



Australian Government

Australian Accounting Standards Board

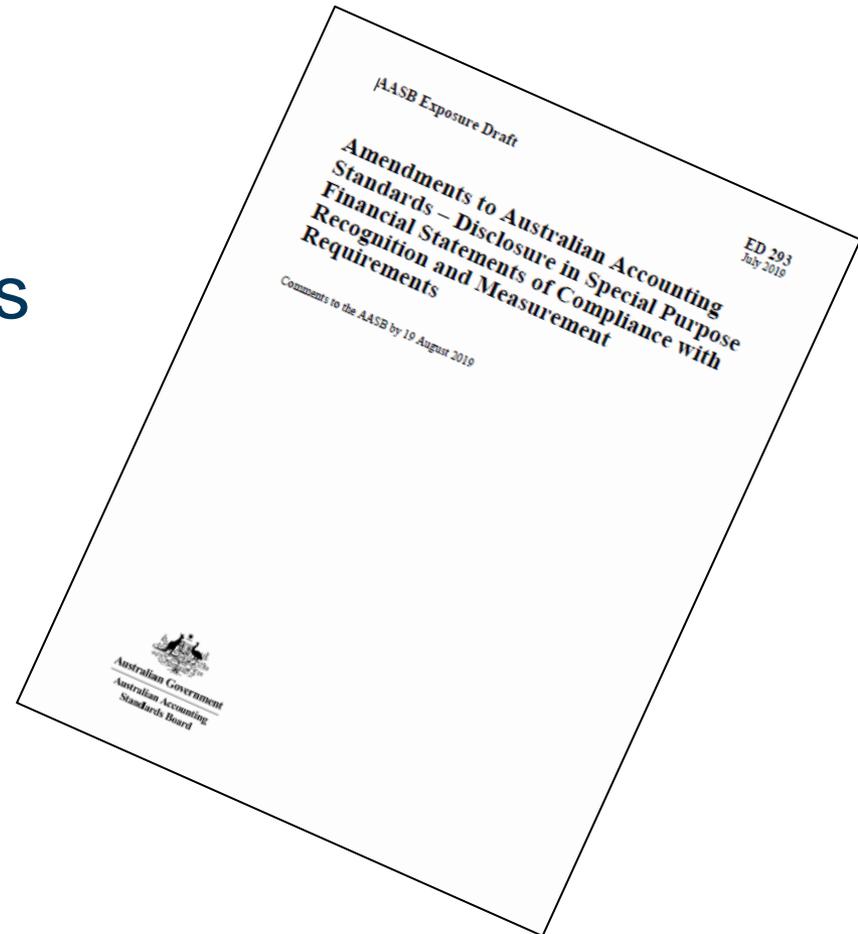
## AASB Webinar:

*ED 293: Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements*

July 2019

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- Introduction
- Background
- Details of the proposals
- Who will be affected
- Illustrative examples
- Audit implications
- Timeline
- Q&A



# Poll question 1

What is your role (if multiple, please just choose the most prevalent)?

- (a) Preparer
- (b) Auditor
- (c) User
- (d) Technical Advisor
- (e) Other



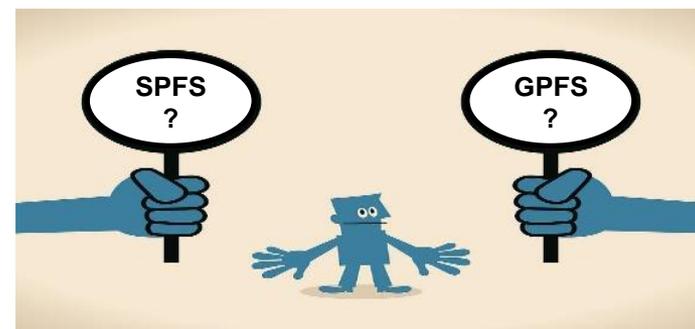
# Poll question 2

What sector do you (or your clients) represent (if multiple, please just choose the most prevalent)?

