



Australian Government

**Australian Accounting
Standards Board**

Feedback Statement

Post-implementation Review – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements for Not-for-Profit Entities

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Enquiries

This AASB staff publication is available on the AASB website.

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In Brief

Introduction

Following the [AASB Due Process Framework for Setting Standards](#), the Australian Accounting Standards Board (the AASB or the Board) undertook a post-implementation review (PIR) of certain not-for-profit (NFP) requirements in certain Australian Accounting Standards.

In November 2022, the Board issued [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](#), seeking feedback from stakeholders to enable the Board to conclude on the overall effectiveness and efficiency of certain NFP requirements in meeting their original objectives. This also includes whether the requirements remain appropriate for NFP entities.

The ITC included 22 questions on four NFP-specific topics, as listed below in Table 1.

Table 1: Topics included in ITC 51

Topics	Affected entities
Topic 1: Control and consolidation for NFP entities (Amendments made to AASB 10 Consolidated Financial Statements by AASB 2013-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities)	NFP private and public sectors
Topic 2: The definition of a structured entity for NFP entities (Amendments made to AASB 12 Disclosure of Interests in Other Entities by AASB 2013-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities)	NFP private and public sectors
Topic 3: Related party disclosures by NFP public sector entities (Amendments made to AASB 124 Related Party Disclosures by AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities)	NFP public sector
Topic 4: Basis of preparation of special purpose financial statements (SPFS) – disclosures about compliance with Australian Accounting Standards (Amendments made to AASB 1054 Australian Additional Disclosures by AASB 2019-4 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements)	NFP private sector

Comments on ITC 51 were due by 31 March 2023, and the PIR was expected to be completed by the end of 2023. However, in June 2023, the AASB reprioritised its work plan to support an increased focus on sustainability reporting projects and to reflect resourcing constraints at the time. As such, work on the PIR was paused and then resumed in Q2 2024.

In March 2025¹ and May 2025,² the Board deliberated the feedback received on ITC 51, considered staff analyses and recommendations and, using the PIR decision-making process framework, made a number of decisions. This Feedback Statement summarises the key feedback received and outlines the decisions made by the AASB.

Outreach, comment letters and evidence-gathering

Following the issue of ITC 51, AASB staff conducted various outreach activities, as summarised below. Overall, feedback was received from over 100 organisations and individuals, including preparers, regulators, users, auditors and representative bodies. Some of those who submitted written comment letters also participated in virtual outreach events hosted by AASB staff. When necessary, follow-up meetings with stakeholders were also held to clarify some of the feedback received.

AASB staff also undertook other evidence-gathering activities, such as reviewing publicly available financial reports and cross-checking information, to verify some of the feedback that was received.

A summary of outreach activities is set out in Table 2.

Table 2: Summary of outreach activities

Sources of feedback received	Total number	Profile (where possible)
Written comment letters	8	(a) Four <u>professional services</u> firms (i) BDO (ii) Deloitte (iii) KPMG (iv) Saward Dawson Australia (b) Two <u>professional bodies</u> (in a joint submission) CPA Australia and Chartered Accountants Australia and New Zealand (c) One <u>auditor</u> Australasian Council of Auditors General (ACAG) (d) One <u>regulator</u> Australian Charities and Not-for-profits Commission (ACNC) (e) One <u>treasury department</u> Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
Survey responses	9 respondents ³	(a) Preparers (5) (b) Auditors (2) (c) Regulator (1) (d) User (1) Respondents noted their experience as: (a) NFP public sector (6) (b) NFP private sector (2) (c) Both (1)

1 See March 2025 meeting (M211): [Agenda Paper 7.1 Basis of preparation of special purpose financial statements – disclosures about compliance with Australian Accounting Standards](#) and [Agenda Paper 7.2 Related party disclosures by NFP public sector entities](#).

2 See May 2025 meeting (M212): [Agenda Paper 7.1 The definition of a structured entity for NFP entities](#) and [Agenda Paper 7.2 Control and consolidation for NFP entities](#).

