



Australian Government
Australian Accounting Standards Board

Financial Reporting Practices of For-profit non-disclosing entities lodging SPFS

AASB Research Report update

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Objective of presentation

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- **update** Board on key findings in near-final Research Report 2019^a (RR 2019) re recognition and measurement (R&M) compliance by for-profit non-disclosing entities^b lodging Special Purpose Financial Statements (SPFS) with ASIC
- **consider** how these findings might impact Board decisions for these entities in relation to:
 - Removing the ability to lodge SPFS; and
 - Determining the appropriate GPFS- Tier 2 framework

a – The AASB Research Report 'Financial Reporting Practices of For-Profit Entities Lodging SPFSs – 2019' is near-final with some drafting comments to be addressed. The key findings from the report are captured in this presentation.

b – RR 2019 researched on R&M compliance by: a) Large proprietary companies (Large proprietary); b) Unlisted public companies not limited by guarantee (Unlisted public); c) Small proprietary companies controlled by a foreign company (Small foreign) and d) Small proprietary companies requested by ASIC (Small Pty)



Key finding 1: % of entities preparing SPFS

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% of entities preparing SPFS: Decreased since the first research report (RR1) – **55%** for 2018^c population (RR 2019) vs **66%** for 2011^d population (RR1)

Legal Status of Entity	GPFS Tier-1 ^e		GPFS Tier-2 RDR ^e		SPFS ^e		Total	
	2018	2011	2018	2011	2018	2011	2018	2011
Large Pty	1,495	1274	1,005	NA	4,283	5065	6,783	6,339
Unlisted Public	1,728	2778	427	NA	954	1207	3,109	3,985
Small foreign	687	436	451	NA	1,786	2361	2,924	2,797
Total	3,910	4488	1,883	NA	7,023	8633	12,816	13,121
% of total population	30%	34%	15%	NA	55%	66%		

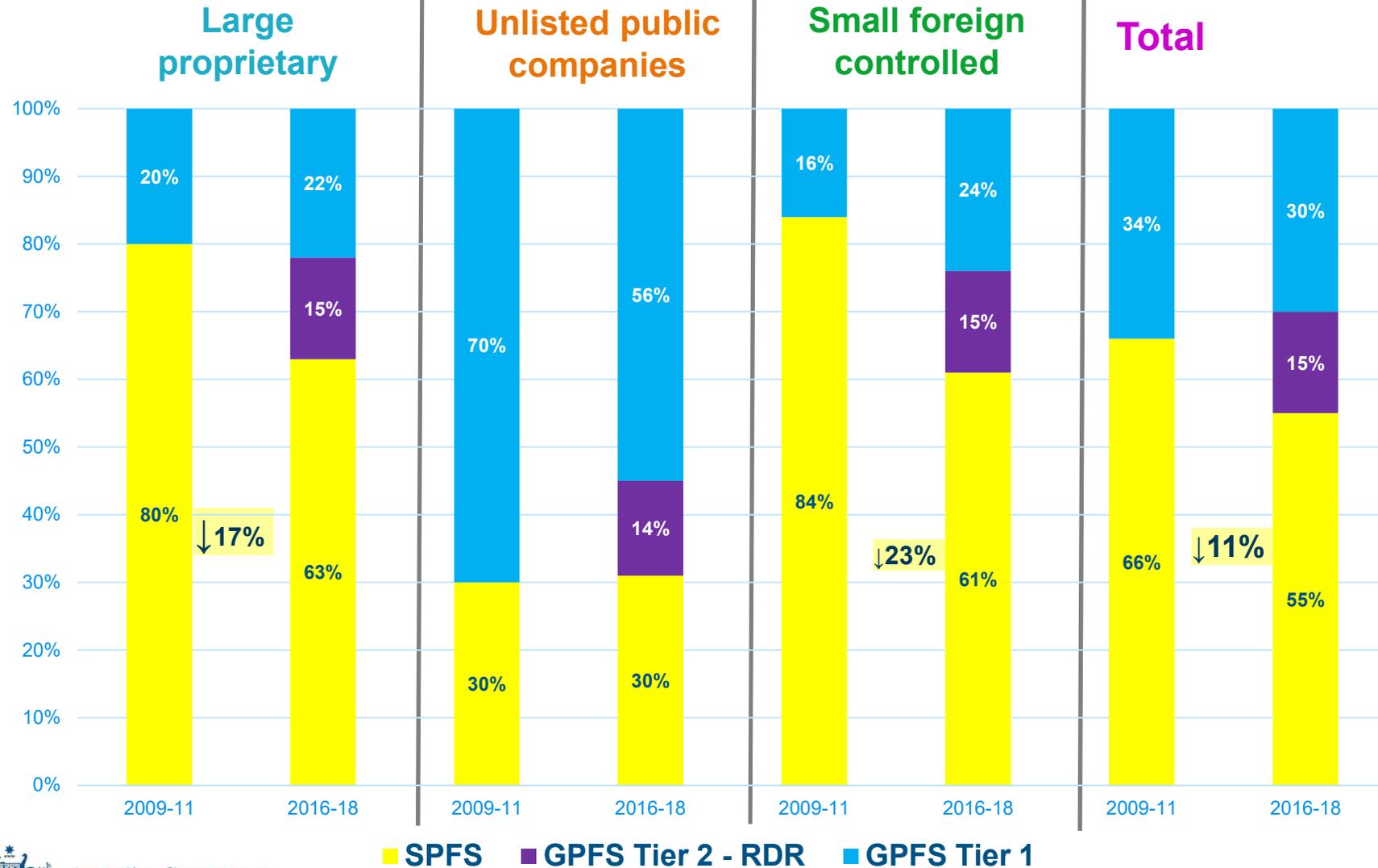
Implication: Less entities impacted by removal of reporting entity concept

