

26 April 2016

Ms Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
VICTORIA 8007

By email: [standard@asab.gov.au](mailto:standard@asab.gov.au)

Dear Ms Peach,

### **Submission on Exposure Draft ED 270 Reporting Service Performance Information**

We welcome the opportunity to provide the Australian Accounting Standards Board with our comments on the Board's Exposure Draft (ED) 270 *Reporting Service Performance Information*.

Nexia Australia represents the Nexia network firms in Australia and New Zealand comprising independent Chartered Accountancy firms located in Sydney, Melbourne, Brisbane, Canberra, Adelaide, Perth and Christchurch with approximately 75 partners and 650 staff. Nexia Australia firms service clients from small to medium enterprises, large private company groups, publicly listed entities and many not-for-profit entities.

The ED explains the AASB's rationale for issuing an Australian Accounting Standard on reporting service performance information. However, in our opinion, this subject matter should not be addressed within an Australian Accounting Standard.

Federal Parliament chose to deactivate section 300B of the *Corporations Act 2001* for companies limited by guarantee and did not relocate those requirements within the *Australian Charities and Not-for-Profits Commission Act 2012* for those entities that are also registered charities. This suggests that the legislature did not regard those disclosures as imperative to users of those entities' financial report. In any case, we believe that a requirement to report other information not directly related to an entity's financial information should be a matter for the relevant regulator and/or legislature and not the Australian Accounting Standards Board.

Furthermore, we strongly disagree with the proposal that reporting service performance information should be mandatory for not-for-profit entities preparing general purpose financial statements.

Our detailed comments on the Board's proposals are attached. Should you wish to discuss any aspects of our submission, please do not hesitate to contact me.

Sincerely



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## Appendix

### AASB Request for Specific Comments

- 1 *Paragraph 20 proposes the principles for reporting service performance information. These principles state that an entity reports service performance information that:*
- (a) is useful for accountability and decision-making purposes;*
  - (b) shall be appropriate to the entity's service performance objectives;*
  - (c) clearly shows the extent to which an entity has achieved its service performance objectives;*  
*and*
  - (d) should enable users to assess the efficiency and effectiveness of the entity's service performance.*

*Do you agree with these principles? Why or why not?*

We broadly agree with the above principles but make the following observations:

- The concepts relating to the information needs of users of general purpose financial statements as described in SAC 1 is generally well understood. However, it is unclear whether the users of service performance information and the decision-making purposes of that information, as referred to in paragraph 20(a) of the proposed standard, is the same as those users and decision-making purposes referred to in SAC 1.

As the decision-making purposes relevant to financial information and service performance are not necessarily aligned, we disagree with the Board using the same terminology between SAC 1 and ED 270 to suggest that service performance information is complementary to SAC 1.

- The premise for reporting service performance information appears to be that an entity's service performance objectives include the delivery goods or services. The objectives of some not-for-profit entities do not include, or can be measured in, clearly defined outcomes.

For example, golf and sporting clubs, arts programs, medical research organisations and community service organisations that are not primarily driven by identifiable outcomes may have difficulty in articulating and measuring 'the extent to which an entity has achieved its service performance objectives'. Similarly, it may be difficult for those organisations to demonstrate or measure the effectiveness of the entity's service performance objectives.

We suggest that the Board consider and provide additional guidance and clarity regarding how these principles are to be applied by a broader range of not-for-profit entities.

- 2 *It is proposed that the [draft] Standard will be applicable to NFP entities in both the private and public sector. The performance of these entities cannot typically be evaluated from the financial statements alone. Accordingly, users of NFP entity reporting require further information for accountability and decision-making purposes.*

*Do you agree that it is appropriate that the [draft] Standard apply to NFP entities in both the private and public sectors? Why or why not?*

Refer to our comments at questions 4 and 11.

- 3 *The Board is of the view that users of for-profit reporting may also benefit from for-profit entities reporting service performance information.*

*Do you agree that the application of this [draft] Standard could be extended in the future to include for-profit entities? Why or why not?*

We do not agree with extending the application of the proposed standard to for-profit entities.

As the Board has noted, the principle objectives of not-for-profit entities and for-profit entities are different and, therefore, user needs are potentially different. Other legislative and reporting requirements generally require disclosure of an operating and financial review and other information relating to an incorporated for-profit entity's operations.

We do not believe that the Board has identified or articulated the deficiency in the current reporting requirements for for-profit entities that the proposals in ED 270 would attempt to address. Consequently, we disagree with the proposal.

*4 Do you agree that this [draft] Standard should apply to all NFP entities that prepare consolidated general purpose financial statements (including WoG and GGS financial statements)? Why or why not?*

We do not agree with applying the proposed standard to public sector entities that prepare WoG and GGS financial statements.