3 The survey had a 22% completion rate indicating that not all who began the survey completed it and not all questions were answered. The survey was set up to allow respondents to skip through questions, to acknowledge that some ITC topics may not be relevant to all respondents.



Sources of feedback received	Total number	Profile (where possible)
Virtual outreach sessions	123 individual stakeholders over four sessions ⁴	Session 1 – AASB NFP project advisory panel members (13) Session 2 – NFP private sector entities (17) Session 3 – NFP local government entities (53) Session 4 – NFP State, Territory and Commonwealth Government entities (40)
One-on-one meetings ⁵	5	These included meetings with preparers, accounting experts within audit offices, and accounting advisors (including professional services firms).
Other		Stakeholder forums: (a) ACNC Advisor Forum (b) South Australian Local Government Financial Management Group Executive Committee Meeting (c) Other feedback was received from 1 stakeholder via email.

Overall Board Decision

After considering stakeholder feedback, the Board determined that the NFP requirements considered as part of this PIR are generally working as intended. However, the Board acknowledged that there may be opportunities to improve aspects of some of the requirements, subject to gathering additional evidence from stakeholders and particularly considering some of the Board's current standard-setting projects.

The Board decided, at this stage, not to propose any amendments to:

- **Appendix E of AASB 10 Consolidated Financial Statements.** However, the Board will:
 - undertake research to better understand the significance, prevalence and magnitude of the implementation challenges identified by stakeholders – such as determining whether decision-making rights are protective or substantive, and identifying variable returns – to determine whether additional guidance is needed and, if so, in what form; and
 - monitor the NFP Private Sector Financial Reporting Framework (Tier 3) project to ensure any implementation issues identified by stakeholders in response to the proposed removal of the ability to prepare special purpose financial statements and the initial application of AASB 10 by affected NFP entities are considered;
- **Appendix E of AASB 12 Disclosure of Interests in Other Entities;**
- **AASB 124 Related Party Disclosures.** However, the Board will continue to monitor the International Public Sector Accounting Standards Board's Making Materiality Judgements project, which might inform future improvements to AASB 124 in relation to public sector entities; and
- **AASB 1054 Australian Additional Disclosures.** However, the Board will monitor the disclosure requirements in light of the Board's Conceptual Framework: Not-for-Profit Amendments project.

⁴ The four sessions covered the topics in ITC 51 and also the topics in ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities*.

⁵ During the virtual outreach sessions, attendees were asked if they would like staff to contact them to discuss any topics in further detail. This question was also included in the follow-up survey. Stakeholders who were unable to attend a virtual outreach session were also offered the opportunity to meet separately with staff to provide their feedback. Generally, these meetings focused on selected topics.

Literature review

During the development of ITC 51, a literature review was conducted on the four topics included in this PIR by AASB staff⁶ using keyword searches for terms including ‘AASB 10’, ‘AASB 12’, ‘AASB 124’, ‘AASB 1054’, ‘NFP’, ‘not for profit’, ‘not-for-profit’, ‘public sector’ and ‘government accounting’ in Business Source Complete, Google Scholar and other academic databases, including the Social Science Research Network (SSRN) and Research Gate. Only a very limited number of publications were identified. Specifically, no relevant papers were found for the topics of ‘Definition of a structured entity in AASB 12 NFP Appendix E’, ‘Related party disclosure in AASB 2015-6’ and ‘SPFS basis of accounting in AASB 2019-4’. While no academic papers were found on the control model and the application of AASB 10 Appendix E by NFP entities, two relevant industry publications were identified:

- Gilchrist, DJ (2017) [‘Issues Paper: Better Financial Reporting for Australia’s NFPs’](#), *A Report Prepared for Anglicare Australia*, accessed 1 June 2025.
- Jubb, C, Muir, J, Pathirange, N and Shying, M (2022) [‘Annual Reports of Australian Not-for-Profit Organisations: Insights from Internal and External Stakeholders’](#), *CPA Australia and Swinburne joint report*, accessed 1 June 2025.

