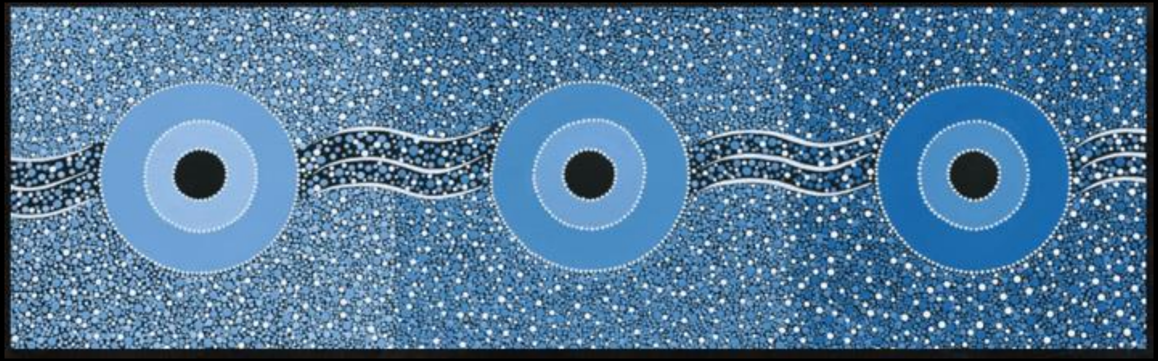
Deloitte.

