



<b>Project:</b>	<b>Post-implementation Reviews</b>	<b>Meeting:</b>	M211
<b>Topic:</b>	<b>Basis of preparation of special purpose financial statements – disclosures about compliance with Australian Accounting Standards</b>	<b>Agenda Item:</b>	7.1
		<b>Date:</b>	14 February 2025
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Decide on next steps

## Objective of this paper

- 1 The objective of this Staff Paper is for the Board to consider:
  - (a) the feedback received on Topic 4: Basis of preparation of special purpose financial statements – disclosures about compliance with Australian Accounting Standards in [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](#); and
  - (b) staff analysis and recommendations on possible next steps.

## Structure of this paper

- 2 This paper is structured as follows:
  - (a) Background (paragraphs 3 to 6);
  - (b) Feedback received and analysis (paragraphs 7 to 8);
  - (c) Summary of staff recommendations (paragraphs 9 to 11); and
  - (d) Appendix A: Feedback received, staff analysis and recommendations.

## Background

- 3 In 2019, the Board issued AASB Exposure Draft [ED 293 Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statement of Compliance with Recognition and Measurement Requirements](#) to propose an amendment to Australian Accounting Standards (AAS). The

proposals were an interim measure intended to improve the transparency and comparability of special purpose financial statements (SPFS) because SPFS do not always comply with the recognition and measurement (R&M) requirements in AAS, which is not always clear to users of SPFS.<sup>1</sup> Twelve written submissions were received on ED 293, and a webinar on ED 293 was also conducted in July 2019 as part of the education and outreach activities related to this ED. The majority of feedback received supported the notion that the proposals would improve the transparency and comparability of publicly lodged SPFS.

- 4 In November 2019, after considering the feedback obtained from respondents to ED 293, webinar participants, feedback obtained from users and the findings of [AASB Research Report 11 Review of Special Purpose Financial Statements: Large and Medium Sized Australian Charities](#) and [AASB Research Report 12 Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements](#), the Board narrowed the scope of the proposals and issued [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](#).
- 5 AASB 2019-4 added requirements to AASB 1054 *Australian Additional Disclosures* to require NFP private sector entities that are required to apply AASB 1054 and that are preparing SPFS to disclose information about those financial statements. The disclosures (“the SPFS disclosures”) cover:
  - (a) the basis on which the decision to prepare SPFS was made;
  - (b) whether the entity has assessed whether its interests in other entities give rise to interests in subsidiaries, associates or joint ventures and, if so, whether those interests have been consolidated or equity accounted consistently with the requirements of AASB 10 *Consolidated Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* – disclosing any non-compliance and its reasons why;
  - (c) the extent to which each of the entity’s material accounting policies complies with the R&M requirements specified in AAS by disclosing an indication of how it does not comply, or else that such an assessment has not been made; and
  - (d) whether or not the financial statements overall comply with all the R&M requirements in AAS or that such an assessment has not been made.
- 6 The SPFS disclosures apply to annual reporting periods ending on or after 30 June 2020.

### Summary of feedback received on ITC 51

- 7 The post-implementation review (PIR) of the SPFS disclosures focuses only on the disclosures as they apply to **NFP private sector entities**. Limited feedback was received as follows:
  - (a) four of the eight submissions received on ITC 51 responded to this topic (CAANZ & CPA, ACAG, ACNC and Deloitte), and:
    - (i) Deloitte noted they are not aware of any implementation issues experienced by NFP private sector entities concerning the SPFS disclosures; and

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1 When ED 293 was issued in July 2019, the Board had a broader project on its work program proposing to remove the ability for certain entities to prepare SPFS via a phased approach. The proposed disclosures were an interim measure as the project proposing to remove SPFS was expected to take some time.

- (ii) the CAANZ & CPA joint submission, ACAG and ACNC provided specific comments, which are discussed in detail in Appendix A;
  - (b) one survey respondent provided feedback on the SPFS disclosures, noting that it was generally easier to comply with R&M requirements than provide the disclosures to explain R&M departures;
  - (c) other limited feedback was received in one-on-one meetings<sup>2</sup>; and
  - (d) no feedback was received regarding the SPFS disclosures in other outreach sessions.
- 8 The Appendix A to this paper provides further discussion on the feedback received, along with staff analysis and recommendations. Overall, the limited feedback received did not highlight any significant concerns with the SPFS disclosures and the main themes of the stakeholders' feedback are that:
- (a) compliance with the SPFS disclosures is relatively low;
  - (b) entities appear to generally use the 'not assessed' option when making the SPFS disclosures; and
  - (c) the SPFS disclosures could be extended to NFP public sector entities preparing SPFS.

