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Dear Dr Kendall

ITC 50 – POST-IMPLEMENTATION REVIEW – INCOME OF NOT-FOR-PROFIT ENTITIES

The Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the Invitation to Comment (ITC) 50 Post-implementation Review – Income of Not-for-Profit Entities.

While HoTARAC considers the current guidance useful, HoTARAC notes that opportunities exist to enhance illustrative examples and to inform preparation of financial information. Accordingly, we have suggested amendments to guidance and examples in the attachment on the matters for comment to promote consistency of accounting treatment. Additionally, HoTARAC have remarked on the significant cost of recognising the value of volunteers in delivering community services.

If you have any queries regarding HoTARAC's comments, please contact Mark Hort from Western Australia's Department of Treasury on (08) 6551 2577 or via email at Mark.Hort@treasury.wa.gov.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Brendan Davies'.

Brendan Davies

for Heads of Treasuries Accounting and Reporting Advisory Committee
(HoTARAC)

14 April 2023

AASB INVITATION TO COMMENT (ITC 50) POST-IMPLEMENTATION REVIEW – INCOME OF NOT-FOR-PROFIT ENTITIES

Topic 1: Sufficiently specific criterion and the legal interpretation of agreements

Questions for respondents

Regarding the term ‘sufficiently specific’ in AASB 15 Appendix F, do you have any comments about:

1. the application of the term in practice?

HoTARAC recognises that achievement of ‘sufficiently specific’ criteria [described in AASB 15:Aus9.1, F5, and F20-F26] triggers the application of AASB 15 revenue recognition. Where these criteria are not met, income is recognised in accordance with AASB 1058.

To clarify the intended application of AASB 15:F20(d), the period of transfer of goods and services ought to be mentioned in the context of AASB 15:35.

The AASB has previously noted that illustrative examples reduce ambiguity of applying AASB 15 (per BC64) in the NFP context (refer BC18) and they assist the development of knowledge and comfort in making assessments. Despite illustrative examples, HoTARAC has observed divergence in application. Therefore, review and further development of “sufficiently specific” in illustrative examples would benefit preparers by emphasizing:

- consistency of “sufficiently specific” with recognition criteria in the Framework for the Preparation and Presentation of Financial Statements (conceptual framework)¹ for asset and liability impacts; and
- effect of implied terms or practices in agreements that are sufficiently specific and enforceable.

2. the extent of specificity needed to meet the sufficiently specific criterion for a contract (or part of a contract) to be within the scope of AASB 15?

HoTARAC observes that a reading of F20(a), (b), (c) and (d) can lead to the reader assuming each criterion must apply as a prerequisite for the existence of a performance obligation. This can be remedied by:

- clarifying how illustrative examples (c) to (e) [ITC 50, page 9] and AASB 15 IE4 meet the ‘sufficiently specific’ criteria;
- revisiting the conjunction of those aspects; and,
- plainly stating that any combination of those four aspects, which allows progress measurement for delivering performance obligation, establishes specificity.

¹ http://www.aasb.gov.au/admin/file/content105/c9/Framework_07-04_COMPmar20_07-21.pdf

To illustrate, judgement recognising recognition of agreements for remediation of environmental impacts results in an out-of-scope determination for AASB 15. Project approval is contingent upon remediation required under legislative instruments for these agreements. The proponent engages a public sector entity to undertake specified described remediation and maintenance efforts. The remediation of environmental impacts benefits both the community (secondary customer) and the proponent (principal customer).

The determination of 'insufficiently specific' appears to be achieved by omitting the quantity of services (paragraph F20c). However, the nature, service costs and period of service delivery (paragraphs F20a, F20b and F20d) are clearly identified. If preparers read that each criterion must be present to demonstrate sufficiently specific, similar agreements may be evaluated differently.

