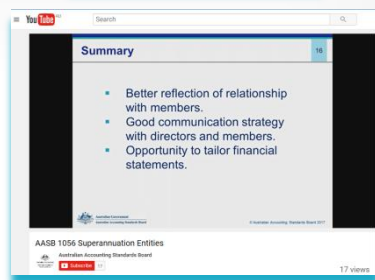




- Staff papers and research reports



- Hot Topics – guidance and reference material on the latest developments in standard setting



- YouTube channel – view AASB webinars & other recordings



Pronouncements

- ✓ identify Standards or Interpretations applicable to a reporting period

News & Alerts

- ✓ news alerts & media releases
- ✓ weekly newsletter

Outreach Events

- ✓ forums, roundtables, webcasts
- ✓ international guests & key experts

Work Program & Project Summaries

- ✓ the latest developments on AASB projects

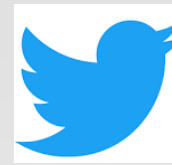
Work in Progress

- ✓ see Exposure Drafts & AASB submissions





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