### Overall staff analysis and recommendations

- 9 As noted above, staff are of the view that feedback received did not indicate significant concerns regarding the SPFS disclosures.
- 10 Further, the AASB has an active project that is considering the NFP private sector financial reporting framework and the future of SPFS reporting by all NFP entities (i.e. [ED 334 Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements](#) and [ED 335 General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities](#)). Therefore, any concerns about the SPFS disclosures may be well addressed once the project is completed, if, for example, the ability of certain NFP entities to prepare SPFS is limited.
- 11 As such, staff **recommend** that the Board **not take any action** at this stage.

**Question for Board members:**

Question 1: Do Board members have any questions or comments on the feedback received and staff analysis on Topic 4 regarding the SPFS disclosures?

Question 2: Do Board members agree with the staff recommendation in paragraph 11 on Topic 4 regarding the SPFS disclosures?

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2 Five one-one-one meetings were conducted for ITC 51, but only two of these meetings yielded feedback on the SPFS disclosures.

# Appendix A: Feedback received, staff analysis and recommendations

## Questions for respondents

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.

1 Sections below provide the overall feedback received, staff analysis and recommendations.

## Compliance with SPFS disclosure requirements

2 The feedback from the ACNC highlighted that the effective date of the new disclosure requirements coincided with the onset of the COVID-19 pandemic, so it may not have been a priority for charities to implement the requirements during that time. Further to this, the ACNC noted that based on the findings of its review of 250 randomly selected Annual Information Statement (AIS) and Annual Financial Report (AFR) submissions from the 2020 reporting period covering medium and large charities (“2020 review report”), only “45% of charities preparing Special Purpose Financial Statements (SPFS) included some sort of disclosure note regarding compliance with recognition and measurement (R&M) requirements”.<sup>3</sup> These entities commonly disclosed a note stating compliance with the R&M requirements of all relevant accounting standards.

## Staff analysis and recommendations

3 The findings from the ACNC’s 2020 review report shared some consistency with those from the [AASB Research Report 19 Common Financial Statement Items: Charities with \\$0.5-\\$3 million in revenue](#) (April 2023). By analysing 260 randomly selected 2020-2021 financial statements of ACNC-registered charities with annual revenue ranging from \$0.5 million to \$3 million (i.e. the size threshold for medium charities), the AASB research findings show that 78% (203) of entities prepared SPFS. Of the charities that prepared SPFS, only 40.39% (82 out of 203) stated they comply with the R&M requirements and 0.49% (1 out of 203) stated that an assessment has not been made.

4 Staff acknowledged that the findings indicate a lack of compliance with the disclosure requirements. However, as pointed out by the ACNC, one limitation of the sample period used for the review was that it coincided with the COVID-19 pandemic, so implementing the new requirements might not have been a priority.

5 However, staff are of the view that this matter is 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. Staff further investigated the ACNC 2021 review report<sup>4</sup> (the reviewed sample used by the ACNC included medium and large-sized charities) and observed that 61% of the financial statements reviewed were SPFS. Further, 98% of the financial reports included either an auditor's or reviewer's report. Among these attached reports:

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3 <https://www.acnc.gov.au/tools/reports/reviewing-charities-financial-information-and-annual-financial-reports-2020> (accessed 15 December 2024)

4 <https://www.acnc.gov.au/tools/reports/reviewing-charities-financial-information-and-annual-financial-reports-2021> (accessed 12 February 2025)

(a) 98% were auditor's reports

(b) 2% were reviewer's reports.

Despite the high prevalence of audited reports within the sample, compliance with the SPFS disclosures remains concerningly low. This discrepancy highlights potential weaknesses in the enforcement process and indicates a critical area that demands increased regulatory scrutiny.

- 6 Staff are of the view that enforcing entities to comply with the Standard is not the Board's responsibility but the regulators'. As such, staff recommend **not taking any action** to address this feedback.

