

19 April 2023

The Chair
Australian Accounting Standards Board
PO Box 204
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via email: standard@asab.gov.au

Dear Keith

AASB Invitation to Comment: ITC 51 *Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements*

Deloitte is pleased to respond to Australian Accounting Standards Board ('AASB' or 'Board') Invitation to Comment: ITC 51 *Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements* (ITC 51).

We appreciate the opportunity to comment on the Board's post-implementation review (PIR) of certain requirements of Australian Accounting Standards that apply to not-for-profit (NFP) entities.

We are fully supportive of the Board's efforts in making the financial reporting easier and more relevant for NFP entities and would like to highlight the following comments around control and consolidation:

- We note that many NFP entity's organisational structures do not naturally fit into AASB 10 *Consolidated Financial Statements* (AASB 10)'s definition of control and consequently there are difficulties in identifying and consolidating controlled entities.
- We believe that the AASB should consider expanding its current guidance and include more examples (such as a NFP entity having a foundation associated with it and how it assesses control based on varying fact patterns) to provide NFP entities with practical application guidance in assessing control for NFP entities
- We find the identification of variable returns for NFP entities to be highly judgemental in practice and we observe that many NFP entities struggle to determine if the related entity is furthering the investor's objectives or whether it is merely tangentially related.

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- We believe that the AASB should consider expanding its current guidance and include more examples to demonstrate how narrow the scope should be when it comes to congruence of social objectives (e.g., the difference between a case where the related entity is clearly furthering the investor's objectives verses where it is merely tangentially related) in order to provide NFP entities with practical application guidance in identifying variable returns in a NFP context.

Our detailed responses to the AASB Questions for respondents in ITC 51 are outlined in the Appendix.

Please contact me at +61 3 9671 7871 or moverton@deloitte.com.au if you wish to discuss any of our comments.

Yours sincerely



Moana Overton
Partner

APPENDIX – DETAILED RESPONSES TO THE AASB QUESTIONS FOR RESPONDENTS IN ITC 51

Topic 1: Control and consolidation for NFP entities

Regarding AASB 10 Appendix E, do you have any comments about:

Question 1. the outcomes of applying the control model and Appendix E in practice in the NFP sector?

As AASB 10 was written from a for-profit perspective, we have observed that NFP entities generally do find Appendix E of AASB 10 to be helpful in assisting them in applying the control model in the NFP sector.

Question 2. difficulties that might be experienced in identifying and consolidating controlled entities, including difficulties accessing necessary information?

In the NFP sector, we note that many NFP entity organisational structures do not always naturally fit into AASB 10's definition of control and consequently there are difficulties in identifying and consolidating controlled entities.

Question 3. whether differences in application exist in practice in applying the control model and Appendix E in the NFP sector?

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

We note that it is common for NFP entities to have foundations associated with them (e.g., a school establishing a foundation or a fund to raise funds for future projects) and in these cases NFP entities have found it hard to navigate and apply the control assessment criteria. Due to the inherent judgement involved, differences in application may exist in practice as we have observed that in the education sector and specifically in schools, some schools would consolidate the associated foundations, whereas other schools may not.

Question 4. In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with applying the control model in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

In line with our points raised above, we believe that the AASB should consider expanding its current guidance and include more examples (such as NFP entities having an associated foundation and how to assess for control based on varying fact patterns) to provide NFP entities with practical application guidance.

Question 5. Do you have any comments about difficulties that might be experienced in identifying variable returns in the NFP sector? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

We find the identification of variable returns in the NFP sector to be highly judgemental in practice and we observe that many NFP entities struggle to determine if the related entity is furthering the investor's objectives or whether it is merely tangentially related.

Question 6. In addition to the existing guidance in AASB 10 Appendix E, is there any other guidance that would help with identifying variable returns in the NFP sector? If so, please provide details of the guidance and explain why you think it would be useful.

In line with our points raised above, we believe that the AASB should consider expanding its current guidance and include more examples to demonstrate how narrow the scope should be when it comes to congruence of social objectives (e.g., the difference between a case where the related entity is clearly furthering the entity's objectives verses where it is merely tangentially related) in order to provide NFP entities with practical application guidance in identifying variable returns.

Question 7. Do you have any comments regarding customary business practices in the NFP sector? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

We have not encountered instance of customary business practices in the NFP sector in practice that we consider would inform the standard setting process, and accordingly have no comments.

Regarding assessing control without an equity interest, do you have any comments about:

Question 8. the application of the requirements in practice?

Question 9. whether differences in application exist in practice?