Gilchrist (2017) and Jubb et al. (2022) suggest that consolidated financial statements may not provide sufficient information for users (e.g. donors, philanthropists, or members) to assess the financial position and performance of the specific sponsored entities they support.

While very few papers directly examining the impact of the requirements included in this PIR on Australian NFP private and public sector entities were identified, where relevant, research papers related to the requirements are discussed in the staff papers corresponding to each topic. A list of relevant academic papers is included in the appendix of this Feedback Statement.

Feedback received and Board decisions

ITC 51 included four topics and 22 questions for comment. The following sections provide a summary of feedback received on each of the topics and the Board’s decisions, together with the Board’s reasoning for those decisions.

The Feedback Statement uses the following terms to describe the extent to which respondents provided feedback:

Term	Extent of response among respondents
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or a large minority
Some	a small minority, but more than a few
A few	a very small minority

⁶ The literature review covered the topics in ITC 51 and also the topic of income for the NFP sector. See May 2022 meeting (M187): [Agenda Paper 4.2 NFP domestic PIRs](#), September 2022 meeting (M190): [Agenda Paper 9.3 NFP domestic PIRs – academic and non-academic literature reviews](#)



Topic 1: Control and consolidation for NFP entities

It is important to note that, in addition to the feedback received on ITC 51, two stakeholders also provided relevant input on this topic in their comment letter submissions to [Exposure Draft \(ED\) 334 Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements](#) and [Exposure Draft \(ED\) 335 General Purpose Financial Statements — Not-for-Profit Private Sector Tier 3 Entities](#). The Board also considered this feedback during its deliberations.

Application of the control model in the NFP sector

Overall, feedback on the application of the control model in the NFP sector was mixed. The key themes emerging from stakeholder feedback are summarised as follows:

- Many stakeholders commented that AASB 10 Appendix E is useful, but noted that some implementation challenges remain. This is because significant judgement is required in assessing control in the NFP sector, mostly stemming from the complexity of the structure and nature of NFP entities (as highlighted by Heald and Georgiou 2000, Santis et al. 2018). Specific key feedback included:
 - While some audit challenges were noted, stakeholders generally agreed that these do not warrant changes to AASB 10 for the purposes of auditability;
 - Most feedback called for clearer guidance and additional illustrative examples to support consistent application; and
 - Some stakeholders noted that many NFP private sector entities have been preparing special purpose financial statements. As a result, the feedback received in response to ITC 51 may not fully capture issues that could arise if their ability to prepare special purpose financial statements is removed and they are required to apply AASB 10.
- A few stakeholders expressed that, in their view, the outcomes of applying AASB 10 to the NFP sector are sometimes not helpful, and the application of the Standard should be reconsidered. In particular, the outcomes of applying the AASB 10 model may lead to a control conclusion that is not always considered useful to any primary users. In addition, at least some aspects of the AASB 10 control model may not be suited to the NFP sector. In particular, they suggested it would be more appropriate to consider factors such as governance (e.g. the purpose of director appointment powers), user needs, the concept of variable returns and the nature of NFP operations when considering an alternative or a different/improved control model. A prior study highlighted some similar conceptual issues when a private sector-based standard is applied in the context of the NFP sector, given that the NFP sector has different user groups (Howieson 2013).
- Stakeholders acknowledged the ACNC's joint and collective reporting provisions, and the inconsistency between them and the requirements of AASB 10. Stakeholders expressed concerns that, if the ability for certain NFP entities to prepare special purpose financial statements is removed, this inconsistency could lead to confusion and extra burden for stakeholders of ACNC-registered charities, if they were required to prepare general purpose financial statements that complied with AASB 10 whilst also preparing group financial statements for ACNC reporting purposes.



