



Australian Government



Australian
Charities and
Not-for-profits
Commission

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Our Ref: EXT2016/14

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
COLLINS STREET VIC 8007

By email: kpeach@asb.gov.au

Dear Kris

AASB EXPOSURE DRAFT ED 270 AUGUST 2015 – REPORTING SERVICE PERFORMANCE INFORMATION

The Australian Charities and Not-for-profits Commission (the ACNC) thanks you for the opportunity to comment on Exposure Draft 270 *Reporting Service Performance Information* (ED 270).

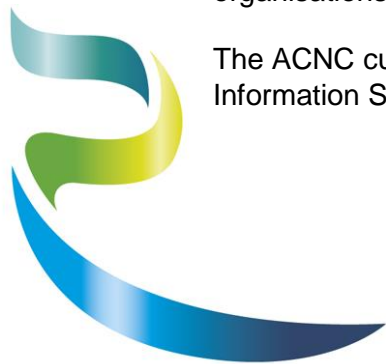
The ACNC is a specialist charities regulator with the following statutory objects – to:

- maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector; and
- support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector; and
- promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.

The ACNC is careful to balance each of these objects and has considered them in responding to ED 270.

The ACNC does not support ED 270 as a mandatory standard for not-for-profit organisations (NFPs). The ACNC considers that the framework, if mandatory and implemented as currently drafted, would impose unnecessary regulatory burden on not-for-profit organisations. Given the great diversity of the not-for-profit sector, a mandatory standard can be expected to disproportionately burden some sub-sectors more than others. The burden is not due simply to increased reporting, but rather to the difficulty, complexity and cost of collecting certain performance information; for example, information on efficiency and effectiveness. The ACNC is concerned that the AASB framework overreaches what is reasonably achievable by certain types of not-for-profit organisations.

The ACNC currently requires limited performance information through the Annual Information Statement (AIS). This includes basic information on inputs and activities, and





a narrative description of contribution to achieving outcomes. The information allows the ACNC to ensure charities are meeting their charitable purpose and remain entitled to charitable status. Also, public trust and confidence in the sector is promoted by making this information available to the public. However, beyond this basic information the sector is left to innovate to develop measures of performance that are tailored to the needs of donors and the broader public.

Despite concerns about the framework, the ACNC believes there may be value in the AASB issuing a recommended (non-mandatory) framework for reporting service information. The utility of the AASB's framework as compared to alternative frameworks and approaches can be evaluated by the not-for-profit sector and users of service performance information over coming years.

The attached Appendix provides the ACNC's detailed responses to the Specific Matters for Comment as set out in ED 270. These responses are provided on the basis that the ACNC considers ED 270 to be a useful recommended framework, rather than a mandatory accounting standard. The responses focus on the perspective of private not-for-profit entities and we have not considered the components or examples in ED 270 that relate to public not-for-profit entities (ie. government entities).

Please do not hesitate to contact Mel Yates; at melville.yates@acnc.gov.au or 03 2759595 should you have any queries in relation to the above.

Good wishes,

Susan Pascoe AM
Commissioner

Direct: 03 8601 1974
Email: susan.pascoe@acnc.gov.au



Appendix – Response to Specific Matters for Comment – ED 270

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?

The ACNC supports principles (a) and (b) as straightforward, uncontroversial principles. Principle (c) is also broadly supported, provided it is recognised that clarity in demonstrating achievement of objectives over a single year, in the way proposed in ED 270, may be difficult for some types of charitable activity.

The ACNC does not support specific reference to 'efficiency' and 'effectiveness' as outlined in principle (d). The ACNC considers that charities should determine how best to report their objectives and the extent to which they have achieved them. Efficiency and effectiveness measures, as defined in ED 270, may not be suited to or readily measurable for all types of charitable activity. Charities should tailor their reporting information to the nature of their charitable activity and the needs of donors and the broader public.

2. *It is proposed that the [draft] Standard will be applicable to all 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 specific comments are made in relation to whether these proposals are suitable for public sector NFP entities.

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 future to include for-profit entities? Why or why not?

No specific comments are made in relation to whether these proposals are suitable for for-profit entities.



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?

The ACNC considers that many of the proposals in ED 270 should form the basis of a recommended practice framework only. The framework should be able to be applied as relevant to the entity. It should be the choice of the entity as to whether it is applied on an individual entity basis or a consolidated basis.

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?

The ACNC considers that many of the proposals in ED 270 should form the basis of a recommended practice framework only. The framework should be able to be applied as relevant to the entity. It should be the choice of the entity as to whether it is applied on an individual entity basis or a consolidated basis.

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?

Yes, the ACNC agrees with this proposal, as the framework should not require duplication if the information is already produced elsewhere.

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?

The ACNC considers that performance information should generally be reported for the same time period as the entity's financial statements, but supports the



proposed flexibility to allow a different time period where appropriate.

8. *This [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?

The ACNC has no specific issues with any of the defined terms.

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?

For reasons outlined in the body of this submission, the ACNC does not agree that this [draft] Standard should be mandatory for NFP entities. However, there may be value in the AASB issuing a recommended (non-mandatory) framework for reporting service information. The utility of the AASB's framework as compared to alternative frameworks and approaches can be evaluated by the not-for-profit sector and users of service performance information over coming years.

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?

The ACNC does not support a specific application date, given that the ACNC does not support a mandatory accounting standard.

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?

In the current form, the ACNC does not consider the proposals are in the best interests of the Australian economy. While some parts of the proposals will be useful to users, the ACNC considers the cost to some charities of implementing ED 270 as currently drafted may exceed benefits to users.



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.*

The ACNC is not in a position to quantify costs in relation to the ED 270 proposals. We recommend you seek input from specific NFPs on the impact of these proposals.

ED 270 does not specify whether service performance information that is reported, is required to be audited and defers this to each entity's regulator. As regulator of the NFP sector, the ACNC would be reluctant to make service performance information subject to audit as this could increase the compliance costs to the NFP sector.

Other Matters

Paragraph 65(c) requires disclosure of the total costs of goods and services. The ACNC is unsure as to what detail would be required with such disclosures, and the more detail required the higher the cost to prepare the required information. Paragraph 67 seems to indicate that these costs would be required to be disclosed by output. It is unclear whether this would be at a program level, objective level or entity level. It is unlikely, for many NFPs, that the costing systems utilised would support such detailed cost information. This implies an approach similar to segment reporting, which is not currently required for NFPs and would be an unreasonable cost burden on the sector.

The ACNC would like to see more examples (potentially a template or some suggested information), particularly in relation to qualitative information.