ITC 12 sub 49

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RECEIVED
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Mr David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear David,

Re: Invitation to Comment ITC 12 'Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-Sized Entities.

The Uniting Church in Australia Synod of Victoria and Tasmania (UCAV&T) Audit Committee welcomes the opportunity to comment on the ITC 12 and the proposed IFRS for SMEs.

We support the concept of differential reporting and understand the reasoning that where an entity is currently required to prepare a General Purpose Financial Report (GPFR) this proposal may lessen the burden on smaller entities.

However, the proposal is quite unsatisfactory when seen through the lens of a not-for-profit organization (NFP's).

The Uniting Church in Victoria is responsible for hundreds of entities, ranging from schools to missions, aged care to welfare services and to congregations and financial services. We are therefore very concerned about the additional costs for little or no benefit the AASBs proposals would have. The UCA is created under the Uniting Church Act 1977. Neither the Act nor the UCA constitution require the application of Accounting Standards. The larger parts of the Church choose to prepare GPFR's but our concern is for the smaller parts of the Church eg. Church congregations.

Please find below our responses to the Specific Matters for Comment section at page xiii and the questions asked in relation to NFP's :

(f) in respect of not-for-profit private sector entities:

(i) is there a need for differential reporting in the not-for-profit private sector? If yes, do you agree with using size thresholds to distinguish between not-for-profit private sector entities that should apply Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs (which would include Aus paragraphs similar to those included in Australian equivalent to IFRSs)?

We would place great emphasis on the sentence in parenthesis as any move away from specific paragraphs for Australian NFP's would be unacceptable.

We do not necessarily agree with size as being the determining factor for differential reporting. Assuming that an appropriate definition of "available on public register" or "made available to the public at large" can be determined (see comments below at (i)), we would be in favour of using this as the determining factor for differential NFP reporting. Using size as the way of determining reporting requirements can create behaviours which are at odds with the concepts behind having a differential reporting structure. For example, entities or "artificial" structures may be created so as to avoid or minimize the required reporting. Having said that, we see no reason why NFP entities that are not publicly accountable as defined in the ED should be required to adopt full IFRS no matter their size.

(v) do you think a third tier of simpler reporting requirements should be added to cater for smaller not-for-profit private sector entities that prepare general purpose financial reports? If so, what should those simpler reporting requirements be and how would the category of entities applying those requirements be identified? How would your answer to this question differ if the forthcoming IFRS for SMEs has fewer disclosures than the ED of A Proposed IFRS for SMEs?

We would see the need for a third tier with simpler reporting to cater for small NFP's. If we take the example of a small agency that provides food vouchers to needy people: They have total income of less than $20,000 for the year. They rely on Government Grants to provide emergency relief in the form of food vouchers. They are staffed by volunteers most of whom are elderly and the treasurer has no accounting qualifications. They have an ABN. They account for funds on a cash basis and this meets the needs of their users (including reporting back to the government). It seem incomprehensible that such an entity that is currently regarded as a non-reporting entity should be required to prepare a GPFR. They have no means of providing the information as currently stated in the ED.

This third tier requirements could be characterized as "Cash/modified accrual accounting"

(i) do you agree that, consistent with the IASB's view of a general purpose financial report, under a revised Australian differential reporting regime:

(i) all financial reports that are available on a public register, such as those prepared and lodged with the ASIC under the Corporations Act, should be regarded as general purpose financial reports; and

(ii) all financial reports that are made available to the public at large, such as those tabled in a Parliament, also should be regarded as general purpose financial reports?

If you do not agree, explain why.

We do not agree with such a sweeping change to the current regime. The proposal at page (v) "all financial reports on the public register or otherwise made available to the public at large to be regarded as general purpose financial reports" is overwhelming. It takes no account of the current Australian definition which includes reference to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all their information needs. Moreover the "reporting entity" concept usefully refers to the existence of users who use the reports to make and evaluate decisions about the allocation of scarce resources.