### **“Have not assessed” option**

- 7 Paragraph 9A(d) of AASB 1054 permits entities to disclose whether or not the financial statements overall comply with all the R&M requirements in AAS (except for requirements set out in AASB 10 or AASB 128) or that such an assessment has not been made. CPA & CAANZ commented in their joint submission that the NFP sector has been generally using the “Have not assessed” option. Therefore, there is a lack of evidence about possible problems with disclosing compliance or non-compliance with all R&M requirements in AAS.
- 8 Conversely, one survey respondent provided feedback on this topic, noting that, in their view, it was generally easier to comply with R&M requirements than to provide disclosures to explain R&M departures.
- 9 The CPA & CAANZ comment that generally, entities opt to state “have not assessed” contradicts the findings in AASB Research Report 19 (see paragraph 3 above), which found that only an insignificant number of entities (0.49%, equivalent to 1 out of 203) stated that an assessment had not been made.
- 10 The CPA & CAANZ submission also noted that rather than focusing on amendments in response to this PIR, the Board could better serve the NFP sector by focusing its efforts on the completion and implementation of its Tier 3 NFP Private Sector Entities project.

### ***Staff analysis and recommendations***

- 11 Staff acknowledge feedback received indicating that many NFP entities may have chosen not to assess whether or not their accounting policies comply with the R&M requirements in AAS because it is an easier option.
- 12 However, staff note that ACNC’s 2020 review report noted that “disclosure notes confirming compliance with the recognition and measurement requirements of all relevant accounting standards were the most commonly observed note of this type.” Staff consider this means that of the 45% of SPFS that complied with the SPFS disclosures, most of them stated compliance with all the R&M requirements of AAS.
- 13 When the Board was developing the requirements, the Board considered the costs and benefits of the disclosures and acknowledged that NFP entities are often not as well-resourced as for-profit entities. Further, some NFP entities might find it burdensome to determine whether their accounting policies comply with the R&M requirements in AAS. As noted in paragraph BC51 of AASB 1054, the Board decided to include the option of stating that an assessment had not been made because allowing an entity to make such a disclosure would require minimal additional effort (as entities would not be required to undertake an assessment of their compliance with the R&M

requirements in AAS but merely make the disclosures based on their existing understanding of the entity's accounting policies). The disclosure, however, would highlight potential instances of non-compliance with the R&M requirements in AAS to users of the SPFS, as well as potential governance issues. It would also allow users of the SPFS to seek additional information if required.

- 14 Staff also agree that the Board should prioritise the NFP financial reporting framework projects. Paragraphs BC66 and BC67 of ED 334 note that under the proposals, NFP private sector entities preparing financial statements in accordance with Part 2M.3 of the *Corporations Act 2001* will be required to prepare general purpose financial statements and, as such, paragraph 9A of AASB 1054 will no longer be relevant to these entities. Similarly, other entities (such as charities registered with the ACNC) that are required by legislation to prepare financial statements that comply with AAS will be required to prepare general purpose financial statements, too, so paragraph 9A of AASB 1054 will no longer be relevant to these entities either.
- 15 As such, staff recommend **not taking any action at this stage**.

### SPFS disclosures could be extended to public sector NFPs

- 16 ACAG suggested that the SPFS disclosures regarding compliance with AAS by NFP private sector entities should also apply to the public sector.

#### *Staff analysis and recommendations*

- 17 When the Board considered feedback received from ED 293, as noted in BC44 of AASB 2019-4, the Board decided that to better balance any additional costs with any benefits to financial statement users, it was necessary to limit the scope of the Standard to apply only to (certain) not-for-profit private sector entities.
- 18 As noted above, ED 334 proposes to limit the ability of certain NFP public sector entities to prepare SPFS. As such, the Board has not considered whether any NFP public sector entities that could continue to prepare SPFS should be required to comply with the SPFS disclosures.<sup>5</sup> This is consistent with the remit of existing disclosure requirements and the scope of the Board project resulting in ED 334. The Board is, however, undertaking a project to consider the public sector financial reporting framework project on a separate timeline, and as such, staff recommend **not taking any action at this stage**.

### Overall staff recommendation

- 19 After considering all feedback received from stakeholders and other projects currently on the Board's work program, staff **recommend** the Board **take no action** in relation to the SPFS disclosures at this stage.

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5 ED 334 proposed that NFP public sector entities that are required by legislation to prepare financial statements that comply with either AAS or accounting standards or that are required by another document to prepare financial statements that comply with AAS will potentially no longer be able to prepare SPFS.