c- Based on latest lodgements by all filing entities as at 30 July 2018. The period ranges from 2016- 2018

d- Based on latest lodgements by all filing entities as at 30 July 2011. The period ranges from 2009- 2011

e- Numbers sourced from data aggregator. However, numbers and associated % also include numbers attributed from 'unreadable population' which was estimated based on the reporting approaches adopted by the entities in the unreadable sample. 'Unreadable' represents number of lodgements for this category of entity that could not be machine-read to readily determine whether GPFS or SPFS have been prepared. For more details refer [Agenda Paper 3.1](#) of the February Board meeting

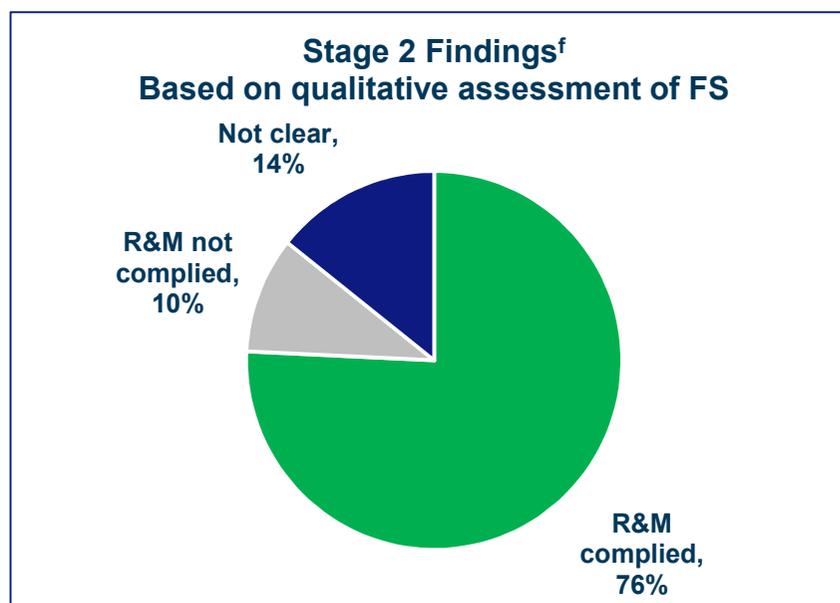
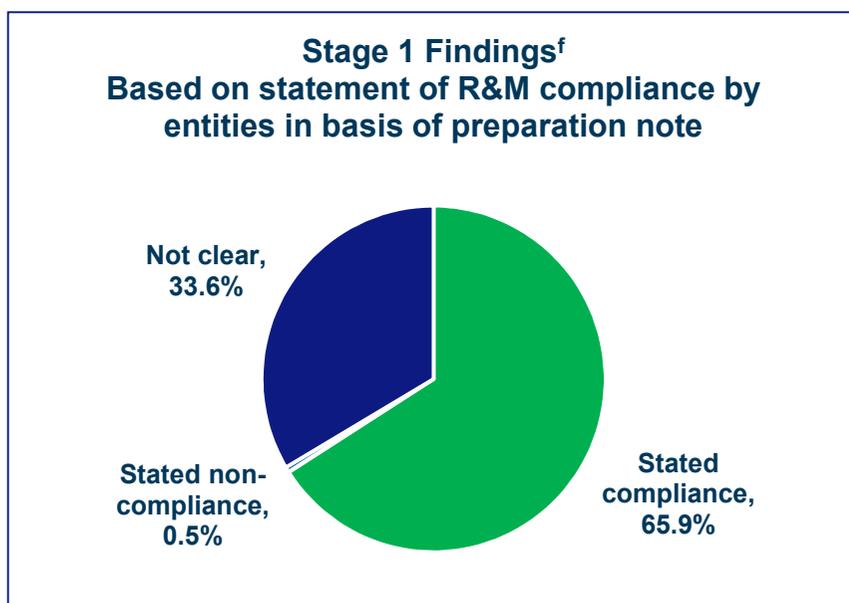
Key finding 1: % of entities preparing SPFS