One of our staff recently attended a CPA Standards Update seminar where it was stated that probably all not-for-profit entities by their nature were considered as publicly accountable. This concerns us greatly. If a church congregation is publicly accountable under the ED they should be applying AIFRS (but because of size would fall under the SME standard). We noted that the IASB (ITC 12 page ix) considers that even if they are not publicly accountable but publish GPFR's they would still fall under the SME standard. We therefore need a clearer definition of the term "publicly accountable".

Currently congregations do not apply Accounting Standards, and like many voluntary organisations, they use a cash or modified accrual basis of reporting. Many volunteer treasurers would have no idea of accrual accounting, let alone the concept of depreciation. The reports they prepare currently meet the needs of the users who are their own church members. People give to the church not for reasons based on the financial performance of the church, but for a variety of other reasons and it is usually a faith based decision where they are interested in outcomes. Comparability on finances between different churches is not required either as people trying to decide which church to attend don't make their decision based on the financial reports but on people and relevance of the preaching and mission programs provided by the church (it's usually a feeling of being welcomed). The purpose of the report is so the congregation can see that the money has been used as they expected, usually paying the minister and covering cost on the property. They are not looking for the church to make a profit.

We also believe that this would lead to reticence by organizations to disclose their finances to the public e.g. on the internet..... the opposite of what may be required in the public interest.

(m) do you think adaptations, or additional guidance, are needed (in addition to Aus paragraphs that would be included consistent with Australian equivalents to IFRSs) for not-for-profit private sector entities and public sector entities if the IASB's IFRS for SMEs were adopted in Australia?

This is at the heart of the problem with IFRS's. To quote your ITC 12 page viii "IFRS's are designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities."

The IASB Framework paragraph 69 refers to profit as a measure of performance and then goes on to the significance of income and expense. This is not compatible with the NFP sector where results are not in terms of profit, but rather its the achievement of outcomes; for example the delivery of goods and services to beneficiaries who are neither shareholders nor members.

Consider the Tsunami appeals which raised millions from generous donors. The receiving entities will show a huge profit in one year and the following 4-5 years, (as they expend those proceeds in an effective, efficient and economical way) they will be showing losses.

We need either a different conceptual framework for the NFP sector which recognises its accountability and stewardship role, that takes into account gift and donation income which is not earned and therefore often has no relation to expenses, or standards which take into account the different needs of users of NFP financial statements. e.g. some jurisdictions have a concept of "restricted funds"

The SME standard is devoid of NFP examples. It would be important and useful to use this Standard (if adopted) to help NFP's with some of the more difficult accounting standards issues the smaller NFP's face. Typical of these are bequests where only the income on the bequest and not the capital can be used, sometimes for specific purposes only; contributions with stipulations as to how they are to be used, with and without repayment conditions, and the timing of recognition of transactions. In fact there are many difficult issues and this would be a great opportunity to provide assistance to NFP's.

> *(p) do you think that the overall benefits that would arise from the proposals would exceed the overall costs? If you are an entity that prepares a general purpose financial report or would need to do so under the proposals, please advise us of any increased costs or any savings that would result from the proposals, and if possible, quantify them.*

This would create a significant cost with little benefit. In Victoria alone there are approximately 300 UCA congregations, all using voluntary treasurers who are generally unqualified. They are just ordinary church people who are willing to help when no one else is available. The congregations would be unable to employ accountants to perform this role and would see no benefit in spending their funds on another administration cost rather than providing for ministry and mission (if all 300 congregations employed a part time accountant at $30,000 pa that is $9.0m pa, if say at year end the auditor did the work for $5000 pa that is $1.5m pa).

Unless and until the AASB devotes more resources to developing a framework or additional standards for NFP's and substantial guidance, we cannot support the proposals outlined in ITC 12 as proposed for the NFP sector. The present regime of reporting entity, however inadequate, at least provides flexibility for our organizations.

Thank you for the opportunity to comment on the Exposure Draft. If you would like to discuss these issues further please feel free to contact me.

Yours sincerely

Heather Ackland

Heather Ackland CPA
Secretary Audit Committee.