3. whether differences in application exist? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

Publicly available information indicates diverging revenue or income recognition for components of Activity Based Funding (ABF) under the National Health Reform Agreement², with this funding being inconsistently recognised under either AASB 15 or AASB 1058. This is despite a common grant program with similar modelling assumptions, with only one jurisdiction acting as a modelling outlier.

HoTARAC jurisdictions concur that application of AASB 15:F20(a), (b), (c) and (d) differ over the five sub-categories of ABF.

Divergence is summarised solely for the ABF funding as follows:

- Three jurisdictions apply AASB 15 to specific components and AASB 1058 to other components; Two jurisdictions apply AASB 15 to all components; and
- Two jurisdictions apply AASB 1058 to all components.

Whilst divergences may arise from financial framework differences³, the sufficient specificity attached to the performance obligation is a significant factor in determining whether AASB 15 applies. Judgement may fall on the interpretation of the agreement's use of the national weighted activity unit (NWAU)⁴. If the intention of the agreement is to:

- purchase NWAUs, the performance obligation may be measured and therefore sufficiently specific; or
- use the NWAU as a method of determining funding requirements and the obligation itself is to provide a broader range of services, then the performance obligation is not sufficiently specific.

² Total Activity Based Funding exceeded \$50 billion for the year ended, with each jurisdiction receiving material assistance. <https://www.publichospitalfunding.gov.au/public-hospital-funding-reports>

³ Differing conclusions arise where Commonwealth grants are banked to the jurisdictions Public Bank Account and are subsequently appropriated, compared to funds that aren't subject to appropriation.

⁴ NWAU funding described at: <https://www.publichospitalfunding.gov.au/national-health-reform-funding-and-payments>

The existent of divergence in professional judgement indicates that the technical requirements can be enhanced to provide better comparability between jurisdictions.

4. In addition to the existing guidance in AASB 15 Appendix F, is there any other guidance that would help you determine whether a contract (or part of a contract) is sufficiently specific?

If so, please provide details of the guidance and explain why you think it would be useful.

The suggested guidance for determining whether an agreement is sufficiently specific is helpful, though three issues arise from the additional interpretative material.

The first issue is that HoTARAC notes that paragraphs 10 and F9 of AASB 15 indicate that implied terms or customary business practice may comprise of sufficiently specific enforceable terms. The Illustrative Examples in Appendix F or ITC 50 do not appear to offer any guidance for preparers or auditors on how this influences the outcome of the determination. Consequently, this may bias determinations to a focus on formal agreed /contractual terms which are often easier to apply in practice.

The second issue is that extension of illustrative examples to other transactions would be beneficial for preparers, including inter-government contracts associated with grant funding or funding of service provision by NGOs in the aged or disability care sector.

The third issue is the counter-intuitive conclusion in paragraph f (matrix on ITC 50 page 9) which invokes revenue recognition under AASB 15. The Commonwealth provides grant funding to states and territories to provide legal services for eligible members of the public. The funding agreement stipulates legal services, duration of agreement and locality (state or territory). In practice, providing those services is at the discretion of the provider who assesses the eligibility, need and priority of assistance. The extent of the services is highly volatile due to the varying needs of the recipient of those services, and it is difficult to apply the notions of delivering an outcome to the donor per AASB 15:IE2-IE5. Therefore, the blanket description for (f) does not appear to describe quantity with enough specificity to meet the sufficiently specific criteria (and therefore achieve measurement against satisfaction of a performance obligation).

HoTARAC also suggests that to enhance the helpfulness of Illustrative Examples (IE) 2-5, amendments could provide clarity on why the performance obligations in IE5 were assessed as not being sufficiently specific whereas performance obligations in IE4 were assessed as sufficiently specific. Similarly, amendments can improve the apparent reconciling issues between IE 2-4 on 'sufficiently specific' criteria with related guidance in AASB 15:F20, F24 & F25 and in ITC 50 itself. Additional illustrative examples in AASB 1058 would also assist.