- (a) For-profit
- (b) Not-for-profit – private (charity)
- (c) Not-for-profit – private (other)
- (d) Not-for-profit – public sector



- The ‘reporting entity’ concept:
  - Entities effectively self-assess the type of financial reporting they do
    - two similar entities - one might prepare GPFS using a robust and consistent framework, the other might prepare SPFS deciding what to report using self-selected requirements
  - SPFS is not consistent, comparable, transparent or enforceable
    - the quality of disclosures is always not sufficient to enable a user to determine what additional information they might need
  - Additional risk for directors, preparers and auditors



# Background – why are the proposed disclosures needed?

## Feedback:

- **There are users:**
  - ~ 98,000 sets of financial statements are purchased from ASIC each year, some of which are SPFS
  - ~ 16,000 sets of financial statements of large and medium charities are freely available from the ACNC, of which ~ 1/3 are SPFS
- **Users' concern is comparability of R&M:** rated 88% in importance to primary users and 100% in importance to other users
- **Quality of disclosures:** insufficient in a significant number of SPFS to enable users to determine what additional information they might need



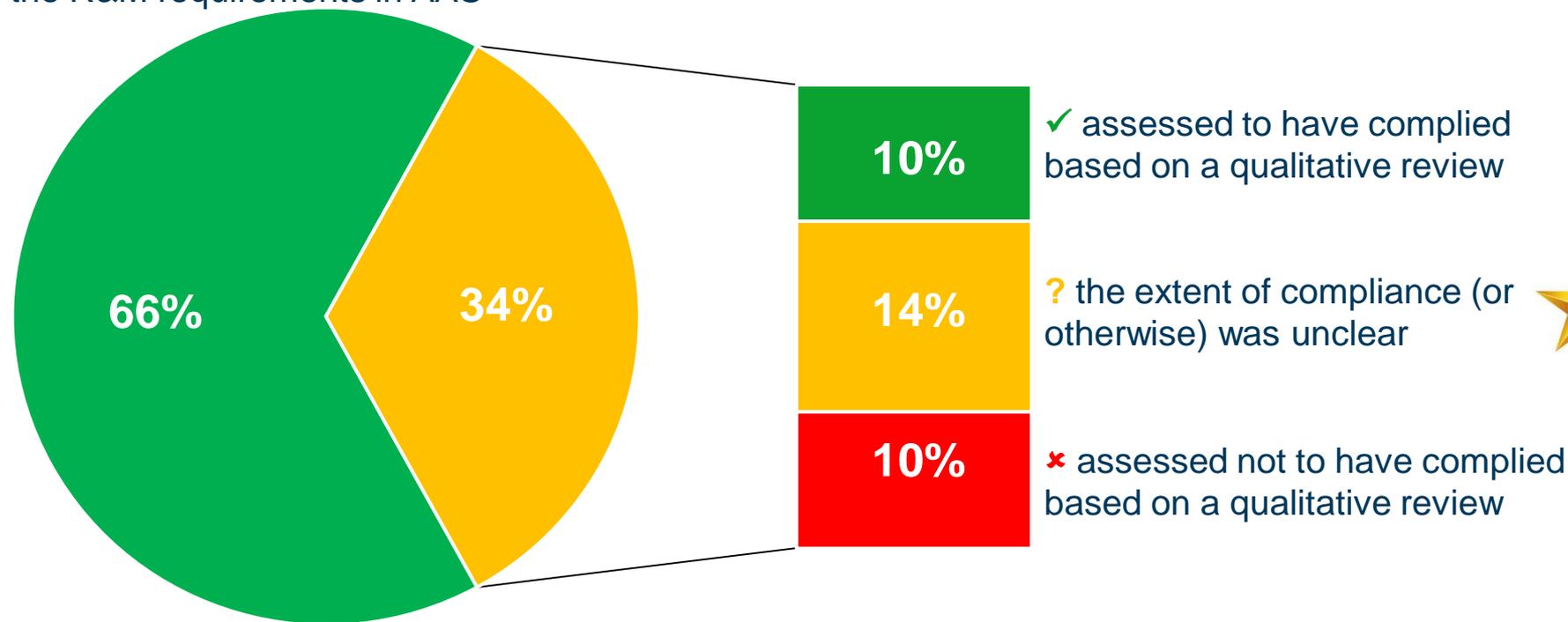
# Research findings: For-profit non-disclosing entities preparing and lodging SPFS (ASIC)

