



Project:	Post-Implementation Reviews	Meeting:	M198
Topic:	Income of Not-For-Profit Entities	Agenda Item:	8.2
		Date:	28 August 2023
Contact(s):	Claire Thomson cthomson@asb.gov.au Kim Carney kcarney@asb.gov.au	Project Priority:	Medium
		Decision-Making:	Low
		Project Status:	Initial consideration stakeholder feedback

Objective of this paper

- 1 The objective of this agenda item is for the Board to consider the overall feedback received on ITC 50 *Post-implementation Review – Income of Not-for-Profit Entities* and detailed summaries of the feedback received, staff analysis and preliminary views of four of the ITC 50 topics. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions to staff for further analysis. Following the discussion at this meeting staff will develop recommendations and ask the Board to decide on possible next steps¹ at the October 2023 meeting.

Attachments

- Agenda Paper 8.2.1 PIR of Income of Not-For-Profit Entities – Overview of the feedback received on ITC 50 by topic
- Agenda Paper 8.2.2 PIR Income of Not-For-Profit Entities – Differences between management accounts and statutory accounts and alternative revenue recognition models
- Agenda Paper 8.2.3 PIR Income of Not-For-Profit Entities – Sufficiently specific criterion
- Agenda Paper 8.2.4 PIR Income of Not-For-Profit Entities – Termination for convenience clauses
- Agenda Paper 8.2.5 PIR Income of Not-For-Profit Entities – General matters for comment

¹ Subject to the Board decision at the September 2023 meeting, staff plan to use the framework included in Agenda Item 8.1 *Decision-making process* for this meeting to determine their recommendation whether, how and when to address the feedback from the PIR.

Agenda Paper 8.2.6 ITC 50 submission letters [in supplementary folder]

Agenda Paper 8.2.7 ITC 50 survey responses [in supplementary folder]

Agenda Paper 8.2.8 ITC 50 virtual meeting notes [in supplementary folder for the Board only]

Background and reasons for bringing this paper to the Board

- 2 AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 *Revenue from Contracts with Customers* Appendix F *Australian Implementation Guidance for Not-for-Profit Entities* initially applied to annual periods beginning on or after 1 January 2019.
- 3 The [AASB Due Process Framework for Setting Standards](#) outlines that a post-implementation review (PIR) normally begins after the new requirements have been applied for two years.
- 4 Further, given the income for not-for-profit (NFP) entity requirements were subject to a Regulatory Impact Statement like process, the PIR requirements of the Office of Impact Analysis (OIA) requires this PIR to be completed.²
- 5 Following the [work plan](#) that was approved at the September 2021 meeting, staff commenced the PIR in Q4 of 2021.³
- 6 At the August 2022 meeting, staff presented the issues identified to date.⁴ The paper categorised issues into three sections:
 - (a) topics that the Board had previously decided to consider as part of the PIR;
 - (b) other topics where staff are aware that stakeholder concerns remain, despite standard-setting activities being undertaken by the Board; and
 - (c) topics where staff do not consider further work is needed.
- 7 A [draft copy of the Invitation to Comment](#) was presented at the September 2022 meeting and the Board approved a 150-day comment period.⁵ [ITC 50](#) was finalised out of session by a subcommittee of the Board and issued in November 2022, with comments due to the AASB by 31 March 2023.
- 8 At the September 2022 meeting, staff also presented relevant research relating to the PIR topics. A summary is included in paragraph 20.
- 9 ITC 50 set out the main findings from the first phase of the PIR. The feedback on the ITC topics generally supports the findings from the first phase of the PIR and provides useful insight on the matters raised in the ITC.⁶

2 [Lodgement details](#).

3 The [work plan](#) was revised at the May 2022 AASB meeting. This changed the timeline for the project milestones (for example, academic research was originally planned to be completed in Q1 2022 however it was completed in Q2 2022). The completion date remains the same.