Reviewing illustrative examples for the following scenarios would reduce the risk of inconsistent judgements for similar fact patterns:

Funding provided on a cost recovery basis

Public sector entities often receive grants to compensate for costs incurred to deliver goods and services.

For example, a grant may be received to reimburse the salary cost for one nurse in a particular ward for one year or to reimburse a certain percentage of expenditure incurred for rescue activities. As contracts in those instances are primarily focussed on funding the cost incurred for specific services and less restrictive on the level/amount of service delivered, it is not clear if the funding should be interpreted as contractual revenue for the underlying services provided (to which AASB 15 should apply) or is simply a cash reimbursement in general (to which AASB 1058 should apply).

From the examples on page 9 of ITC 50, it appears that these may be viewed as revenue under AASB 15, despite challenges identifying a sufficiently specific criterion as a proxy for a performance obligation.

Contracts with refund clauses

It would be beneficial to clarify the significance of a refund clause in a contract in assessing the 'sufficiently specific' criteria. For instance, is the existence of a refund clause more fundamental to the Not-For-Profit Sector enforceability where transactions are often undertaken in accordance with non-justiciable agreements?

The refund clause is often a protective clause ensuring that funding is used for the designated purpose. Moreover, contracts with clear performance obligation that omit the clause contain an implied refund clause at law as noted by AASB 15:F13.

In practice, a refund clause is not often used in the assessment. It appears inappropriate to conclude an obligation as sufficiently specific if what's to be delivered is generic in a contract with a refund clause. In contrast, sufficiently specific appears to be met where the performance obligation is clear but a refund clause is absent.

Therefore, the refund clause seems redundant in practice. It would be helpful to provide a simple example where it is relevant for the assessment.

Topic 2: Capital grants

Questions for respondents

Regarding the term identified specifications in AASB 1058 paragraph 15(a), do you have any comments about:

5. the application of the term in practice?

6. the extent of specificity needed for a contract to meet the requirements of AASB 1058 paragraph 15(a)?

7. whether differences in application exist because of the use of the term identified specifications?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

Specifications

The use of the word “specifications” distracts from income recognition aligning with work-in-progress per AASB 1058:16 due to the introduction of unwarranted nuance. Furthermore, work-in-progress does not align always with milestone payments.

Private sector contracts are typically very detailed and subject to contract variations. In contrast public sector grant agreements can specifically fund an asset, but it is rare for the agreement to be revised owing to subsequent variation agreements detailing revised specifications.

‘Specifications’ natural word usage implies differential equipment levels when acquiring or constructing an asset. For example, a scenario where a grantor stipulates the construction of a vessel and the grantee significantly varies the specifications (perhaps meeting the additional cost to upgrade air/surface radar arrays), should not result in disagreements between preparers and auditors on the point of income recognition. Moreover, terms not explicitly within the contract ought not to generate disagreement either.

Measuring completion of an obligation per AASB 1058:B16 is achievable by moving from “specifications” to a variation of the previously defined “identifiable asset” from AASB 16 *Leases*. Whilst the context behind “identifiable asset” differs, it is a useful analogy to demonstrate an opportunity to enhance terminology to confirm the objective of AASB 1058 for all users of financial statements.

Non-financial asset classes

Consideration could be given to adding clarity around whether paragraphs 15 and 16 of AASB 1058 are class dependent for non-financial assets. For instance, a reading of paragraph 15 and paragraph 102 of the conceptual framework implies that capital grants may include the construction or acquisition of inventories. However, this is ambiguous in application.

8. In addition to the existing illustrative examples in AASB 1058, is there any other guidance that would help you determine when to recognise income following the transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity?

If so, please provide details of the guidance and explain why you think it would be useful.