Board decisions

The Board noted the following:

- Stakeholders acknowledge the usefulness of AASB 10 Appendix E to NFP entities, although some implementation difficulties remain. The main areas of concern highlighted by stakeholders were:
 - differences in application continuing to persist due to the inherently judgemental nature of control assessments, often related to assessing whether rights give rise to power and are substantive or protective; and
 - scenarios where additional guidance would be beneficial.
- While there are areas within the AASB 10 control model that could be improved, replacing the control model for the NFP sector is not warranted. From the feedback received, the Board did not consider there is sufficient evidence to warrant departing from the principle of transaction neutrality in the NFP sector by adopting a control model other than that set out in AASB 10. Furthermore, the key reason provided by stakeholders who suggested an alternative model, was their concern about the ‘outcome’ of applying the control model (i.e. in their view the application of the AASB 10 control model could result in a control conclusion that, in their view, would not always be useful to any primary users if consolidated financial statements were required) rather than a shortcoming of the AASB 10 control model itself.
- When AASB 10 Appendix E was being developed, the Board was aware of the ACNC’s joint and collective reporting provisions. The Board acknowledged that different regulators might impose financial reporting requirements that differ from Australian Accounting Standards for their own purposes, such as the ACNC permitting two or more registered entities to prepare and lodge a single financial report under the joint reporting provisions, which might not be consistent with the AASB 10 requirements for consolidated financial statements. Whilst the ACNC may permit a departure in limited circumstances, the Board decided that it would not be appropriate for its requirements for general purpose financial statements to reflect those limited circumstances.⁷

As such, the Board decided to:

- **conduct further research** to assess whether additional guidance or illustrative examples are warranted and, if so, in what form. This research will specifically address the scenarios raised by stakeholders, as well as any other relevant situations that may not yet have been identified; and
- **monitor** the NFP Private Sector Financial Reporting Framework (Tier 3) project, to ensure any implementation issues identified by stakeholders in response to the proposed removal of the ability to prepare special purpose financial statements and the initial application of AASB 10 by affected NFP entities are considered.

Identifying variable returns in the NFP sector

Identifying variable returns was one of the matters most frequently raised by stakeholders. While the concept is broadly understood, many stakeholders highlighted that its application in practice can be complex and is often highly judgemental. Feedback received included the following:

- The concept of variable returns is too broad in the NFP context, for instance, ‘furthering objectives’ is often easily demonstrated. For example, when NFP entities operate with aligned social or charitable objectives, stakeholders suggested that meeting the variable returns criterion is often considered to be met by default. In addition, stakeholders from both the NFP public and private

⁷ See paragraphs BC52 and BC54 of the Basis for Conclusions on AASB 2013-8.

sectors noted that identifying variable returns, particularly non-financial returns which are prevalent in the NFP sector (Hall and Millo 2018; Jiao 2021), is highly judgemental and challenging to apply consistently.

- Application challenges in NFP public sector contexts were noted, such as:
 - judging whether aligned objectives between entities and government departments constitute variable returns;
 - assessing exposure to non-financial returns where involvement is primarily through funding or statutory responsibilities; and
 - determining whether a Minister's or department's objectives are being furthered through another entity.
- Trust structures were highlighted as a specific area of concern. For example, in some NFP trust structures, the trustee is not a beneficiary and may only be exposed to non-financial or negative returns. This makes assessing control particularly difficult and results in mixed application in practice.
- Stakeholders suggested that further guidance is needed, including:
 - clearer explanations on the threshold or extent of exposure required to meet the variable returns criterion;
 - separate or tailored guidance for the NFP public and private sectors is needed to avoid confusion. Stakeholders suggested that it is not always clear how NFP public sector examples could be applied by analogy in assessing control in NFP private sector scenarios;
 - expanded illustrative examples, including stepped scenarios that show different permutations of aligned objectives, involvement, and power; and
 - more clarification on identifying non-financial returns, particularly in cases where decision-making is shared among multiple parties.
- Some stakeholders, however, expressed concern that developing additional guidance could unintentionally narrow the interpretation of variable returns and diverge from how the concept is applied in the for-profit sector. These stakeholders view the current guidance as intentionally broad, allowing for necessary flexibility in assessing control based on facts and circumstances.