Key finding 2: Compliance with R&M

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- **Compliance with R&M:** Overall compliance for large proprietary, unlisted public, small foreign and small proprietary requested by ASIC taken together^f (Entity wise compliance discussed later):
 - **76% of entities comply with R&M** (including **66% clearly stating compliance**)
 - **10% entities do not comply** with R&M (including **0.5% clearly stating non-compliance**)
 - For **14%** of entities it was **unclear** whether or not they apply R&M requirements



f- This is based on 90% confidence level and a sample size of 584 entities

Stages of Assessment of R&M compliance

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Under RR 2019, research into compliance with R&M was divided into two stages:

- **Stage 1:** Researchers typically looked at Note 1 of financial statement (basis of preparation) for statement of compliance or non compliance with R&M
- **Stage 2:** Qualitative assessment
 - *For entities with clear statement of compliance, a random sample was reviewed by AASB staff:*
 - to confirm accuracy of coding and that audit report was not qualified for non-compliance with R&M
 - to confirm there was no indication of non-compliance in accounting policies
 - for entities with no audit report, a qualitative assessment of accounting policies was performed

No exceptions were noted from this review

- *For entities with no clear statement of compliance or non-compliance:*
 - AASB staff performed qualitative assessment of accounting policies to ascertain compliance with R&M requirements



Clear compliance – example wordings from Basis of Preparation

- *The financial report has been prepared in accordance with Corporations Act, 2001, **the basis of accounting specified by all AAS and Interpretations**, the disclosure requirements of AASB 101, AASB 107 and AASB 108*
- *The financial report has been prepared in accordance with AASB 101, AASB 107, AASB 108, AASB 1031, AASB 1048 which apply to all entities required to prepare financial reports under the Corporations Act, 2001, **and other applicable Accounting standards and Urgent Issues Group Interpretations with the exception of the disclosure requirements in the following: ...***

Unclear of whether entity is complying with R&M or not

“The financial statements have been prepared in accordance with the mandatory Australian Accounting Standards applicable to entities reporting under the Corporations Act 2001 and the significant accounting policies disclosed below, which the directors have determined are appropriate to meet the needs of members.”



- At stage 2 entities were classified as complying with R&M only if:
 - accounting policies were included for all relevant items, sufficiently detailed and were consistent with R&M principles of AAS;
 - no obvious non-compliance was identified; and
 - audit report is clean in relation to compliance with R&M
- At stage 2 entities were classified as not complying if any policy was assessed to be not complying with the requirements of AAS
- In all other instances, entities were classified as unclear



Implications of Key finding 2

Finding: 76% of entities comply with R&M

Implication: Moving to full R&M GPFS Tier 2 will only affect about 24% of entities lodging with ASIC and preparing SPFS

Finding: 34% of entities – unclear whether they are complying with R&M under Stage 1 assessment

Implication: Demonstrates the need for entities to disclose whether they are complying with R&M or not to be helpful to users (refer to Agenda Paper 4.1)



Key finding 2 – Compliance with R&M by type of entities

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Stage 1	%	Stage 2	%
Compliance with R&M – Large proprietary companies			
R&M stated to have complied	68.8%	R&M complied	75.4%
R&M stated to have not complied	0.4%	R&M not complied	9.6%
No clear statement	30.8%	Not clear	15.0%