As previously mentioned, 'identified specifications' is not a term readily recognisable with other relevant accounting standards for non-financial assets. It generates uncertainty when the intention is to recognise work-in-progress. This is illustrated by the following examples which can be proportionately completed but have vastly differing specifications when completed:

- Power generation centres;
- Construction in progress for social housing;
- Land development under a community service obligation regime;
- Fire Trucks; or
- Communications Networks.

Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models

Questions for respondents

9. Do you have any comments regarding the timing of revenue recognition required by AASB 15 and AASB 1058 of NFP entities? If so, please provide your views on those requirements, relevant circumstances and their significance.

Examples to illustrate your responses are also helpful.

In general, the existing recognition criteria in AASB 15 and AASB 1058 are supported by HoTARAC, because they are mostly consistent with the definition and recognition criteria for assets, liabilities, and income in the conceptual framework. The existing income recognition criteria in AASB 15 and 1058 is also consistent with other accounting standards, including AASB 9 and AASB 137. Consequently, this framework is generally well understood by preparers which gives rise to more efficient preparation of statutory reports. A minority view suggests that the two income standards have resulted in a disproportionately higher amount of administrative work with respect to the timing of income recognition.

HoTARAC jurisdictions note that many preparers prefer to match income with expenses per the generally accepted accounting principles that existed before the adoption of International Financial Reporting Standards (IFRS) equivalents. Preferences often align with purpose, with those involved in preparation of management accounts preferring matching, which often contrasts with preparers of statutory accounts who benefit from reduced professional judgements. Additional disclosures by preparers can bridge these two purposes, as supplementary disclosures can show the progress of works done for ring fenced funding without compromising IFRS compliance.

While feedback to the AASB has argued that matching incomes and expenses is consistent with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, it is difficult to determine the conceptual underpinning for differential recognition between AASB 120:12 (matching revenue with expenses) and AASB 1058:10 (recognising income on establishment of control). Moreover, the receivable for compensatory government grants for financial support, per AASB 120:20, should only be recognised once the government has no practical alternative to avoid making the grant. The private sector recognition of revenues ought to be informed by grant program best practice. Best practice includes establishing eligibility, assessing the grant aggregate, and approving the grant applicant for payment.

Given that IAS 20 was initially effective for 1 January 1984 and only has been amended for below market-rate of interest loans (effective on or after 1 January 2009), it appears that it is timely to review IAS 20/AASB 20 against current international conceptual frameworks applying to generally accepted accounting principles.

Income recognition timing issues

The level of administrative work associated with the timing of income recognition is anticipated to decline as preparers and auditors develop increasingly mature understandings of the respective standards. Additional illustrative examples will augment that growing knowledge base, particularly where illustration of 'sufficiently specific' criteria is enhanced.

An example of timing of income recognition and the selection of an accounting standard arises in respect of fines issued, but adjudicated in the courts. A notice of infringement is to notify a party that an infringing event has occurred. However, the infringement may be disputed by the person issued with the notice or named in the notice. Auditors argued that AASB 15 ought to apply, whilst the preparer argued that AASB 1058 applied and recognition timing was the earlier of:

- The person pays the notice (infringement uncontested); or,
- The Court finds in favour of the issuer (infringement upheld).

Discussions between preparers and auditors also disputed whether the fine arising from the infringement constituted a statutory receivable (as explained in Appendix C, AASB 9).

10. Do you have any views on alternative approaches to recognising revenue in the NFP sector? For example, should an NFP entity initially recognise a liability and recognise income:

- (a) based on a common understanding between the entity and the transfer provider of the manner in which the entity is expected to use the inflows of resources;
- (b) where there are terms in law or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity;
- (c) on a systematic basis over the periods in which the entity recognises as expenses the related costs for which a grant is intended to compensate; or
- (d) where the outflows of resources are incurred in accordance with the requirements set out in a binding agreement.

If so, please provide your views on your preferred alternative(s) above or another alternative approach.

The HoTARAC consensus opinion is not to support alternative approaches to income recognition, as outlined above.