Extent of compliance with R&M in SPFS :

**STAGE 1**

✓ explicitly stated they followed the R&M requirements in AAS

**STAGE 2 (qualitative assessment)**



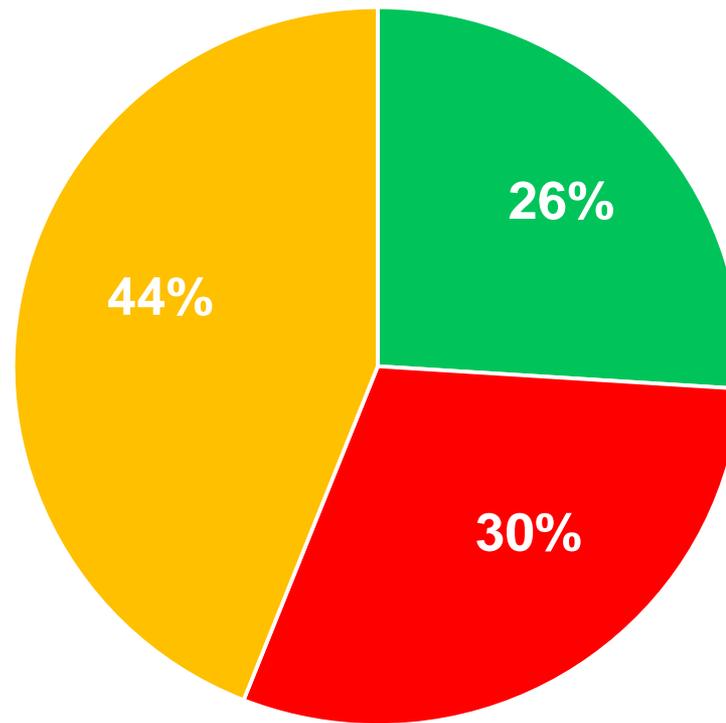
# Research findings: Large and medium charities preparing and lodging SPFS (ACNC)

Extent of compliance with R&M in SPFS :

STAGE 1



? the extent of compliance (or otherwise) was unclear



✓ stated compliance with the R&M requirements in AAS

✗ stated non-compliance with the R&M requirements in AAS



- The disclosure is:
  - **urgently** needed → provides greater transparency and improves comparability
  - not sufficient to address the problems of SPFS reporting; however provides **a practical interim means** of improving the quality of information in SPFS
- Understanding alignment with R&M requirements will help assess impact of any future transition from SPFS to GPFS
  - **No change** to existing accounting policies → not expected to be an onerous disclosure
  - **Understanding** which R&M requirements in AAS have / have not been complied with **is part of good governance**



# Who will be affected?

- Entities lodging SPFS with ASIC under Part 2M.3 of the *Corporations Act 2001*
- NFP entities lodging SPFS with the ACNC



# What will you need to disclose?

- ✓ the **basis** on which the decision to prepare SPFS was made;
- ✓ where the entity has subsidiaries, investments in associates or investments in joint ventures; **whether or not they have been consolidated or equity accounted in a manner consistent with the requirements set out in AAS**. If not, the entity shall disclose that fact and the reasons why;