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

We have not encountered this matter causing debate or diversity in practice and therefore have no comments.

Question 10. In addition to the existing guidance in AASB 10 Appendix E, is there any guidance that would help with assessing control without an equity interest? If so, please provide details of the guidance and explain why you think it would be useful.

We have not identified a need for further guidance in this area in practice.

Regarding assessing whether an NFP entity in the public sector is acting as principal or an agent do you have any comments about:

Question 11. distinguishing the role of an entity in practice?

We have observed that there is judgement involved when distinguishing the role of an entity in practice, specifically around the non-financial returns as investments are often not financial and returns are often in the form of policy outcomes rather than financial outcomes in the public sector.

Question 12. whether differences in application exist in practice when applying the control model and Appendix E?

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

We note that while there is inherent judgement involved when distinguishing the role of an entity in practice, we have found that NFP entities in the public sector have been able to conclude on a position utilising the current guidance, and are not aware of diversity in practice.

Question 13. In addition to the existing guidance in AASB 10 Appendix E, 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.

In line with our points raised above, we note that the current guidance is sufficient and consistent application of the guidance by NFP entities should eliminate any differences in application in practice.

Topic 2: The definition of a structured entity for NFP entities

Regarding the definition of a structured entity in the NFP sector and the guidance in Appendix E, do you have any comments about:

Question 14. the application of the requirements in practice?

Question 15. any other matters of which the AASB should be aware as it undertakes this PIR?

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

We have not encountered the use of structured entities within NFP structures in practice and accordingly have no comments.

Topic 3: Related party disclosures by NFP public sector entities

Question 16. Do you have any comments regarding the disclosure of related party information by NFP public sector entities? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

We have observed that there are challenges experienced by NFP public sector entities around the disclosure of related party information, specifically around privacy concerns and identifying a complete set of related parties in cases where ministers sit across portfolios.

However, we note that we have not come across a situation where the current guidance was unable to resolve the issue.

Topic 4: Basis of preparation of special purpose financial statements – disclosures about compliance with Australian Accounting Standards

Question 17. Do you have any comments regarding the SPFS disclosures regarding compliance with Australian Accounting Standards by NFP private sector entities? If so, please provide your views on those requirements, relevant circumstances and their significance. Examples to illustrate your responses are also most helpful.

We are not aware of any implementation issues experienced by NFP private sector entities regarding the SPFS disclosures regarding compliance with Australian Accounting Standards.

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:

Question 18. Does the application of the requirements considered in this ITC adversely affect any regulatory requirements for NFP entities?

We note that the application of the requirements in this ITC may have flow-on regulatory impacts. Based on the entities' assessment of control and consequently the requirement to prepare consolidated financial statements, this will correspondingly affect the financial statements to be prepared under ACNC requirements. There may also be an impact on localised or sector specific reporting in various sectors, for example the financial questionnaires that non-government schools submit to the Department of Education and annual reports to be provided on published on the State Register via Victorian Registration and Qualifications Authority (VRQA).

We believe it is important that AASB efforts in this PIR do not cause other regulatory issues for the ACNC, Department of Education requirements for non-government schools and other education and training regulator such as the VRQA for Victorian schools.

Question 19. Does the application of the requirements considered in this ITC result in major auditing or assurance challenges?

We note that there are certain key areas considered in this ITC that are highly judgemental (such as the assessment of control including the identification of variable returns) which significantly impact the requirement to prepare consolidated financial statements, this may make obtaining sufficient appropriate audit evidence to support the judgments challenging in practice. However, we believe that the audit of such judgments is commonplace and would not consider any changes to be necessary purely for the purposes of auditability.

Question 20. Overall, do the requirements considered in this ITC result in financial statements that are more useful to users of NFP entity financial statements?

We believe that on overall, the requirements considered in this ITC will result in financial statements that are more useful to users of NFP entity financial statements, but we echo our comments raised above that there is a call for more practical guidance to be issued by the Board on the highly judgemental areas. We note that while the current guidance makes sense in theory, it is complex to apply in practice and thus it is important for the Board to issue guidance that are user-friendly that caters to the different NFP entity organisational structures commonly seen in NFP sector.

Question 21. In your view, do the benefits of applying the requirements considered in this ITC exceed the implementation and ongoing application costs for NFP entities?

We believe that with additional guidance to be issued by the Board around the highly judgemental areas, the benefits of applying the requirements considered in this ITC will exceed the implementation and ongoing application costs for NFP entities.

Question 22. Are there any other matters that should be brought to the attention of the AASB as it undertakes this PIR?

We have no further comments.