Additionally, it is observed that:

- Common understandings (option a) between entities and the grantor on the expectation of the use of inflows are subject to considerable judgement, thereby resulting in increased audit times and verification efforts;
- A systemic basis (option c) departs from the conceptual framework and introduces a significant element of professional judgment; and
- Binding agreements (option d) are already addressed by AASB 1058 which benchmarks recognition for agreements, ranging from the very vague through to the very specific.

Topic 4: Principal v agent [AASB 15:B34-B38], including the appropriate recognition of financial liabilities

Questions for respondents

Regarding the recognition of financial liabilities, if an NFP entity's only obligation is to transfer funds received to other entities, do you have any comments on:

11. the determination of whether the entity is a principal or an agent?

12. whether differences in application exist in concluding whether an NFP entity is a principal or an agent? If there are differences in application, do they significantly affect the comparability of financial statements?

If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

HoTARAC has not identified any specific instances where differences in application significantly affect the comparability of financial statements.

However, further guidance on the distinction between principal and agent transactions would be beneficial for the effect of discretion exercised and where a department is assessing the eligibility of recipients on behalf of the State.

13. In relation to determining whether an NFP entity is a principal or an agent, do you have examples of specific scenarios where there are practical challenges and application issues? If so, please provide details of the complexities associated with this determination, such as the level of discretion the entity has in determining to whom funds will be passed, and illustrate the relevant circumstances, their significance and the prevalence of any differences in application.

Application of the agent concept depends on the core activity of the NFP entity, and the extent of discretion or control that the NFP exercises over the transactions. The principal difficulty arose from agreements involving a system manager, where the identification of the principal can be challenging.

A system manager is often named in agreements and is held responsible for the imposed obligations. This complexity is enhanced by the system manager facing non-delivery risk but only the final recipients of the funds can deliver the relevant services.

As regulators, HoTARAC jurisdictions are comfortable that the system manager has discretion in this scenario, and it would be helpful to preparers for general guidance indicating that discretion and accountability are indicators that they are principals.

14. Is there any guidance that would help you determine whether an NFP entity is a principal or an agent?

If so, please provide details of the guidance and explain why you think it would be useful.

As indicated in response to question 13, limited additional general guidance on the distinction between principal and agent transactions would be beneficial.

Topic 5: Grants received in arrears

Questions for respondents

Do you have any comments regarding:

15. the accounting for grants received in arrears, particularly where some of the work to be funded by the grant is performed before the funding is received? If so, please provide your views on those requirements, relevant circumstances and their significance.

Examples to illustrate your responses are also most helpful.

HoTARAC accepts that a receivable may be recognised in respect of work commenced in advance of a grant receipt in circumstances where recognition criteria in the conceptual framework are met. The following points are salient to the recognition:

- The recognition of receivables for accrued grants in arrears under AASB 1058 should be consistent with the definition and recognition criteria for assets as outlined in paragraphs 49 and 89 of the [conceptual framework](#);
- To recognise a receivable, evidence of an **unconditional right to receive cash**, or virtual certainty to receive cash under AASB 9, must exist;
- The funder must have little capacity to avoid the settlement of the receivable.

As mentioned in Question 9, HoTARAC questions the recognition of grant income in arrears pursuant to AASB 120:12 and 20. Without capacity to avoid settlement by the grantor and the grantee's unconditional right to receive, it appears that a contingent asset exists. Recognising the income and receivable occurs when control is established in accordance with AASB 1058:10 and a significant increase in the probability of future economic benefit occurs (conceptual framework, paragraphs 57 & 85).

However, the standard is not clear on whether a receivable should be recognised applying principles in the Conceptual Framework if it does not fall within a particular accounting standard.

The Staff FAQ⁵ currently gives rise to uncertainties within the Accounting Policy fraternity. This confusion may be reduced by review and editorial changes to the FAQ.