Board decisions

The Board acknowledged stakeholder concerns and noted that the broad concept of variable returns reflects the diversity of objectives and structures in the NFP sector and that the concept could be difficult to apply in practice. The Board was of the view that there is existing guidance and examples demonstrating the application of identifying variable returns. However, the Board recognised that some principles may not be fully addressed and that additional guidance or examples may be needed to cover key scenarios not demonstrated by the current materials.

As such, the Board decided to take the following actions regarding identifying variable returns in the NFP sector:

- **Undertake further research** to better understand the significance, prevalence and magnitude of the implementation challenges identified by stakeholders – such as determining whether decision-making rights are protective or substantive and identifying variable returns – to determine whether additional guidance is needed and, if so, in what form.

- **Monitor** the Board's NFP Private Sector Financial Reporting Framework (Tier 3) project to ensure any implementation issues identified by stakeholders in response to the proposed removal of the ability to prepare special purpose financial statements and the initial application of AASB 10 by affected entities are considered.

Customary business practices

Two main views were expressed about the relevance of customary business practices in assessing whether control is present in the NFP sector:

- Customary business practice is relevant and the practical ability of the parties to change those practices should be considered in assessing whether customary business practices equate to rights and obligations. Customary business practices may also be relevant to all limbs of the control model if the concept is added to AASB 10.
- Customary practice is not relevant to the control assessment. An entity either has a right or does not.

Board decisions

The Board decided not to take any action in relation to customary business practices. The Board noted that this concept is not explicitly addressed in AASB 10 and was of the view that the control assessment should be based on the existing contractual rights of the relevant party (i.e. substantive rights).

Assessing control without an equity interest

Stakeholders did not raise any significant concerns about assessing control without an equity interest in the NFP sector.

Board decisions

As the feedback received did not indicate any significant concerns, the Board decided to take no action on this matter.

Principal versus agent in public sector entities

Despite the judgement required when distinguishing whether an entity is acting as a principal or an agent in practice, stakeholders noted that NFP public sector entities have been able to utilise existing guidance to form a view and no diversity is observed in practice.

Board decisions

Although preliminary feedback received during the development of ITC 51 suggested that clarification was needed to assist NFP public sector entities with determining when an entity is acting as a principal versus an agent, feedback on ITC 51 suggests that this is not the case. As such, the Board decided not to take any action on this matter.

Other matters for consideration

Some other feedback was received regarding application challenges, such as:

- challenges with preparing consolidated financial statements due to limited resources;

- challenges with preparing consolidated financial statements due to inconsistencies in the accounting policy choices of entities within a group;
- questioning the usefulness of consolidated financial statements when donors desire to see the financial information of the funded entity rather than the whole group; and
- challenges in accessing the required information to prepare consolidated financial statements.

Board decisions

The Board considered this feedback to be outside the scope of this PIR and observed that it is either already addressed in the Standard, relates to internal policies and processes, or could be addressed by additional disclosures. The Board also considered that there is an opportunity for stakeholders to improve their internal systems and processes (for instance, aligning the accounting policies of group entities) to reduce duplication of effort. As such, the Board decided to take no action in response to this feedback.

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

Overall, the limited feedback received on this topic did not indicate any significant issues with the application of the definition of a structured entity in the NFP sector. Although one stakeholder suggested additional examples in Appendix E of AASB 12 would be helpful to illustrate how the guidance can be applied in typical scenarios, the other three stakeholders that provided feedback on this topic indicated that most of the challenges arising from the application of the requirements have been resolved and there is no need for any additional standard-setting activity.

Board decisions

The Board acknowledged that illustrative examples can enhance entities' understanding and application of a Standard's requirements, particularly if the principles are unclear or require clarification. However, examples cannot cover every possible scenario or account for all factors and entities are expected to apply the requirements of a standard based on their specific facts and circumstances, which may require significant judgement.