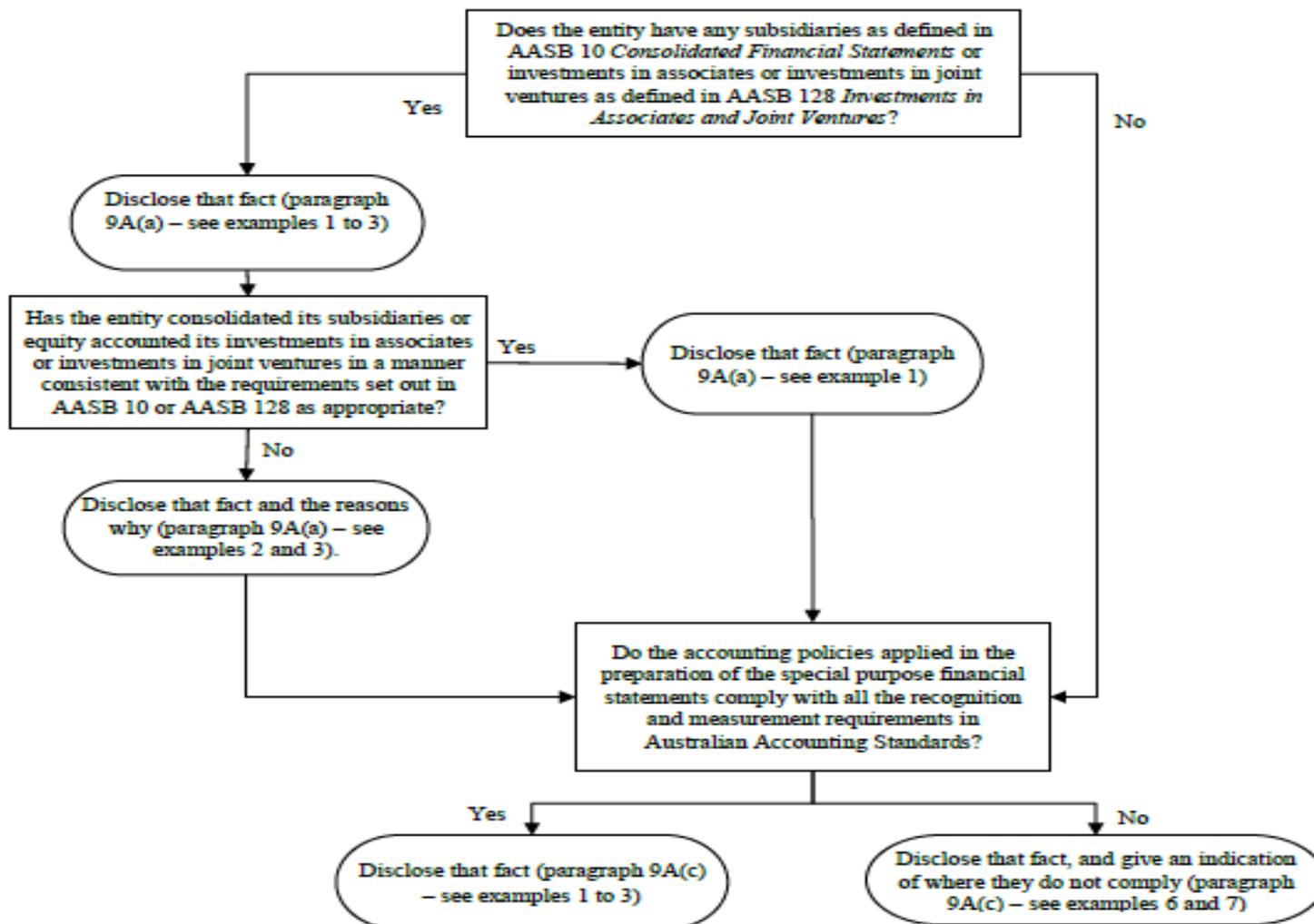
- ✓ if the entity is a **NFP entity**, and it has not determined whether or not its interests in other entities give rise to subsidiaries, associates or joint ventures, the entity shall instead disclose that fact; and

- ✓ an **explicit statement** as to whether or not the accounting policies comply with all the R&M requirements in AAS and, if not, an indication of where they do not comply.