⁵ https://www.aasb.gov.au/admin/file/content102/c3/Updated_NFP_Staff_FAQs_10-20.pdf

16. whether differences in application exist in the accounting for grants received in arrears exists? If so, please provide examples that illustrate the relevant circumstances, their significance and the prevalence of any differences in practice.

HoTARAC observes that grants paid in arrears to Government Trading Enterprises (GTEs)⁶ can be recognised as a receivable under AASB 15 (e.g. operating subsidies for non-commercial activities), while other agencies appropriation funded under a negative pledge model apply AASB 1058 and cannot recognise a receivable despite having a similar obligation. A GTE is highly likely to receive the revenue because community service obligations are undertaken under agreement containing performance obligations. The future economic benefit would flow to the entity pursuant to paragraph 89 of the conceptual framework.

In contrast, a grant in arrears from an entity providing a positive pledge and no performance obligations, would not recognise the control gained over a receivable in accordance with paragraph 49 of the conceptual framework.

⁶ Government businesses that are typically classified under the Government Financial Statistics Framework as “PNC” or “PFC” entities.

Topic 6: Termination for convenience clauses

Questions for respondents

Regarding accounting for termination for convenience clauses:

17. do you support view (a) or view (b) regarding recognising a liability in relation to unspent funds? Please explain your rationale, including references to Australian Accounting Standards. Examples to illustrate your responses are also most helpful;

18. do you have any other comments? If so, please provide your views, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful. Illustrative examples on this topic would be helpful.

The HoTARAC majority view supports view (b).

The clauses are mostly viewed as protective in nature, hence the liability is of a contractual nature as the threshold for a financial liability (paragraphs 11 and 19 of AASB 132) is not met until the clause is exercised. Without the occurrence of the key event (exercise of clause), no present obligation exists (to deliver cash) for the entity arising from past events per paragraph 49(b) of the conceptual framework.

Agreements convey an intention for funding to pass to the recipient. In practice the exercise of termination clauses is rarely enforced, giving rise to a high level of uncertainty in terms of the probability of exercise. This uncertainty persists until the parties observe evidence of non-performance and act on that evidence. Further mitigating against recognition of financial liabilities, funding between governments or governments and agencies is often subject to customary practice where surplus funds are either not returned or rolled over as seed funding to a new agreement. With rarity being key to repayment and income being scoped out of AASB 15 on account of lack of sufficient specificity, estimating a financial liability in relation to AASB 1058 treatments engenders additional preparation and audit effort that doesn't add value and may mislead users of financial statements.

In a minority view, one jurisdiction expresses support for view (a).

They observe that recognition of a liability for unspent funds is consistent with the reciprocal definition of assets as defined in paragraph 49(a) of the conceptual framework, which requires a resource 'controlled' by the entity. Under paragraphs 3.1.1 and 5.1.1 of AASB 9 *Financial Instruments*, the recognition of financial liabilities is not subject to a sliding probability.

Suggested future directions

HoTARAC suggests that consideration be given to the following:

- additional guidance for termination for convenience clauses, contrasting protective and substantive clauses; and
- disclosure guidance where termination clauses may trigger a financial liability.

Topic 7: Accounting for research grants

Question for respondents

19. Do you have any comments regarding the accounting for research grants (other than termination for convenience clauses, which are covered in Topic 6)?

If so, please provide your views on the requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

Other than advocating transaction neutrality between research grants and other funding arrangements, HoTARAC offers no comment on the basis that jurisdictions have limited exposure to research grants.

Topic 8: Statutory receivables

Questions for respondents

Do you have any comments regarding:

20. the subsequent accounting treatment of statutory receivables? If so, please provide your views, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful;

Taxes, duties or levies that are more complex to administer are characterised by:

- Accumulating assessment through the year,
- objections,
- appeals; and,
- subsequent period reconciliations.

These processes establish the taxpayer's obligation and firm up the reliable estimate⁷ of the income and statutory receivables over the course of a reporting period.