4 [Agenda Paper 8.2 NFP domestic PIRs – Income for Not-for-Profit Entities \(AASB 15 and AASB 1058\)](#).

5 [September 2022 meeting minutes](#).

6 Agenda Paper 8.2.2 of this meeting includes a summary of feedback by ITC 50 topic.

- 10 The topics in ITC 50 included:
 - (a) Topic 1: Sufficiently specific criterion and the legal interpretation of agreements;
 - (b) Topic 2: Capital grants;
 - (c) Topic 3: Difference between management accounts and statutory accounts and alternative revenue recognition models;
 - (d) Topic 4: Principal v agent, including the appropriate recognition of financial liabilities;
 - (e) Topic 5: Grants received in arrears;
 - (f) Topic 6: Termination for convenience clauses;
 - (g) Topic 7: Accounting for research grants;
 - (h) Topic 8: Statutory receivables; and
 - (i) AASB General Matters for Comment.
- 11 A [snapshot document](#) was also issued in November 2022 to provide an overview of the NFP PIRs and the topics.
- 12 As well as the option to provide feedback to the AASB via a formal comment letter, staff provided stakeholders with the opportunity to provide feedback by:
 - (a) attending a virtual outreach session and/or meeting virtually with staff to discuss individual feedback.; and
 - (b) completing the 'Income of Not-for-Profit Entities' survey.⁷
- 13 An overview of comment letters received and outreach activities is included in paragraph 19
- 14 Agenda paper 8.1 *Decision-making process* provides Board members with a framework to support an objective and consistent decision-making process when:
 - (a) considering stakeholders' feedback and evidence gathered from a PIR; and
 - (b) deciding how to respond to that feedback, including any next steps.
- 15 At this meeting staff will present a summary of feedback by ITC 50 topic (Agenda paper 8.2.1) and a detailed summary of the feedback received for:
 - (a) Topic 3: Difference between management accounts and statutory accounts and alternative revenue recognition models (Agenda paper 8.2.2);

⁷ See Agenda Paper 8.2.7 ITC 50 survey responses [in supplementary folder]. Survey responses have also been included as part of the analysis for each topic where relevant.

(b) Topic 1: Sufficiently specific criterion and the legal interpretation of agreements (Agenda paper 8.2.3);

(c) Topic 6: Termination for convenience clauses (Agenda paper 8.2.4); and

(d) AASB General Matters for Comment (Agenda paper 8.2.5).

16 The detailed summaries also include staff analysis and preliminary views on next steps. The Board will not be asked to make any decisions at this meeting but rather to provide feedback and suggestions to staff for further analysis. Following the discussion at this meeting staff will develop recommendations and ask the Board to decide on possible next steps⁸ at the October 2023 meeting. The Board will be asked for any questions or comments on the high-level feedback for topics not presented in detail at this meeting.

17 Staff also note the IASB has issued the Request for Information (RFI) as part of the IFRS 15 PIR and it has been issued by the AASB as [ITC 53 Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 15 Revenue from Contracts with Customers](#). The Australian comment period closes on 8 September 2023 with all comments to be received by the IASB by 27 October 2023. The IASB has indicated the RFI feedback will be due in [H1 of 2024](#) on its work plan.

17 Where topics the IASB is seeking feedback on may be relevant to an ITC 50 topic (for example, principal v agent and identifying performance obligations), staff have considered it as part of the staff paper on that topic.

18 Staff will present the detailed summary of feedback, staff analysis and recommendations on next steps for the remaining ITC 50 topics at future meetings.