Compliance with R&M – Small foreign			
R&M stated to have complied	70.5%	R&M complied	79.3%
R&M stated to have not complied	0.6 %	R&M not complied	7.7%
No clear statement	28.9%	Not clear	13.0%

Compliance with R&M – Unlisted public			
R&M stated to have complied	59.6%	R&M complied	75.0%
R&M stated to have not complied	-	R&M not complied	6.7%
No clear statement	40.4%	Not clear	18.3%

Key finding 2 – Overall compliance with R&M by size

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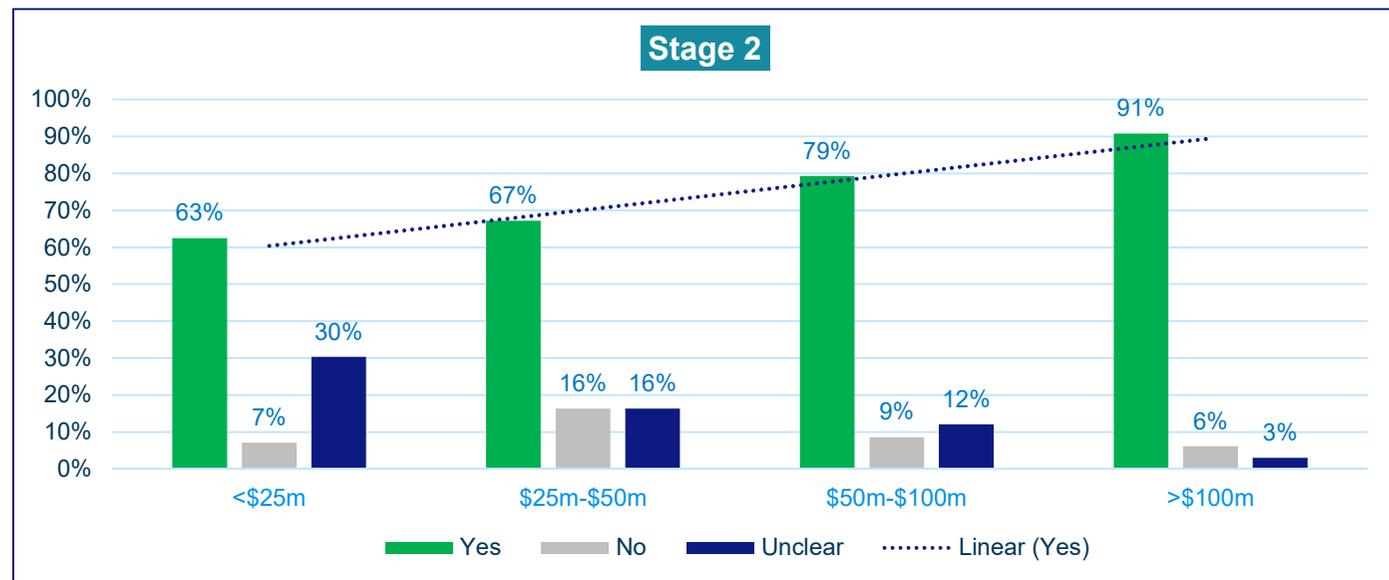
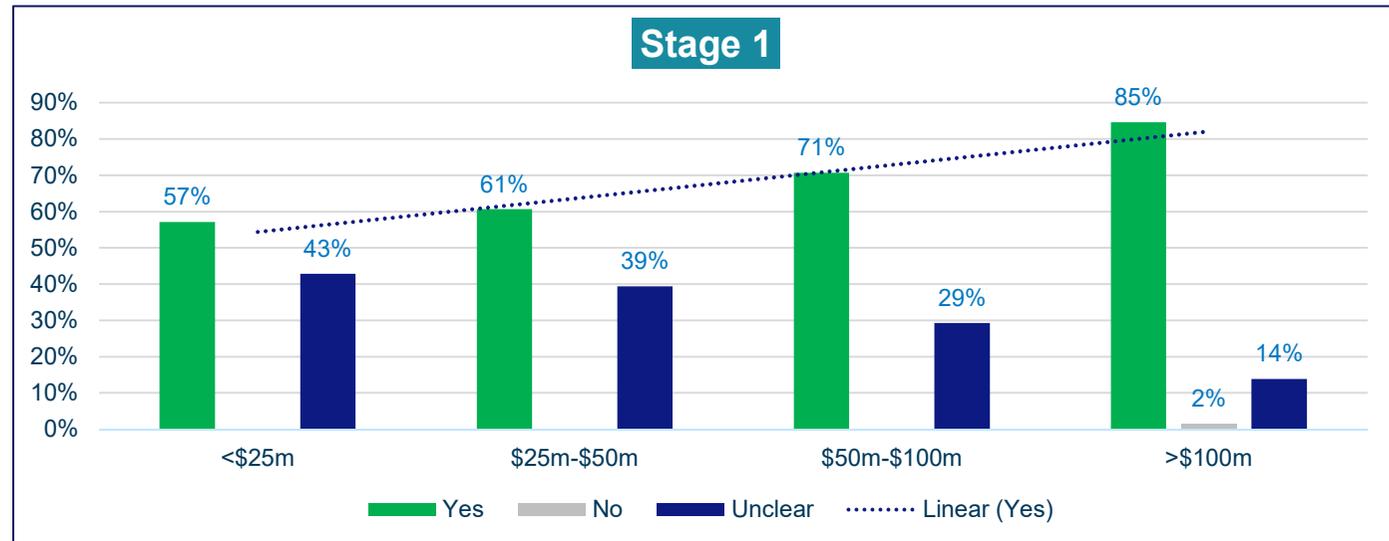
Revenue	Overall - for all entities		
STAGE 1	Yes	No	Unclear
<\$25m	60.3%	0.6%	39.2%
\$25m-\$50m	64.8%	-	35.2%
\$50m-\$100m	72.0%	-	28.0%
>\$100m	85.5%	1.2%	13.3%
	65.9%	0.5%	33.6%

