

29 April 2016

Ms Kris Peach

Chair Australian Accounting Standards Board

Online submission via [aasb.gov.au](http://www.aasb.gov.au)

<http://www.aasb.gov.au/Work-In-Progress/Submit-Comment-Letter.aspx?id=1897>

Dear Kris

AASB ED 270 Reporting Service Performance Information

I am pleased to provide the Australian Accounting Standards Board (AASB) with my comments on Exposure Draft 270 Reporting Service Performance Information (the ED) which is based on Recommended Practice Guideline (RPG 3) Reporting Service Performance Information of the International Public Sector Accounting Standards Board (IPSASB), published by the International Federation of Accountants (IFAC) in March 2015. I have considered the ED, as well as the accompanying draft Basis for Conclusions.

This submission reflects my position as a consultant to business including Not-for-Profits (NFPs), and their own advisers including auditors. This submission has also benefited with input from discussions with key constituents, and in particular I appreciated the opportunity to be a participant at the AASB's Sydney Roundtable on 11 November 2015 where the ED was extensively discussed and was attended by representatives from some of the AASB members and staff. I note that at the Sydney Roundtable, the non-AASB participants did not support ED 270 being a mandatory accounting standard, and also argued for significant amendments to better reflect the role of non-public sector NFPs who are mostly contributing to charitable and other ancillary activities for the public good.

I do not support ED 270 for the following reasons:

- (a) ED 270 if issued as a Framework document should not be in the format of a mandatory accounting standard as the costs of complying with ED 270 far outweigh the benefits, and consequently it would reduce the services that an NFP currently provides due to what I consider is unnecessary compliance costs;
- (b) ED 270 as a mandatory accounting standard is contrary to the Commonwealth Government's policy of reducing unnecessary red tape compliance costs;

(c) ED 270 is closely based on the IPSASB's Recommended Practice Guideline (RPG 3) Reporting Service Performance Information which as the title states, is guidance and not mandatory. Hence Australia would be out of step with the rest of the world, and NFPs would bear higher costs compared to non-Australian NFPs; and

(d) ED 270 requires significant amendment as the changes to RPG 3 which is only designed for public sector entities, are minimal, and hence not specifically relevant to the activities on non-public sector NFPs.

The Corporations Act already requires appropriate disclosures for entities that are companies limited by guarantee (Section 300B):

- short and long term objectives;
- the strategy for achieving those objectives;
- its principal activities,
- how those activities assisted in achieving the entity's objectives and;
- how its performance is measured, including any key performance indicators.

I believe that such information provides a simple and appropriate framework for the smaller NFPs and allows NFPs to provide sufficient information where its constituents require, on service performance.

If you require any further information or comment, please contact me.



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APPENDIX**Specific Matters for Comment**

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?

No. Whilst the principles may be useful for a public sector NFP, the principles require tailoring for non-public sector NFPs as they generally provide charitable services, and they should not be mandatory.

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?

No. Whilst the principles may be useful for a public sector NFP, the principles require tailoring for non-public sector NFPs as they generally provide charitable services, and they should not be mandatory.

3 The AASB discussed whether this [draft] Standard could be applied by for-profit entities at a future date. The Board noted that the principle objectives of NFP entities and for-profit entities are different and, therefore, user needs are potentially different. However, 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?

No. Whilst the principles may be useful for a public sector NFP, the principles require tailoring for non-public sector NFPs as they generally provide charitable services, and they should not be mandatory.

4 The AASB discussed whether the requirements of this [draft] Standard should apply to entities that prepare consolidated financial statements including whole-of-government (WoG) and the general government sector (GGS) financial statements. The Board decided that if the [draft] Standard did not apply to entities preparing consolidated financial statements, some important information might not be reported, particularly if a controlled entity was not required to apply this [draft] Standard. Further, it was noted that some governments prepare a strategic plan for the WoG (not just individual agencies). Therefore, this [draft] Standard could be applied in relation to those WoG plans. 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?

No. Whilst the principles may be useful for a public sector NFP that prepares general purpose financial statements, they should not be mandatory.

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?

No. Whilst it seems reasonable to have this information from the same entity, it should not be mandatory.

6 This [draft] Standard allows an entity to present its service performance information in: (a) the same report as the financial statements; (b) a separately issued report; or (c) in a variety of different reports. 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?

No. Whilst it seems reasonable to leave it to the entity as to where service performance information is presented, and the most obvious is on the entity's web site, it should not be mandatory.

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?

No. Whilst it seems reasonable to allow flexibility for this information to be reported, it should not be mandatory.

8 The [draft] Standard includes defined terms in Appendix A. Do you agree that the proposed defined terms in Appendix A appropriately explain the significant terms in the [draft] Standard? Why or why not? Do you agree with these defined terms? Why or why not? Are there additional terms that should be defined in Appendix A to assist application of the [draft] Standard?

No. Significant tailoring is required for non-public private sector NFP entities that are providing charitable type services, and it should not be mandatory.

9 The AASB's view is that this [draft] Standard should be mandatory as it, in conjunction with an entity's financial statements, provides useful information for users to assess the performance of NFPs in relation to an entity's service performance objectives. Providing this information will further assist users for accountability and decision-making purposes. Do you agree that this [draft] Standard should be mandatory for NFP entities? Why or why not?

No. It should not be mandatory for the reasons set out in the covering page:

(a) ED 270 if issued as a Framework document should not be in the format of a mandatory accounting standard as the costs of complying with ED 270 far outweigh the benefits, and consequently it would reduce the

services that an NFP currently provides due to what I consider is unnecessary compliance costs;

- (b) ED 270 as a mandatory accounting standard is contrary to the Commonwealth Government's policy of reducing unnecessary red tape compliance costs;*
- (c) ED 270 is closely based on the IPSASB's Recommended Practice Guideline (RPG 3) Reporting Service Performance Information which as the title states, is guidance and not mandatory;*
- (d) ED 270 requires significant amendment as the changes to RPG 3 which is only designed for public sector entities, are minimal, and hence not specifically relevant to the activities on non-public sector NFPs.*

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?

No. If the AASB issues this ED as a mandatory standard, then it should follow the International Accounting Standards Board's (IASB) policy of allowing effectively 4 years from the date of issue of the standard for it to apply. Most recently the IASB issued IFRS 16 Leases which the AASB has rebadged as AASB 16, and it does not mandatorily apply until reporting periods commencing from 1 January 2019 but with early adoption allowed. If however the AASB issued ED 270 as a Recommended Practice Guideline as issued by the IPSASB, then there is no need to have an application date.

General Matters for Comment

The AASB would particularly value comments on the following:

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?

(a) Yes. There are regulatory issues in Australia

(b) No. The proposals would not generally be useful to users

(c) No. The proposals are not in the best interests of the Australian economy.

I believe that the AASB's proposals are contrary to the Government's policy of reducing un-necessary red tape and its broad de-regulatory program.

12 Unless already provided in response to the matters for comment 1-10 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

I would have expected the AASB to have done some field testing on the costs of these proposals before issuing ED 270 given that it is required to issue a Regulatory Impact Statement before any accounting standard is issued. Whilst I am unable to give a precise indication of the costs to implement ED 270, it is quite clear that such costs would be material to an NFP and in particular to a smaller NFP that would not have the resources to prepare a Reporting Service Performance Report and instead would need to hire external consultants.

ED 270 leaves it open to an entity's regulator as to whether an audit is required for Service Performance Information. Given the complexity and cost of providing Service Performance Information, I believe that the AASB should make a specific and clear statement that it does not envisage that this information needs to be mandatorily audited or subject to an audit review.