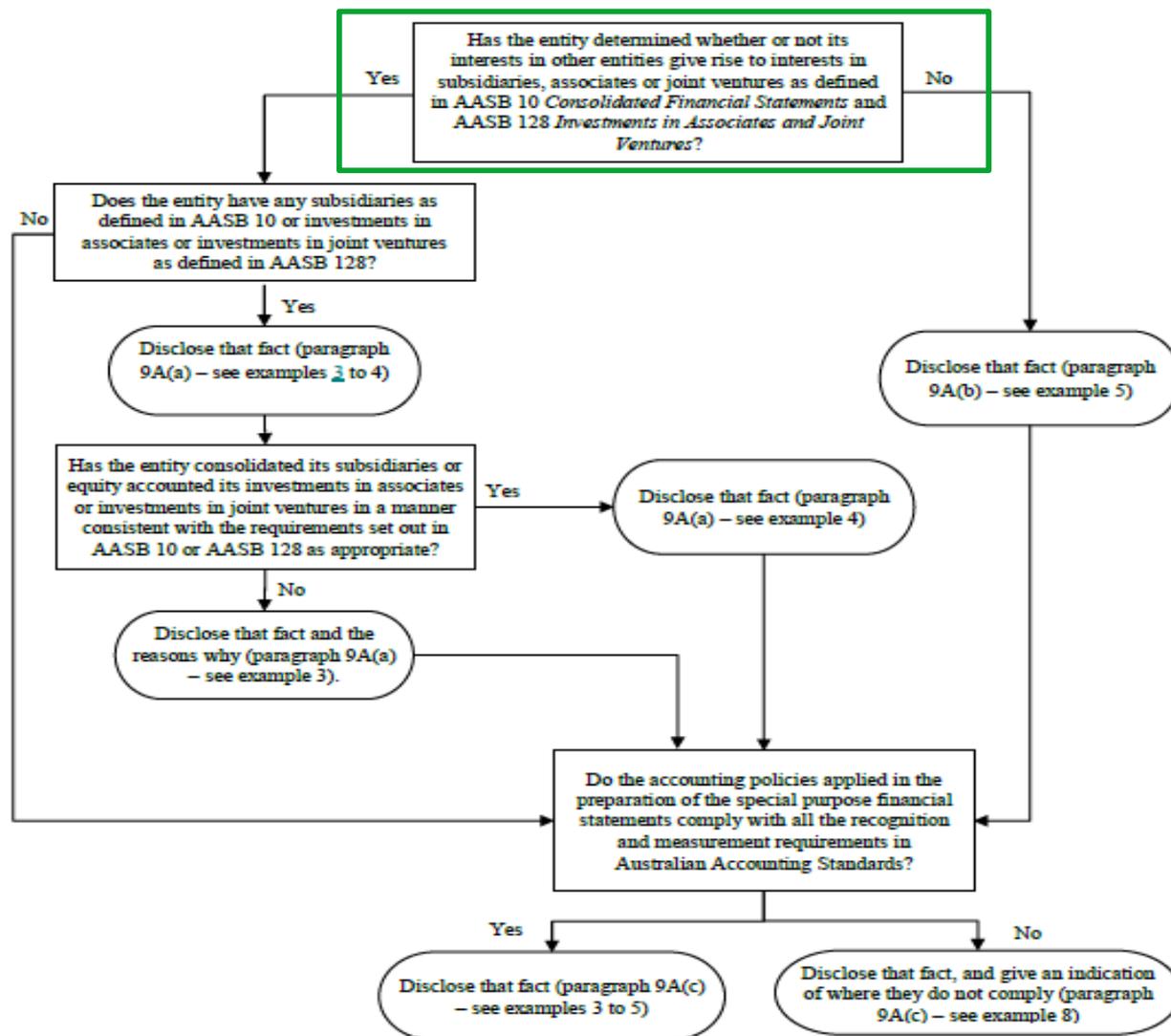
Where an entity's accounting policies do not comply with the R&M requirements in AAS, the Board is **NOT** proposing and does not expect a quantification or reconciliation of the extent of non-compliance.