Revenue	Overall - for all entities		
STAGE 2	Yes	No	Unclear
<\$25m	72.7%	9.9%	17.5%
\$25m-\$50m	70.4%	14.1%	15.5%
\$50m-\$100m	81.3%	8.0%	10.7%
>\$100m	91.6%	4.8%	3.6%
	76.2%	9.4%	14.4%

The data suggests increasing level of compliance and decreasing level of non-compliance and unclear FS as the thresholds increase

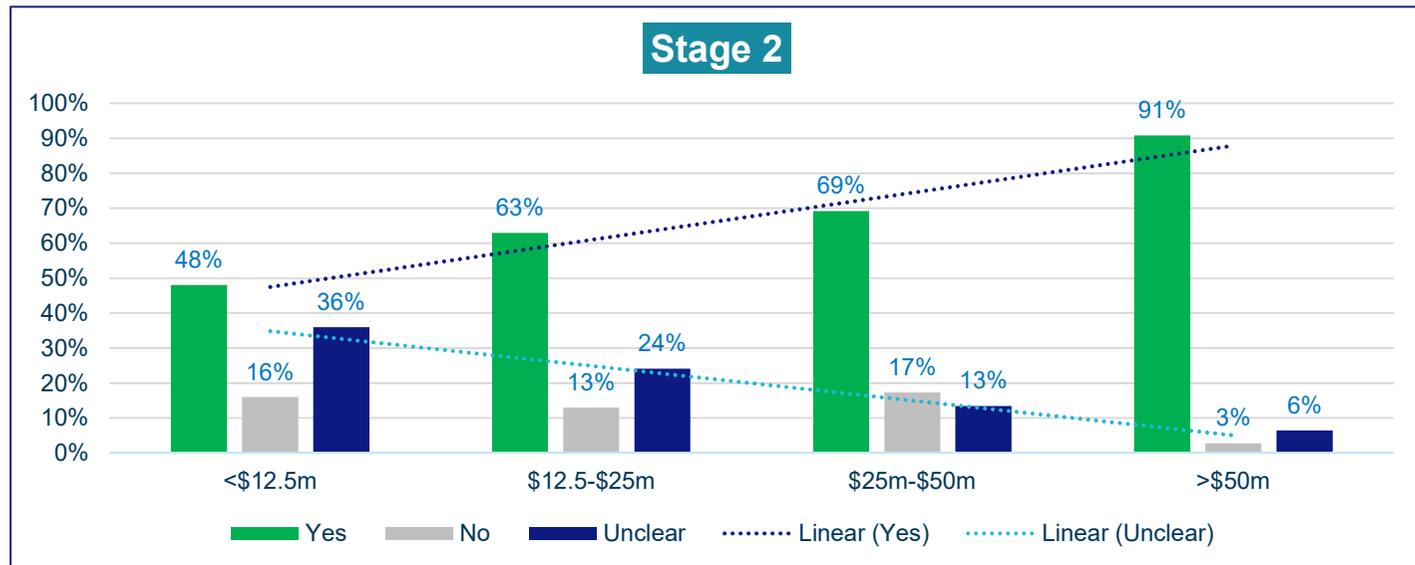
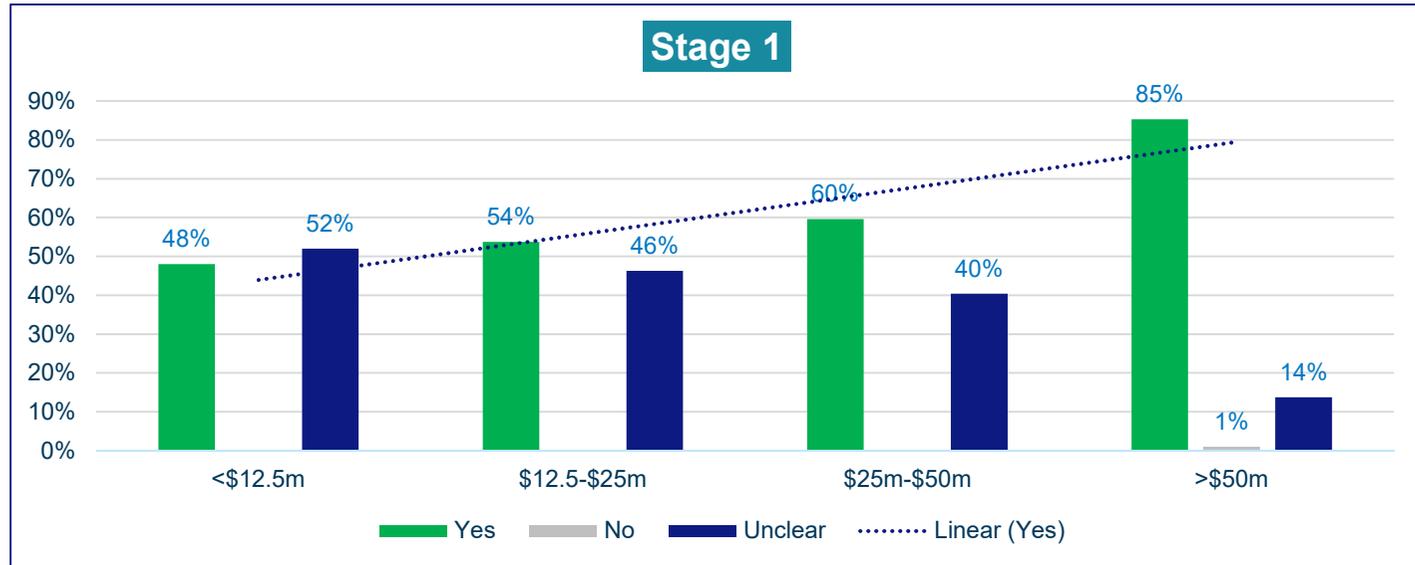
Key finding 2 – Compliance with R&M: Large Proprietary companies (By Revenue threshold)

Key finding:
Increased level of R&M compliance with increase in revenue threshold