As such, while additional illustrative examples may be helpful, the limited feedback received on this topic suggests that the development of additional examples is not warranted at this time. For this reason, the Board decided not to take any action on this topic.

Topic 3: Related party disclosures by NFP public sector entities

Overall, the feedback received was in line with the preliminary feedback received from stakeholders prior to the issue of ITC 51. The main themes of the stakeholders' feedback included the following:

- The structures and nature of NFP public sector entities, which are different from those of for-profit entities (Chan 2003, Cordery and Simpkins 2016), can make it challenging to determine who is considered key management personnel (KMP). This can be particularly evident where a job 'title' does not give rise to a practical ability to plan, control or direct the activities of the entity and where ministers, for example, have oversight across various portfolios.
- Obtaining related party information can be challenging for preparers, and ensuring completeness of related party disclosures can also be challenging for auditors. Reasons for this can include the

number of related parties and the related party transactions to be considered, incomplete or insufficient declarations of interest from KMP and difficulty obtaining sufficient audit evidence.

- Applying the definition of close members of the family can be difficult. Further, the current guidance is insufficient, particularly in light of the 2024 changes to the *Family Law Act 1975*, which extended the definition of ‘relative’ in certain circumstances to more closely align with cultural traditions.
- Applying the materiality concept in the NFP public sector is important given the volume of related party transactions, some of which may not require disclosure if, for example, they are operational in nature. For this reason, additional guidance on determining whether a transaction is material by nature would be beneficial.
- There can be practical challenges when calculating and disclosing KMP remuneration. Some examples include calculating the superannuation component of remuneration where KMPs are members of defined benefit plans, disclosing negative leave provisions where significant leave balances are reversed and reconciling accrual-based remuneration with cash-based remuneration where ‘cash accounting’ is required by an independent regulator.
- Balancing the costs and benefits of complying with the disclosure requirements is a concern. However, it should be noted that a direct cost-benefit analysis is challenging due to the lack of quantifiable evidence (Schipper 2010). Some stakeholders suggested that the costs of complying with the disclosure requirements can be significant, and some stakeholders also questioned whether the disclosures are a good use of public resources and provide useful information.

Board decisions

In response to stakeholder feedback, the Board noted the following:

- The implementation guidance within AASB 124, which requires professional judgement, is sufficient to support NFP public sector entities in determining who is considered KMP.
- NFP public sector entities generally have well-established policies and procedures in place to gather the required information. Further, the practical challenges experienced by the NFP public sector in both the preparation and audit of related party information are not unique to the NFP public sector as they also affect for-profit entities.
- The definition of close members of the family is principles-based and entities must consider the facts and circumstances of each relationship when determining whether a person is a related party. Specifically, the Board did not consider the recent legislation changes affect the application of the definition for financial reporting purposes as the specific facts and circumstances of each relationship, including a person’s ability to influence or be influenced by another person, should already have been being considered.
- The current guidance in AASB Practice Statement 2 *Making Materiality Judgements*, combined with requirements in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a sufficient basis for the application of the materiality concept in relation to the identification and disclosure of related party information.
- The Board also noted that as part of the International Public Sector Accounting Standards Board (IPSASB)’s *Making Materiality Judgements* project, the IPSASB issued [Exposure Draft 93 Definition of Material \(Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework\)](#) in May 2025, which proposes amendments to the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and certain IPSAS Standards to align the definition of material. These amendments are part of a broader materiality project in response to stakeholder feedback

received by the IPSASB that some public sector entities have difficulties making materiality judgements.

- AASB 124 does not govern how KMP remuneration should be calculated. AASB 124 does, however, set out the minimum information that should be disclosed in general purpose financial statements (subject to materiality). If an entity is concerned that disclosures such as ‘negative’ expenses or other unusual items could be confusing for users of the financial statements, the Board considered that they should already be making additional disclosures that explain the transactions or balances in question.
- Disclosing related party information is fundamental to enhancing transparency and accountability in the NFP public sector. Further, the Board understood that some of the information required to be disclosed by AASB 124 is consistent with the information that entities are required to collect for legislative reporting. Whilst it is difficult to determine whether the costs of collecting and disclosing related party information exceed the benefits, there is limited evidence to suggest that the ongoing implementation costs of applying AASB 124 in the NFP public sector exceed the benefits.

