

Mr Jorge del Busto
Secretary Financial Reporting Council
c/o - The Commonwealth Treasury
Langton Crescent
PARKES ACT 2600

27 October 2006
Our Ref:

Dear Mr del Busto

**RE: FINANCIAL REPORTING COUNCIL: THE USE OF A SECTOR NEUTRAL
FRAMEWORK FOR THE MAKING OF AUSTRALIAN ACCOUNTING
STANDARDS**

Deloitte Australia welcomes the opportunity to comment on the use of a sector neutral framework for the making of Australian Accounting Standards.

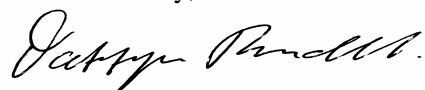
Deloitte Australia is supportive of the research works undertaken by the Financial Reporting Council ("FRC") on the appropriateness of a sector neutral approach to the making of accounting standards, and believe that it is timely for the FRC to provide further direction to the Australian Accounting Standards Board ("AASB") regarding the future direction of accounting standard setting in Australia.

In formulating our response to the specific matters on which the FRC is seeking comment, we engaged in discussion with some of Australia's major non-government not-for-profit entities. This process identified a number of common concerns with respect to financial reporting in this sector, which we believe will be of interest to the FRC and are included in our responses to the FRC's specific questions.

Our responses to the FRC's specific questions are outlined below.

If you have any questions concerning our comments, please contact me on (03) 9208 7916.

Yours sincerely,



Darryn Rundell
Deloitte Touche Tohmatsu

1. *In your view, how well are the needs of all users of general purpose financial reports, including users of public sector and other not-for-profit entities in Australia, being met?*

Based on comments we have obtained from discussions with some of Australia's major non-government not-for-profit entities, with some limited exceptions, such entities were unable to express an opinion as to whether the needs of users of general purpose financial reports of the sector were currently being satisfied. In this regard, some entities commented that they were not aware of any apparent demand from the recipients of their financial reports for 'improved' financial reporting.

However, notwithstanding this to be case, the following concerns were raised during the course our discussions in relation to general purpose financial reports prepared by Australian non-government not-for-profit entities:

- (a) General purpose financial reports of non-government not-for-profit entities should include more information regarding the entity's performance against financial budgets and organisation objectives. They believed that such information would assist users to assess the efficiency of outputs (i.e., cost of services, use of resources, etc.) and the effectiveness of outcomes (i.e., as to whether the entity achieved its goals).
- (b) General purpose financial reports of non-government not-for-profit entities should include more information regarding governance and stewardship. This may include, for example, information regarding the existence, policies and procedures, etc., of the governing committee, audit committee, risk management committee and compliance committee.
- (c) There is an apparent need for greater comparability between the general purpose financial reports of Australian non-government not-for-profit entities in respect of the reporting of both financial and non-financial information.
- (d) The requirements of AASB 1004 *Contributions* should be reviewed by the AASB as a matter of urgency, with all entities being in favour of not-for-profit entities adopting the 'matching approach' to accounting for contributions received consistent with the approach currently adopted by AASB 120 *Government Grants*.

Some entities also expressed the view that greater accounting guidance was required in relation to:

- (a) Heritage assets;
- (b) Transfers of assets between non-government not-for-profit entities;
- (c) Mergers of non-government not-for-profit entities;
- (d) Disclosure of related party transactions.

2. ***Will the current approach of the AASB enable the standard-setter to respond to the more challenging environment of the future and ensure the needs of public sector and other not-for-profit users are appropriately met?***

We understand that the current thinking of the AASB is that 'like transactions' should be accounting for by entities in a consistent manner irrespective of whether the entity is classified as 'not-for-profit' or 'for-profit' unless there is a compelling reason to be different in the particular circumstances. This is commonly referred to as a 'transaction neutral' or 'sector neutral' approach.

Deloitte Australia supports the AASB's current approach in this regard.

In addition, on the basis of the comments we have obtained from discussions with some of Australia's major non-government not-for-profit entities, all such entities were supportive of a single series of accounting standards. This is commented on further in response to question 4, below.

3. ***Do you consider that having a conceptual framework that is applicable and appropriate to all entities is a necessary element in Australian standard-setting for all sectors? What approach to establishing a conceptual framework(s) do you consider appropriate?***

Deloitte Australia supports a conceptual framework generally applicable to all entities with additional Australian paragraphs included where required to address not-for-profit entity specific issues.

In addition, on the basis of the comments we have obtained from discussions with some of Australia's major non-government not-for-profit entities, all such entities were supportive of a conceptual framework that is applicable to all entities.

4. ***Different approaches could be used to set standards in Australia. Which approach do you consider the most appropriate:***
- *to continue to develop a single set of standards;*
 - *to develop two separate sets of standards: one for profit-oriented entities and the other for not-for-profit entities; or*
 - *another approach e.g. three sets of standards (profit-oriented, public sector not-for-profit and other not-for-profit sets) or two sets of standards with other not-for-profit entities being addressed together with profit-oriented entities? (If you prefer this option please describe the approach you prefer)*

Deloitte Australia considers that the continued development of a single series of Australian Accounting Standards (being topic or transaction based) is the most appropriate approach to accounting standard setting in Australia at this time. In our opinion, 'topic-based' accounting standards should be applicable to all entities irrespective of whether the entity is classified as 'not-for-profit' or 'for-profit' unless there is a compelling reason for the requirements of the standards to be different in the particular circumstances.