Private sector not-for-profit entities tend to have fixed identifiable objectives. However, those key service performance objectives applicable to the WoG and GGS are likely to change over time as governments, its policies, and circumstances change.

In our view the identification of performance reporting objectives and measures at the WoG and GGS would be too subjective, difficult to identify and measure on a consistent basis, and would be of questionable use to stakeholders.

*5 This [draft] Standard proposes that the reporting entity for which service performance information is reported shall be the same as that used for the entity's financial statements.*

*Do you agree with this proposal? Why or why not?*

We are not aware of a compelling reason why the reporting entity for which service performance information is reported should not be the same as that used for the entity's financial statements.

*6 Do you agree that this [draft] Standard should not specify the location of service performance information? Why or why not?*

*If you disagree with the approach proposed in this [draft] Standard how do you consider entities should present service performance information and why?*

We agree with the proposal. We do not agree that the service performance information must be presented as part of an entity's audited financial report.

We are concerned that if the service performance information is included as part of an entity's audited financial report that Australian Auditing Standard ASA 720 *The Auditor's Responsibility Relating to Other Information in Documents Containing an Audited Financial Report* would require the auditor to consider whether that information contains any material inconsistencies with the financial report or contains any material misstatement of fact.

An entity's service performance objectives and service performance indicators and measures may be subjective. We are concerned that it may not be possible to obtain sufficient appropriate evidence to enable an auditor to satisfy the requirements of ASA 720 and may add significant additional time and cost of the entity's audit.

Furthermore, we are opposed to any proposal that would require an auditor to form an audit opinion on service performance information.

*7 This [draft] Standard allows for an entity's service performance information to be reported for a different time period to that of the entity's financial statements.*

*Do you agree with this proposal? Why or why not?*

If the objective of the standard is to provide users of general purpose financial statements of not-for-profit entities with both financial information as well as service performance information (refer paragraphs BC5 – BC7) then we would expect that an entity's service performance information should be reported for the same time period as that of the entity's financial statements.

However, we concede that there may be reasons why a not-for-profit entity may wish to present service performance information for a different time period to that of the entity's financial statements.

Consequently, we agree with the proposal.

*8 Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not?*

We have no specific comments on this question.

*9 The AASB's view is that this [draft] Standard should be mandatory.*

*Do you agree that this [draft] Standard should be mandatory for NFP entities? Why or why not?*

We strongly disagree with the proposal that the standard should be mandatory for not-for-profit entities preparing general purpose financial statements.

By extension, we disagree that the standard should be mandatory for not-for-profit entities preparing Tier 2 general purpose financial statements (that is, applying the Reduced Disclosure Regime).

We are concerned that:

- The cost of compliance with the proposals would outweigh the perceived benefits for smaller not-for-profit entities that are required or elect to prepare general purpose financial statements. For example, medium charities reporting under the *Australian Charities and Not-for-Profits Commission Act 2012*; and
- Some not-for-profit entities may attempt to change their financial reporting framework from Tier 2 Reduced Disclosure Regime to a special purpose financial framework to overcome the additional administrative burden or complying with the standard. In our opinion, this would be an adverse unintended consequence of the proposal.

*10 It is proposed that this [draft] Standard will be applicable for annual reporting periods beginning on or after 1 July 2018. Early application will be permitted.*

*Do you agree with the proposed application date of 1 July 2018? Why or why not?*

In our view, the proposals, if implemented, should not be mandatorily applicable before 1 July 2018.

## Other matters

### 11 Whether:

- (a) *there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?*
  - (b) *overall, the proposals would result in reporting that would be useful to users?*
  - (c) *the proposals are in the best interests of the Australian economy?*
- We are aware that some jurisdictions require the reporting of budgetary information and service performance information by public sector entities, although the framework for such reporting is different to that described in ED 270.  

We are concerned that some public sector entities will be required by State or Federal legislation to report certain service performance information that could be inconsistent with, or in addition to, that required by the proposed standard. We recommend that the Board conduct further research and outreach in respect of those affected entities and jurisdictions and avoid adding duplication, complexity and an administrative burden on those entities.
  - As previously stated, we do not agree that:
    - i) the AASB should issue an Australian Accounting Standard on this subject matter; and
    - ii) in any case, the proposed standard should not be mandatorily applicable to all not-for-profit entities preparing general purpose financial statements.

Our preferred view is that the proposals be referred to the charities regulator, the *Australian Charities and Not-for-Profits Commission*, for consideration whether such information should be disclosed by large charities registered with the Commission.
  - Based on its current form and application we believe that the costs of applying the proposals would outweigh the perceived benefits. Consequently, we do not believe that the proposals, as formulated, are in the best interests of the not-for-profit sector.