Subsequent measurement of statutory receivables appears to be limited to considering impairment of the firmed up reliable estimate of initially recognised balances.

HoTARAC suggests that consideration is given to broader inconsistencies of the reporting of financial instruments and non-contractual obligations with similar characteristics to financial instruments. While statutory receivables are accounted for under AASB 9, other non-contractual obligations with similar characteristics to financial instruments are accounted for under AASB 137.

⁷ Reliable measurement being required for recognition of financial statements elements, particularly income and assets, under paragraphs 86, 89 and 92 of the conceptual framework.

21. whether the initial measurement of statutory receivables in accordance with AASB 9 added considerably to the workload of preparers and auditors – either on implementation of Appendix C to AASB 9 or subsequently? If so, please provide your views on the initial measurement requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

HoTARAC notes that the application of paragraph C7 of AASB 9 can considerably increase the workload of preparers and auditors when a tax or duty base is subject to a delayed reconciliation process.

For example, up to 60% of reconciliations for a levy are received in quarters 2 and 3 of the following year. Despite this, the preparer observes that legitimate adjustments contained in reconciliations received in quarter 1 through quarter 3 amount to less than 2% of the statutory levy of the current reporting period. Irrespective of the immateriality of the amount subject to adjustment, auditors require updates on unverified declarations (including annual declaration return rates and total \$ value of proposed adjustments) up until signing of Financial Statements, for the purposes of identifying previous year reversing journal adjustments. This is incorporated as an unadjusted variance in management representation letters.

From a regulator's perspective, the described process appears to counter the inferred relief purpose of paragraph C7, where demonstrable reliability of the initial estimate is available to the taxing authority and volatility is less significant than audit practice infers.

AASB General Matters for Comment

In addition to the specific matters for comment on each topic, the AASB would also particularly value comments on the following:

22. Does the application of AASB 1058 and AASB 15 by NFP entities adversely affect any regulatory requirements for NFP entities?

HoTARAC is not aware of any adverse effects on NFP regulatory requirements.

23. Does the application of AASB 1058 and AASB 15 by NFP entities result in major auditing or assurance challenges?

HoTARAC is of the view that maturation in interpreting and application of AASB 1058 and AASB 15 remains lumpy, with inconsistent understandings being evident between preparers and auditors. This aligns with the suggested development of educational materials mentioned in 8(b) of [Agenda paper 5.1 \(M183\) \(aasb.gov.au\)](#).

Referring to topic 1, the proposed table in that topic may result in major auditing or assurance challenges. The examples under table (f) and (g) of ITC 50 page 9 increase the uncertainty of measurement and the level of judgement required in recognising unearned income for entities providing grant funded services to third parties.

24. Overall, do AASB 1058 and AASB 15 result in financial statements that are more useful to users of NFP entity financial statements?

HoTARAC liaises with jurisdictional regulators, financial statement preparers and members of Parliament. Therefore, HoTARAC has line of sight for a subset of users and their financial information wants or needs. Therefore, it is noted that financial statements cannot possibly provide all information that various user groups require (conceptual framework, OB6).

HoTARAC observes that:

- AASB 1058 and AASB 15 are consistent with the conceptual framework;
- are useful in presenting a true and fair view of inflows of benefits to entities.

Disclosure of parliamentary appropriations and other related authorities for expenditure

In relation to disclosure requirements of paragraph 39 of AASB 1058, it is important to note that the legal position of appropriations is often not aligned with financial reporting concepts, such as reporting entity and reporting period.

Line of sight stewardship for appropriations provided to a Responsible Minister to fund clusters, comprised of multiple reporting entities, is challenging. This challenge is enhanced when appropriations span multiple years. While a cluster or Responsible Minister is not a reporting entity, they act as conduits for funds. Each reporting entity in the cluster receives a portion of the appropriated money and recognises only their relevant expenditures. But the appropriations limit, in some jurisdictions, apply to the operation of a group of entities on a collective basis, and there is no individual limit allocated to each of the entities. In those instances, the control over expenditure of each reporting entity is achieved through budgetary measures rather than monitoring the appropriations limit.