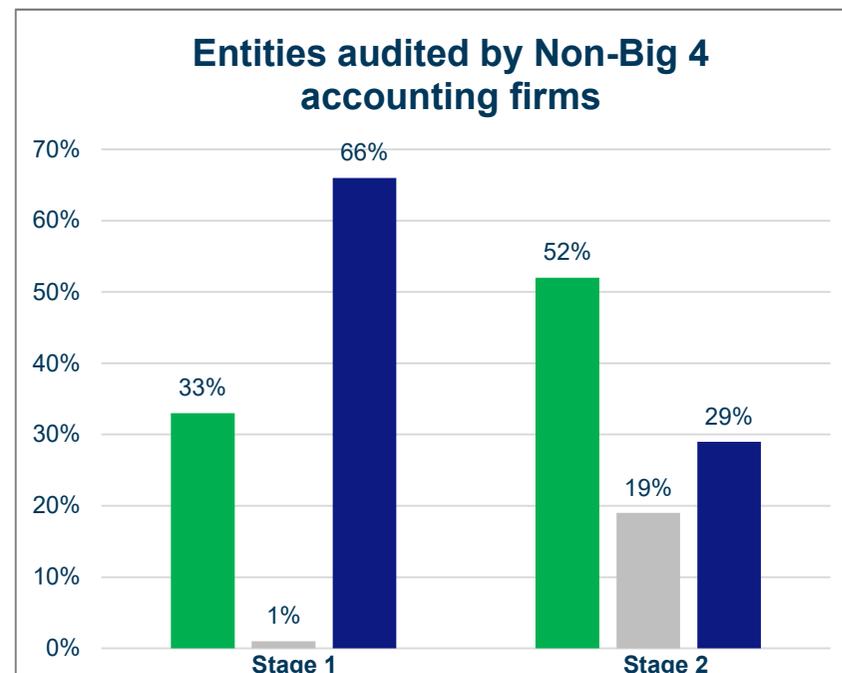
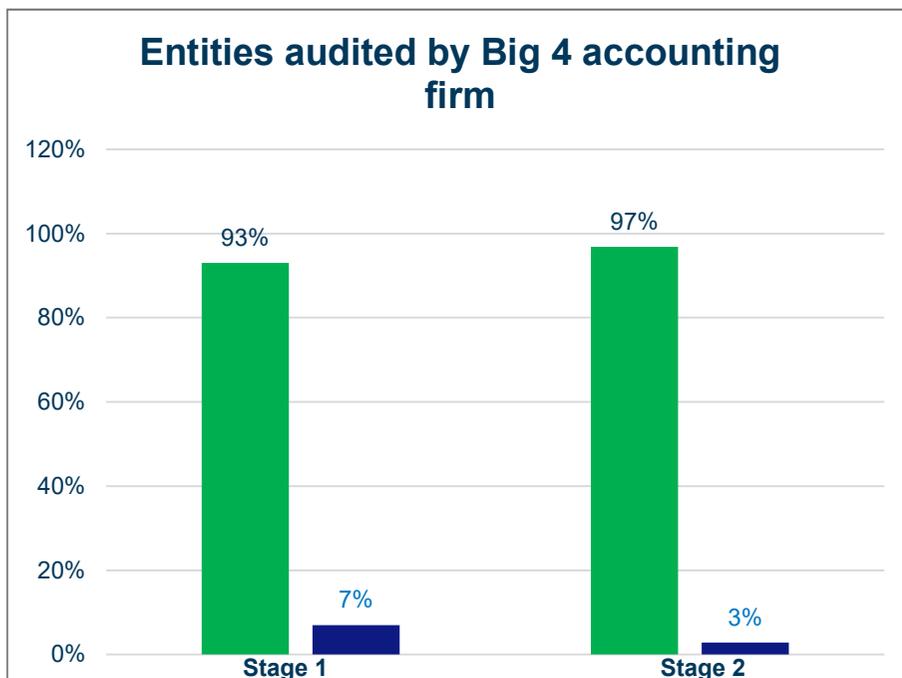


Key finding 2 – Compliance with R&M: Large Proprietary companies (By Asset threshold)

Results demonstrate correlation between size and compliance with R&M similar to revenue threshold



Key finding 2: R&M compliance by type of auditor



- Stated compliance at Stage 1/Assessed compliance with R&M at Stage 2
- Stated non-compliance at Stage 1/Assessed non-compliance with R&M at Stage 2
- Unclear

Finding: More compliance noted by companies audited by Big4

Implication:

Higher level of compliance with R&M may be due to firm wide policies to ensure compliance



RR 2019 Vs RR 1 – can we compare R&M compliance findings?

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Direct comparison between the two reports needs to be made with caution

- **Key reasons:** Due to differences in research focus and sampling strategies

Research Focus

- **RR 2019:** Assessing the extent of compliance with R&M in SPFSs of for-profit non-disclosing entities lodging with ASIC
- **RR 1:**
 - Determined the incidence of type of financial report (GPFS or SPFS) lodgements by both for-profit and not-for-profit (NFP) entities with ASIC
 - Examined the transparency of disclosures in relation to application of R&M and also disclosures stipulated in RG 85 to gain insights into reporting practices of those companies lodging SPFS

