

28 June 2013

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Dear Mr Stevenson

### **ED 238: CONSOLIDATED FINANCIAL STATEMENTS – AUSTRALIAN IMPLEMENTATION GUIDANCE FOR NOT-FOR-PROFIT ENTITIES**

Thank you for the opportunity to provide our views on ED 238. Our comments arise from our understanding and involvement with the not-for-profit ('NFP') sector as well as our consultations therewith in respect to the proposals in ED 238.

#### **About Moore Stephens**

We are writing on behalf of the Moore Stephens Australia network of eight independent firms of business advisors and chartered accountants.

Moore Stephens has a deep understanding of its clients and the environment in which they operate. We have had a long-standing commitment and involvement with the NFP sector, having been involved with NFP organisations for the past 50 years. We currently provide various professional services, including assurance, accounting, tax and advisory services, to a range of NFP organisations, including:

- religious organisations;
- large charities; and
- Universities and TAFE colleges.

As a consequence of our long-standing commitment to and involvement with NFP organisations, we have taken a strong interest in regulatory changes impacting the sector, and have been active in recent years in providing submissions to the Government's various committees and consultations to support the sector through the current reform phase.

#### **Overall Views**

We support the AASB's efforts to develop high-quality accounting pronouncements that address NFP specific financial reporting issues and, subject to our responses and reasoning in respect to the

Specific Matters for Comment contained in ED 238 provided in Appendix 1 to this letter, broadly support the proposals in ED 238.

If you have any queries please contact the contributors to this submission listed below.

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Yours faithfully



Joe Shannon

Chairman

Not-for-profit Group

**MOORE STEPHENS AUSTRALIA**

**APPENDIX A: SPECIFIC MATTERS FOR COMMENT**

**A1 *Should Australian implementation guidance for NFP entities be added to AASB 10 and AASB 12 and, if so, should it, as proposed, be authoritative (i.e., “integral” to the Standard) or non-authoritative material?***

A1.1 We agree with the proposal to add implementation guidance for NFP entities to AASB 10 and AASB 12 as authoritative material, thereby making it integral to the application of the Standards. Such an approach:

- a) is consistent with the current status of the public sector-specific guidance in AASB 127: *Consolidated and Separate Financial Statements* regarding application of the concept of control; and
- b) would be expected to facilitate comparability of financial statements between NFP entities and over time.

A1.2 However, we also note that such an approach may not be appropriate in all circumstances, particularly where proposed NFP-specific requirements and/or guidance are not consistent with the corresponding IFRS requirements. In such circumstances, we would recommend the AASB issue a NFP-specific Australian Accounting Standard or Interpretation, consistent with the approach it has adopted with respect to the recently-issued first batch of compiled versions of Australian Accounting Standards and Interpretations applicable to annual reporting periods beginning on or after 1 January 2013.

**A2 *Does the proposed implementation guidance appropriately explain the definition of ‘control’ in AASB 10 for application by NFP entities, including the following aspects:***

- a) *the broad nature of returns from a controlled NFP entity, including non-financial and indirect benefits (paragraphs IG16 and IG17); and*
- b) *the four detailed sets of implementation examples in the proposed Appendix E for AASB 10?*

A2.1 While we support including the proposed guidance in paragraphs IG16 and IG17 in AASB 10, we do not consider the concept of ‘returns’ to be integral to the consistent application of AASB 10 in a NFP context. In the absence of the proposed guidance in IG16 and IG17, we would anticipate the vast majority of (if not all) preparers and auditors would interpret ‘returns’ broadly, consistent with the requirements and guidance in paragraphs 15, 16 and B5(c) of AASB 10. In contrast, we consider the concept of ‘relevant activities’ to be much more difficult to interpret and apply in a NFP context and, therefore, more likely to give rise to inconsistencies in reporting outcomes.