As a result, the Board decided not to take any action on this topic at this time.

However, the Board will continue to monitor the IPSASB’s Making Materiality Judgements project, which might inform future improvements to AASB 124 in relation to NFP public sector entities.

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

The choice of financial reporting frameworks for the charity sector has been considered in the past by both standard setters and regulators (Yang and Simmet 2020).

Limited feedback was received on this topic, and the feedback received did not highlight any significant concerns with the requirement for certain NFP entities to make disclosures about their compliance with Australian Accounting Standards in their special purpose financial statements (SPFS disclosures). The main themes of the limited feedback received were as follows:

- Compliance with the SPFS disclosures is relatively low.
- Entities appear to generally use the ‘not assessed’ option when making SPFS disclosures. Feedback also suggested that it was generally easier to comply with recognition and measurement (R&M) requirements than to provide disclosures to explain R&M departures.
- SPFS disclosures should also apply to the NFP public sector entities that are preparing special purpose financial statements.

Board decisions

The Board noted the following:

- Low levels of compliance with SPFS disclosures are primarily an enforcement issue rather than a problem with the disclosure requirements. That is, ensuring compliance with disclosure requirements falls under the purview of auditors and regulators.

- Including the option for NFP entities to state that they have not assessed their compliance with the R&M requirements in Australian Accounting Standards was beneficial, as entities are generally using this option.
- It is actively considering the public sector financial reporting framework, including possibly limiting the ability of NFP public sector entities to prepare special purpose financial statements. As such, the Board has not yet considered whether any NFP public sector entities that could continue to prepare special purpose financial statements should be required to comply with SPFS disclosures.

Accordingly, the Board decided not to take any action on this topic at this stage.

However, the Board will continue to monitor the SPFS disclosures in light of the Board's current projects that are considering the NFP private sector financial reporting framework and the continued preparation of special purpose financial statements by all NFP entities (i.e. the Board's [NFP Private Sector Financial Reporting Framework \(Tier 3\) project](#) and the Board's [Conceptual Framework: Not-for-Profit Amendments project](#)), as these projects may address any concerns stakeholders have with the SPFS disclosures.

Next Steps

The Board concluded that the PIR of the NFP requirements in certain Australian Accounting Standards that were set out in ITC 51 is complete. However, it will continue to monitor the application of certain requirements in the NFP sector, including the following:

- In relation to the application of the control model in the NFP sector:
 - conducting further research to assess whether additional guidance or illustrative examples are warranted and, if so, in what form. This research will specifically address the implementation challenges and scenarios raised by stakeholders, as well as any other relevant situations that have not yet been identified;
 - undertaking further research to better understand the significance, prevalence and magnitude of the implementation challenges identified by stakeholders – such as determining whether decision-making rights are protective or substantive, and identifying variable returns – to determine whether additional guidance is needed and, if so, in what form; and
 - monitoring the [NFP Private Sector Financial Reporting Framework \(Tier 3\) project](#), paying particular attention to the implications of removing the ability of certain NFP entities to prepare special purpose financial statements to ensure any implementation issues identified by stakeholders in response to those proposals and the initial application of AASB 10 are considered.
- In relation to related party disclosures by NFP public sector entities, by monitoring the IPSASB's Making Materiality Judgements project, which might inform future improvements to AASB 124 in relation to NFP public sector entities.
- In relation to SPFS disclosures, monitoring the disclosure requirements in light of the Board's [NFP Private Sector Financial Reporting Framework \(Tier 3\) project](#) and the Board's [Conceptual Framework: Not-for-Profit Amendments project](#).

Stakeholders are welcome to contact standard@asb.gov.au with any queries about the PIR of ITC 51.

Appendix – References

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