**Chart 1 – For-profit entities preparing special purpose financial statements**



**Chart 2 – Not-for-profit entities preparing special purpose financial statements**



# Illustrative examples

Scenario/Example		1	2	3	4	5	6	7	8
Reporting Framework	Corps Act	x	x	x			x	x	
	ACNC				x	x			x
Subsidiaries	Yes	x	x	x	x	Not assessed			
	No						x	x	x
Consolidated	Yes	x			x		n/a	n/a	n/a
	No		x			x			
	Partially			x					
Associates / Joint Ventures Equity Accounted	Yes	x			x	Not assessed			
	No		x	x			x	x	x
Accounting policies comply with all the recognition and measurement requirements in Australian Accounting Standards	Yes	x	x	x	x	x			
	No						x	x	x



- ✓ For-profit parent
- ✓ Unconsolidated SPFS (AASB 10 exemption)
  - ✓ Comply with R&M requirements

## Illustrative disclosure

- ...
- **Consistent with the exemptions** from consolidation set out in AASB 10 *Consolidated Financial Statements*, these financial statements **do not consolidate** EFG Ltd's subsidiaries as [EFG Ltd is a wholly-owned subsidiary and its ultimate parent HIJ Ltd produces consolidated financial statements that are available for public use and comply with Australian Accounting Standards].
- EFG Ltd's unconsolidated special purpose financial statements **comply with all the recognition and measurement requirements** in Australian Accounting Standards. The significant accounting policies adopted in the special purpose financial statements are [set out below/in *Note XX*].

# Illustrative example 5:

- ✓ Not-for-profit
- ✓ Unconsolidated SPFS (did not determine whether it has subsidiaries, associates or joint ventures)
- ✓ Comply with R&M requirements

## Illustrative disclosure

- ...
- Charity B Inc **has not assessed** whether it has relationships with other entities which, for financial reporting purposes, might be considered subsidiaries, associates or joint ventures.
- These special purpose financial statements **comply with all the recognition and measurement requirements** in Australian Accounting Standards. The significant accounting policies adopted in the special purpose financial statements are [set out below/in *Note XX*].



# Illustrative example 6:

✓ For-profit single entity

✗ Do not comply with R&M requirements; differences are not extensive

## Illustrative disclosure

- ...
- These special purpose financial statements **do not comply with all the recognition and measurement requirements** in Australian Accounting Standards.
- The recognition and measurement requirements that have not been complied with are those specified in [AASB 112 *Income Taxes* as deferred tax **has not been recognised** / insert details that **indicate** which **material** recognition and measurement requirements in Australian Accounting Standards **have not been complied** with]. The significant accounting policies adopted in the special purpose financial statements are [set out below/in Note XX].



# Illustrative example 8:

✓ NFP single entity

✗ Do not comply with R&M requirements; differences are extensive

## Illustrative disclosure

- ...
- These special purpose financial statements **do not comply with all the recognition and measurement** requirements in Australian Accounting Standards.
- The significant accounting policies adopted in the special purpose financial statements include:
  - [in accounting for income, 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*;
  - in accounting for employee benefits, the long term provision for long service leave was not discounted, which **does not comply** with AASB 119 *Employee Benefits*].

OR

- [...accounting policies ... set out in notes X-Y .. provide **an indication** of where the recognition and measurement requirements in Australian Accounting Standards **have not been complied** with.]



# Poll question 3

Do you agree that the proposed disclosures will improve transparency and comparability of SPFS?

- (a) Yes
- (b) No – give reasons
- (c) Unsure



# Poll question 4

Do you find the implementation guidance and illustrative examples helpful?