In addition, on the basis of the comments we have obtained from discussions with some of Australia's major non-government not-for-profit entities, all such entities were supportive of a single series of accounting standards. In this regard, the majority of such entities supported the current approach of including specific rules for not-for-profit entities (i.e., that differed to the rules applicable to for-profit entities); with a minority view supporting no differences between the requirements applicable to for-profit and not-for-profit entities.

Those entities in support of a single series of accounting standards with no differences between the requirements applicable to for-profit and not-for-profit entities believed that not-for-profit entities should not be less accountable than for-profit entities. Further, the concern was expressed that different rules for not-for-profit entities may result in non-commercial decision making by those responsible for the financial and operating policies of the entity.

5. *If, in response to Consultation Issue 4, you considered standards different from those applying to the for-profit sector should be developed for one or more sectors please indicate, for each such sector, what the primary base should be for those standards:*

- *Government Finance Statistics (GFS);*
- *International Public Sector Accounting Standards (IPSAS); or*
- *a range of sources, including International Financial Reporting Standards, IPSAS and GFS, depending on the particular issue being considered?*

As outlined in our response to question 4, Deloitte Australia considers that the continued development of a single series of Australian Accounting Standards (being topic or transaction based) is the most appropriate approach to accounting standard setting in Australia at this time.

6. *If a single set of standards continues to be developed in Australia, do you prefer:*

- *the current approach of the AASB;*
- *a matrix approach, retaining specific standards for types of public sector and possibly also other not-for-profit entities while maintaining a general set of topic based standards applicable to all entities; or*
- *an approach involving a single set of standards but with non-standard level guidance (such as the Statements of Recommended Practice in the United Kingdom) applicable to particular sectors or groups of entities in sectors?*

Deloitte Australia considers that the continued development of a single series of Australian Accounting Standards (being topic or transaction based) is the most appropriate approach to accounting standard setting in Australia at this time. In our opinion, 'topic-based' accounting standards should be applicable to all entities irrespective of whether the entity is classified as 'not-for-profit' or 'for-profit' unless there is a compelling reason for the requirements of the standards to be different in the particular circumstances.

Furthermore, we believe that:

- multiple sets of accounting standards have the potential to cause confusion for preparers of financial reports (irrespective of whether or not differences exist between the requirements of standards);
- it may be difficult for preparers of financial reports to identify the differences between the different sets of accounting standards; and
- there are unlikely to be sufficient quantum of differences between the accounting requirements applicable to the different sectors to warrant multiple sets of accounting standards.

7. *Would developing a Statement of User Needs for the public sector and other not-for-profit sectors, based on research, and including an analysis of how any different needs impact financial reporting be useful? If so, please suggest how that Statement of User Needs could be developed and maintained. Do you have any other views on how user input could be enhanced?*

Deloitte Australia does not believe it would be useful for the AASB to undertake the development of a 'Statement of User Needs' at this time, given that the needs of users should be considered as part of the 'conceptual framework' projects being undertaken at an international level. However, we encourage the AASB to continue to consult with relevant user groups and to establish sub-committees, working groups and project advisory panels in respect of the specific projects.

8. *Do you consider that there is enough clarity on the direction that the AASB is taking in establishing requirements for the public sector and other not-for-profit sector, including identifying the base set or sets of standards which will be adopted?*

Deloitte Australia believes there is sufficient clarity regarding the broad direction that the AASB is taking with respect to accounting standard setting for the public sector and the non-government not-for-profit sector. For example, information regarding the direction of AASB is available from the AASB website.

9. *A number of options to enhance the recognition of different environments and issues in sectors have been identified in the Report. Do you consider any of the options, including those relating to board membership, sub-boards or committees, expectations of board members, staffing or explicit board sign-offs would enhance the ability of the standard-setting process to meet user needs?*

Deloitte Australia considers that the current approach, being a single board responsible for the setting of Australian Accounting Standards for both the for-profit sector and the not-for-profit sector, is the most appropriate approach to accounting standard setting in Australia at this time. This is due mainly to the limited availability of technical accounting resources and the duplication of effort that would result from the establishment of more than one accounting standard setting body in Australia.

Furthermore, in order for the AASB (as the single accounting standard setting board) to continue to serve the needs of both the 'for-profit' and 'not-for-profit' sectors, we do not believe it is necessary to increase the number of members of the board that possess specialist 'not-for-profit' skills and experience. However, the board will need to continue to be mindful of the needs of both sectors when setting Australian Accounting Standards. In this regard, we encourage the board to continue to consult with relevant user groups and to establish sub-committees, working groups and project advisory panels in respect of the specific projects as and when required.

When this question was raised as part of our discussions with some of Australia's major non-government not-for-profit entities, there was no strong view expressed by such entities regarding the membership of the board or the processes and procedures adopted by the board when dealing with specific accounting matters.

10. Are there any other matters that you would like to suggest for consideration by the FRC?

Deloitte Australia does not have any other comments for the FRC at this time.