



**Australian Government**

**Australian Accounting  
Standards Board**

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Manager  
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The Treasury  
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Dear Manager

**Government Consultation Paper *Review of not-for-profit governance arrangements***

The staff of the Australian Accounting Standards Board (AASB) are pleased to provide comments on the above named Consultation Paper (CP). Given the relationship between governance and financial reporting and our expertise in financial reporting matters, we have limited our comments to those issues in the CP that relate to financial reporting rather than responding to each specific consultation question. Our comments are made in the context of our view that governance disclosures are best dealt with other than through Australian Accounting Standards.

We agree that improvements in disclosure generally would result in enhanced transparency, which may help improve public trust and confidence in the not-for-profit (NFP) sector and therefore we support the review of NFP governance arrangements reflected in the CP. However, we have some concerns that some of the discussion about the AASB and Australian Accounting Standards does not fully or accurately describe their role, accordingly we have aimed to clarify the role of the AASB and the application, objective and suitability of Australian Accounting Standards for the NFP sector. In clarifying these matters, we hope it will assist you in progressing your review.

***Role of the AASB***

Paragraph 109 of the CP says “the AASB provides a list of standards”. In addition to this, and more substantively, the AASB, as an independent accounting standard-setter, is committed to developing, in the public interest, a single set of high quality understandable accounting standards that require transparent and comparable information in general purpose financial reports.

***Application of Australian Accounting Standards***

Paragraphs 109 and 111 of the CP inappropriately suggest that the application of Australian Accounting Standards by any entity is entirely dependent on the activities the entity carries out. We note that the activities of an entity (whether for-profit or NFP, and whether in the private sector or public sector) are just one factor that would be considered in determining the array of Australian Accounting Standards that may be applicable to a particular entity.

The application of Australian Accounting Standards is determined by applying the reporting entity concept in Statement of Accounting Concepts (SAC) 1 *Definition of the Reporting Entity*, which is tied to the information needs of a wide range of users that rely on the entity's general purpose financial reports for decision making purposes.

Paragraphs 8 – 9 of SAC 1 say “General purpose financial reports should be prepared when there exists, in relation to an entity, users whose information needs have common elements, and those users cannot command the preparation of information to satisfy their individual information needs. Such reports will provide users with appropriate information for making decisions relating to the efficient allocation of resources.... general purpose financial reports should be prepared in accordance with Australian Accounting Standards.” Therefore an NFP entity that is a reporting entity would be required to prepare general purpose financial statements that are prepared in accordance with Australian Accounting Standards.

In relation to the list of Australian Accounting Standards in paragraph 111 of the CP, we wish to clarify that there are other Australian Accounting Standards that are likely to apply to NFP entities, for example, AASB 101 *Presentation of Financial Statements* and AASB 116 *Property, plant and Equipment*. Furthermore, we note that AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, which is listed in paragraph 111 of the CP, does not apply to NFP entities. The relevant Australian Accounting Standard that should be applied by NFP entities instead of AASB 120 is AASB 1004 *Contributions*.

#### ***Objective of Australian Accounting Standards***

Paragraph 110 of the CP says “Accounting standards are essentially about disclosure and efficiency, with the aim of ensuring accountability and that all interested parties have the necessary information to make informed decisions.” We wish to clarify that:

- (a) Australian Accounting Standards set out definition, recognition, measurement, presentation and disclosure requirements that are required to be applied by reporting entities in dealing with transactions and other events in general purpose financial statements; and
- (b) the financial statements are not intended to meet all the needs of all interested parties. Paragraph 12 of the *Framework for the Preparation and Presentation of Financial Statements* says “The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.”

#### ***Suitability of Australian Accounting Standards for the NFP sector***

We agree with paragraph 111 of the CP that financial reports should be prepared in accordance with Australian Accounting Standards. We note that Australian Accounting Standards are written with regards to NFP issues. For example, the standards address the fact that NFP entities differ in some significant respects from for-profit entities, because of, for example, the prevalence of non-cash generating assets and donations. They do this by requiring an NFP entity to account for a transaction in the same way that a for-profit entity would account for it, unless there is an NFP-specific reason to do something different. The benefits of this approach include that users and preparers of general purpose financial statements need only understand one set of accounting standards, with only a limited number of ‘modifications’ to address NFP-specific issues.

### ***Reduced Disclosure Requirements***

Paragraph 37.1 of the CP says factors such as the size of the entity, turnover and the risks it presents should determine the level of governance. We note that similarly Australian Accounting Standards take a ‘proportional approach’ to financial reporting requirements, although based on different criteria, which is principles-based applying across different structures within different sectors.

In this regard, we note that the AASB has two Tiers of reporting requirements for preparing general purpose financial statements (see AASB 1053 *Application of Tiers of Australian Accounting Standards*). The first Tier (comprising full recognition and measurement requirements of Australian Accounting Standards) applies to for-profit entities that are ‘publicly accountable’ (as defined) and Federal, State and Local Governments. The second Tier is significantly less onerous, comprising full recognition and measurement requirements of Australian Accounting Standards, but substantially reducing disclosure requirements. This second Tier of reporting is available to NFP entities immediately, unless the first Tier requirements are imposed by other regulators.

In addition to this second Tier initiative, the AASB plans to further examine opportunities for reducing the disclosure burden on NFP entities.

### ***Related party disclosures***

Paragraph 112 of the CP says consideration needs to be given to the information that should be disclosed in addition to the required financial information, such as related party disclosures or the remuneration of responsible individuals. We note paragraphs 17 and 18 of AASB 124 *Related Party Disclosures* require disclosures about key management personnel compensation and related party transactions respectively. We suggest that these disclosure requirements and related definitions are considered by the Australian Charities and Not-for-Profits Commission (ACNC) in the process of determining whether information additional to that required by AASB 124 is required to be reported – to help avoid duplicate or inconsistent requirements.

Paragraph 85 of the CP provides a list of individuals likely to be included in the definition of a ‘responsible individual’. We suggest considering the definition of key management personnel, in paragraph 9 of AASB 124, in developing a definition of ‘responsible individual’ – to help avoid creating a different definition of a similar notion.

### ***Service Performance Reporting***

Paragraph 117 of the CP discusses the variability and inconsistency in the way charities communicate key information to donors, noting that respondents consider this information important. We note that the AASB plans to look at the information needs of users of NFP financial statements with a view to identifying what useful information is not currently required to be disclosed and considering whether to fill the gaps, for example, information about service performance.

In this regard, the AASB has started to consider issues related to the reporting of inputs, outputs, outcomes and performance measures. The AASB is looking at what role it should play in perhaps developing mandatory or non-mandatory non-financial disclosures that would provide input for decision makers. To date considerable research, which is available

through the AASB's website, has been carried out on existing service performance reporting in various jurisdictions. This research provides a basis for benchmarking the development of possible principles for service performance reporting by NFP entities.

*Accounting profession requirements*

Paragraph 74 of the CP says unincorporated associations do not have regular reporting requirements or governance requirements. It might be relevant to note in that context, accountants who are members of a professional accounting body would be required to comply with professional requirements and in certain circumstances would be required in preparing financial statements to state compliance with Australian Accounting Standards.

If you have any queries regarding matters in this submission, please contact me or Mischa Ginns ([mginns@asb.gov.au](mailto:mginns@asb.gov.au)).

Yours sincerely



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*Chairman and CEO*