A2.2 Example IG1 provides a useful explanation of how the notion of ‘relevant activities’ might be interpreted in a NFP context where power resides within a single entity within a group. However, for many NFP entities, the power to govern different aspects of a group’s activities often resides with more than one entity within the group. For instance, some NFP groups (particularly religious groups) are structured to ensure that their asset management and fund-raising activities on the one hand, and their pastoral, educational, community and/or welfare activities on the other, are managed by separate and distinct entities. Such arrangements are likely to pose some difficulties for the consistent application of AASB 10, particularly in determining the parent entity of a group of entities that are not linked by ownership/voting interests.

A2.3 Some argue that asset management and fund-raising activities are the most important activities of NFP entities because they provide the entities with the capacity to undertake their NFP activities. However, an equally valid argument can be made for the pastoral, educational, community and welfare activities being the 'relevant activities' of a NFP entity, particularly when the monies they receive are premised on the entity providing such services. Accordingly, we recommend the AASB give further consideration to the different ways in which reporting groups of NFP entities, particularly private sector entities, are arranged and the potential implications of these different arrangements for identifying the relevant activities of the group.

**A3 *Does the proposed implementation guidance appropriately explain the definition of 'structured entity' in AASB 12 for application by NFP entities?***

A3.1 We offer no comments in respect to the proposed implementation guidance in relation to the definition of a structured entity.

**A4 *Is it appropriate to exclude all disclosure requirements in AASB 12 in respect of GGS financial statements?***

A4.1 We offer no comments in respect to the proposal to exclude all disclosure requirements in AASB 12 in respect of GGS financial statements.

**A5 *Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including GFS harmonisation issues?***

A5.1 As you would be aware, pursuant to the *Australian Charities and Not-for-profits Commission Act 2012*, the Commissioner of the Australian Charities and Not-for-profits Commission (ACNC) has the power to, amongst other things, allow two or more registered entities to prepare and lodge one or more financial reports ('joint and collective reporting') with the ACNC. The Act provides the following example of such a situation.

*The Commissioner may allow a reporting group of affiliated registered entities that advance religion and relieve poverty to prepare and lodge 2 financial reports, one report in relation to the reporting group's religious functions and one in relation to the reporting group's welfare function.*

A5.2 In our response to the draft *Australian Charities and Not-for-profits Commission Regulation 2012* and accompanying Explanatory Material, we expressed in principle support for the proposal to permit registered entities to depart from the requirements in Australian Accounting Standards dealing with the preparation and presentation of consolidated financial statements by providing joint or collective reporting. We envisage a number of circumstances in which joint and collective reporting could facilitate the provision of useful information that might not be provided under AASB 10, including where a group of NFP entities that are subject to common control (all have the same ultimate 'parent') but do not prepare consolidated financial statements because their 'parent' is domiciled outside of Australia.

A5.3 Notwithstanding our in principle support for the proposal for joint and collective reporting, the prospect that a NFP entity might, in preparing its financial statements, not comply with the requirements in applicable Australian Accounting Standards raises some questions (and concerns) regarding:

- a) the basis on which the financial statements might be prepared; and
- b) how the auditor might deal with the divergence from the Accounting Standards in their audit report.

Accordingly, we recommend the AASB raise this matter (if it hasn't already) with the ACNC and the Auditing and Assurance Standards Board (AuASB) with a view to establishing a clear position on the potential implications of any divergences from applicable Australian Accounting Standards as a consequence of the joint and collective reporting proposals.

**A6 Overall, would the proposals result in financial statements that are useful to users?**

A6.1 Subject to the outcomes from the matters discussed in paragraphs A2.1-A2.3 and A5.1-A5.3 above, we would expect that the proposals in ED 238 would facilitate the preparation and presentation of financial statements that are useful to users.

**A7 Are the proposals in the best interests of the Australian economy?**

A7.1 Subject to the outcomes from the matters discussed in paragraphs A2.1-A2.3 and A5.1-A5.3 above, we consider the proposals in ED 238 to be in the best interests of the Australian economy.

**A8 The costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

A8.1 We offer no comments in respect to the potential costs and benefits of the proposals in ED 238.