Overview of comment letters received and outreach activities

19 Following the issue of ITC 50, staff conducted various outreach activities as summarised below.

Outreach activity	Number of stakeholders	Profile of stakeholder (where possible)
Written comment letters	13	(a) Five <u>professional services</u> firms <ul style="list-style-type: none"> (i) Pitcher Partners (PP) (ii) PwC (iii) RSM (iv) BDO (v) Deloitte (b) Two <u>professional bodies</u> (joint submission) <ul style="list-style-type: none"> (i) CPA Australia and Chartered Accountants Australia and New Zealand (c) Two <u>auditors</u> <ul style="list-style-type: none"> (i) Australasian Council of Auditors General (ACAG)

⁸ Subject to the Board decision at the September 2023 meeting, staff plan to use the framework included in Agenda Item 8.1 *Decision-making process* for this meeting to determine their recommendation whether, how and when to address the feedback from the PIR.

Outreach activity	Number of stakeholders	Profile of stakeholder (where possible)
		<ul style="list-style-type: none"> (ii) Corporate Audit and Assurance Services (d) One <u>regulator</u> <ul style="list-style-type: none"> (i) Australian Charities and Not-for-Profits Commission (e) One <u>treasury department</u> <ul style="list-style-type: none"> (i) Government of Western Australia Department of Treasury on behalf of the Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) (f) One <u>preparer</u> <ul style="list-style-type: none"> (i) Sydney University Sport & Fitness Ltd (g) Two <u>others</u> <ul style="list-style-type: none"> (i) Stuart Brown (ii) Dr Mark Shying CA, Swinburne University School of Business, Law and Entrepreneurship (academic)
Survey responses	22 respondents ⁹	<ul style="list-style-type: none"> (a) Preparer (13) (b) Auditor (3) (c) Regulator (2) (d) User (2) (e) Other (2)¹⁰ <p>Respondents noted their experience as:</p> <ul style="list-style-type: none"> (a) Public sector NFP (14) (b) Private sector NFP (4) (c) Both (4)
Virtual outreach sessions	123 stakeholders over four sessions	<ul style="list-style-type: none"> Session 1 – 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 ¹¹	10	These included meetings with preparers, accounting experts within audit offices, accounting advisors (including professional services firms) and an academic.

9 The survey had a 36% 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.

10 These respondents identified as "Accounting firm auditing and assisting clients with preparing" and "Auditor, user and advisor (technical accountant)"

11 During the virtual outreach sessions, a polling question was used to ask attendees if they would like staff to contact them to discuss any topics in further detail. Respondents to the survey were also asked this. Stakeholders who that advised they were unable to attend one of the virtual outreach sessions were also offered the opportunity to meet with staff and provide their feedback. Generally, only selected topics were discussed during these meetings.

Outreach activity	Number of stakeholders	Profile of stakeholder (where possible)
Other		Stakeholder forums: (a) Two ACNC Forums (Advisor and Sector); (b) South Australian Local Government committee meeting Other feedback was received from 6 stakeholders, including via email.

Academic research

- 20 When ITC 50 was being developed, a literature review on academic and non-academic research was conducted and considered as part of the PIR process.¹²
- 21 A research paper presented at the 2021 AASB Research Forum, Gilchrist, West and Zhang (2023),¹³ was recently published in the Australian Accounting Review in June 2023. The research conducted focus groups, consisting of 30 participants (i.e. 13 preparers, 12 directors and five auditors of NFP entities) and gathered views on the following questions:
- (a) Who is responsible for the report?
 - (b) Who uses financial reports?
 - (c) What information do users need?
 - (d) How is the information provided?
- 22 The research provided feedback relevant to AASB 1058 and AASB 15 in the NFP context, which was helpful for the PIR. As such, in addition to the previously identified literature, staff have incorporated feedback from the research in the analyses for each ITC 50 topic presented at this meeting, where relevant.

12 See [Agenda Item 9.3 NFP domestic PIRs – academic and non-academic literature reviews](#).

13 Gilchrist, D.J., West, A. and Zhang, Y. (2023), Barriers to the Usefulness of Non-profit Financial Statements: Perspectives From Key Internal Stakeholders. Australian Accounting Review, 33: 188-202. <https://doi.org/10.1111/auar.12401>