- (a) Yes
- (b) No – provide suggestions for examples
- (c) Unsure



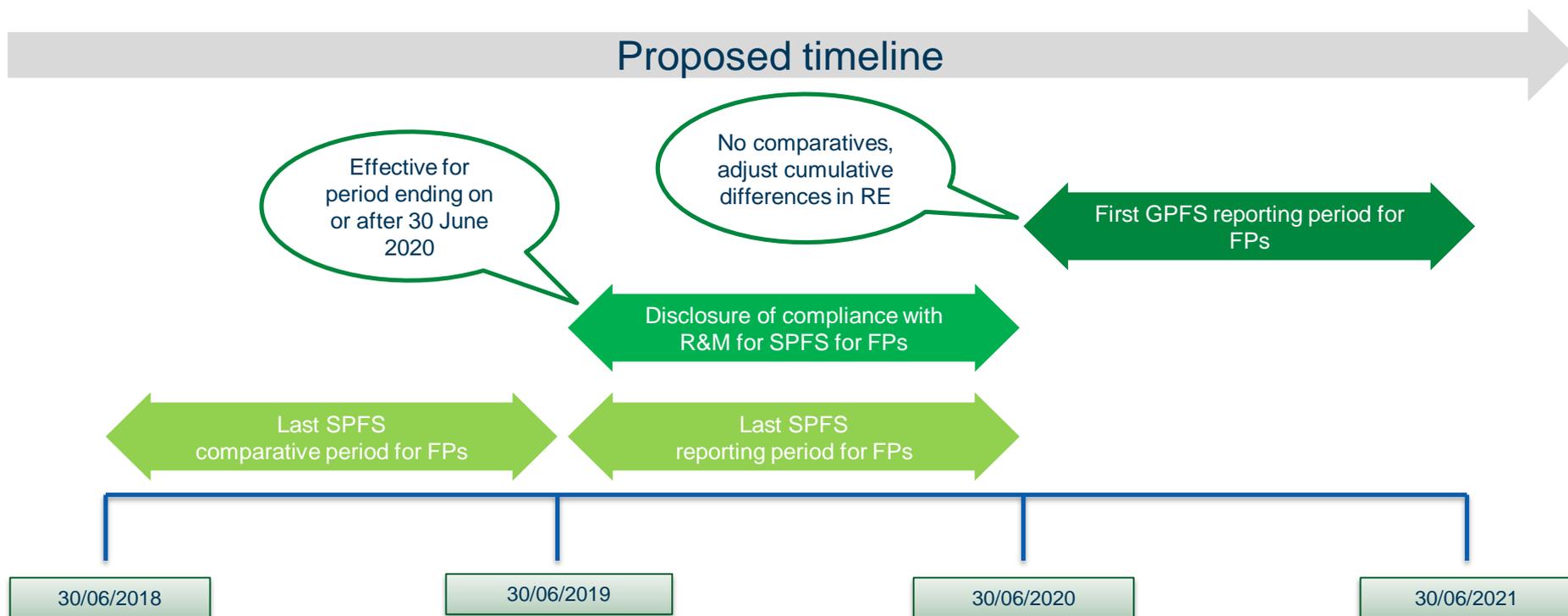
- Opinion on whether the financial report as a whole is free from material misstatement
- Auditors to evaluate:
  - Whether the financial report adequately refers to or describes the SPRF;
  - Have the additional required disclosures been made in the Financial Report; and
  - Are the additional disclosures materially misstated (ASA 320).
- Preparers to discuss and agree the impact of the proposed disclosure and any supporting documentation with the auditors

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





- Comments on the ED will close **19 August 2019**
- Effective for annual periods ending **30 June 2020**, but
- All entities are strongly encouraged to early adopt and make this disclosure at **30 June 2019**.



# Poll question 5

Do you expect any significant difficulties in providing the proposed disclosures?

(a) Yes

(b) No

(c) Unsure





- AASB website:

<https://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx>

- LinkedIn:

<https://www.linkedin.com/company/aasb/>

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- Via the feedback form at the conclusion of the webinar.



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