Arguably the stewardship and transparency implicit in AASB 1055 *Budgetary Reporting* provides users with more useful and relevant information in these scenarios.

25. In your view, do the benefits of applying the requirements of AASB 1058 and AASB 15 exceed the implementation and ongoing application costs for NFP entities?

HoTARAC observes that:

- it is beneficial to have consistency between AASB 1058, AASB 15, and the conceptual framework;
- preparers are most likely to question the benefits of the recently implemented standards in the Not-For-Profit Sector; and
- preparers would welcome relief from disaggregated disclosures.

Preparers are influenced by the implementation workloads and the highly technical content of the two standards. The brunt of the ongoing application costs is mostly shouldered by preparers and their advisors, as operational staff refer the determinations to finance staff. Operational staff have competing priorities and are unlikely to enhance their understanding of the complexities attaching to technical accounting requirements.

Additional disclosure requirements imposed by newer standards appear contrary to the trend of simplifying financial statements. Disclosure relief targeting disaggregation of income and revenue would be welcomed by preparers.

26. Are there any other matters that should be brought to the attention of the AASB as it undertakes this PIR on the accounting for income of NFP entities?

Enforceability of arrangements between government entities under common control

Funding arrangements between government entities under common control are not typically formalised through enforceable contracts. Instead, it is common for the parties to simply follow what has been agreed on, with the enforcement of those arrangements achieved through project governance and monitoring. In practice there are different views about enforceability of arrangements without a written agreement between two entities under the same government's control, given most arrangements could be revoked (e.g. if there is a change of government priority). Although paragraph F13 of AASB 15 states that a formal contract is not always required, it would be helpful to confirm whether, and, how enforceability should apply for arrangements between government entities under common control based on a convention between government entities. This could be contrasted with 'a directive given by a Minister or government department' (per paragraph F14 of AASB 15).

Recognition of income from volunteer services

HoTARAC recommends disclosure as a solution to an informational deficit on the value of volunteers to entities.

The significance of volunteering to the emergency services sector in Australia cannot be overstated. In one large state, volunteers scale the numbers of firefighters by a factor of twenty compared to the numbers of career fire and rescue service officers.

This phenomenon is repeated to varying degrees in other fields of endeavour, with the AIHW⁸ stating that "*almost one-third (29%) of Australians aged 15 and over participated in unpaid voluntary work through an organisation or group in 2019. Over a 12-month period, volunteers contributed an estimated 596.2 million hours to the community*".

⁸ <https://www.aihw.gov.au/reports/australias-welfare/volunteers>

The prevalence and the benefit derived placed significant pressure on emergency service providers to recognise, measure and present financial aggregates capturing the value provided to these agencies. Despite this large benefit and considerable effort, the reliability of measuring the fair value remains questionable. Reliability fails on two points:

- Ability to measure time donated; and
- Valuation of the time donated.

No less than four proxy measurements have been considered in lieu of readily observable market prices without satisfactory resolution. Completeness of data and the ability to independently audit volunteers on the information provided remain challenging and are likely to invoke investment far beyond the benefit derived. Put succinctly, the investment in mitigating the damaging effects of emergency is a better application of scarce resources.

Another challenge is the assessment whether “the services would have been purchased if they had not been donated AASB 1058:18(a)”. In the public sector, this can be difficult to assess, because multiple agencies across different levels of government may have a joint/shared responsibility, e.g. regional firefighting services. It is often not clear which entity would have to purchase the services if not donated, and what is each party’s share of acquisition costs. We suggest the Board consider providing an example illustrating which party in a shared responsibility scenario would be required to acquire services if not donated.