Disclosure to dialogue
Evolution in corporate reporting

Client Financial Reporting Update | May 2023

MAKING AN IMPACT THAT MATTERS since 1845

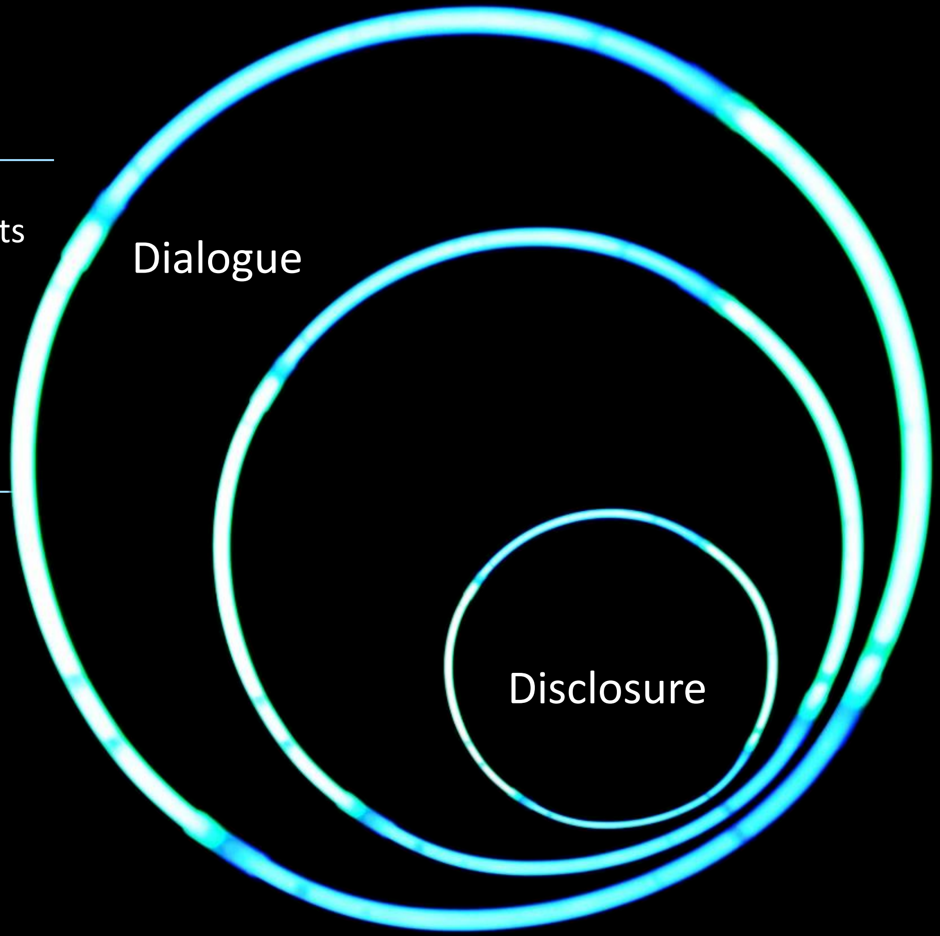
Acknowledgement of Country



Artwork: Nyiirun Gathay Yayn.Giliyn (“Walking Together”) by Birrbay artist Angela Marr-Grogan

Agenda

1. ACNC legislative review
2. New accounting standards
3. Accounting developments
4. Emerging technical issues
5. Sustainability reporting
6. Resources



Disclosure to dialogue

ACNC legislative review – Related party disclosures (Timeline)

June 2021/December 2021 Current thresholds

Tier 1 GPFS

Tier 2 GPFS – RDR

SPFS
Minimum 5 standards (ACNC regulation)

AASB 101 *Presentation of Financial Statements*
AASB 107 *Statement of Cash Flows*
AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
AASB 1048 *Interpretation of Standards*
AASB 1054 *Australian Additional Disclosures*

June 2022/December 2022 New thresholds

Tier 1 GPFS – No change

Tier 2 GPFS – SD (AASB 1060) + comparatives ***new***

SPFS
Minimum 5 standards (ACNC regulation)

AASB 101 *Presentation of Financial Statements*
AASB 107 *Statement of Cash Flows*
AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
AASB 1048 *Interpretation of Standards*
AASB 1054 *Australian Additional Disclosures*

+ KMP compensation disclosures*new*:

- KMP disclosure exemption:
  - All medium charities
  - Large charities with:
    - Only one KMP who is remunerated **and**
    - Does not have KMP services provided by a 'separate management entity'
- No comparatives required for first year adoption of KMP compensation disclosures in SPFS

June 2023/December 2023

Tier 1 GPFS – No change

Tier 2 GPFS SD (AASB 1060) – No change

SPFS
Minimum 6 standards (ACNC regulation)

	Option 1	Option2
AASB 101 Presentation of Financial Statements	Full	AASB 1060
AASB 107 Statement of Cash Flows	Full	AASB 1060
AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors	Full	AASB 1060
AASB 1048 Interpretation of standards	Full	AASB 1060
AASB 1054 Australian Additional Disclosures	Full	Specified refer to below
AASB 124 Related Party disclosures	Full	AASB 1060

^ AASB 1054 paragraphs 1-6, 9, 9A, 9B and 17

+ Related party transaction disclosures *new*:

- AASB 124 (excluding KMP): Mandatory for all medium & large entities
- No comparatives required for first year adoption of related party disclosures in SPFS
- KMP disclosure exemption: All medium charities and certain large charities

Disclosure to dialogue

ACNC legislative review – Related party disclosures (Example)

Material

VS

Immaterial

For the 2023 AIS period onwards,

- **Small charities – required to disclose reportable related party transactions in their AIS**
- **Medium and large charities – required to disclose 'material' related party transactions in the Annual Information Statement (AIS) and financial reports.**
  They do not have to report 'immaterial' related party transactions.

Example:

For the year ending 30 June 2023, a large sized charity has completed the following related party transactions:

- Sold charity assets to a company controlled by a committee member of the charity
- Entered into a lease agreement with another related charity
- Sold goods to a related charity under same terms offered to the public

Which of these will need to be reported and disclosed?

Useful resources:

- Case study and multiple scenarios to assist
  Key management personnel remuneration | ACNC
- Example and how your charity can manage this requirement
  Related party transactions | ACNC
- AIS due dates:
  Annual Information Statement due dates | ACNC

Disclosure to dialogue

New accounting standards – AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*

Effective date:
Periods beginning 1 July 2022

Income recognition – Amendments to illustrative examples

New Example 7A in AASB 15

Addresses the accounting for upfront fees received

Concessionary leases

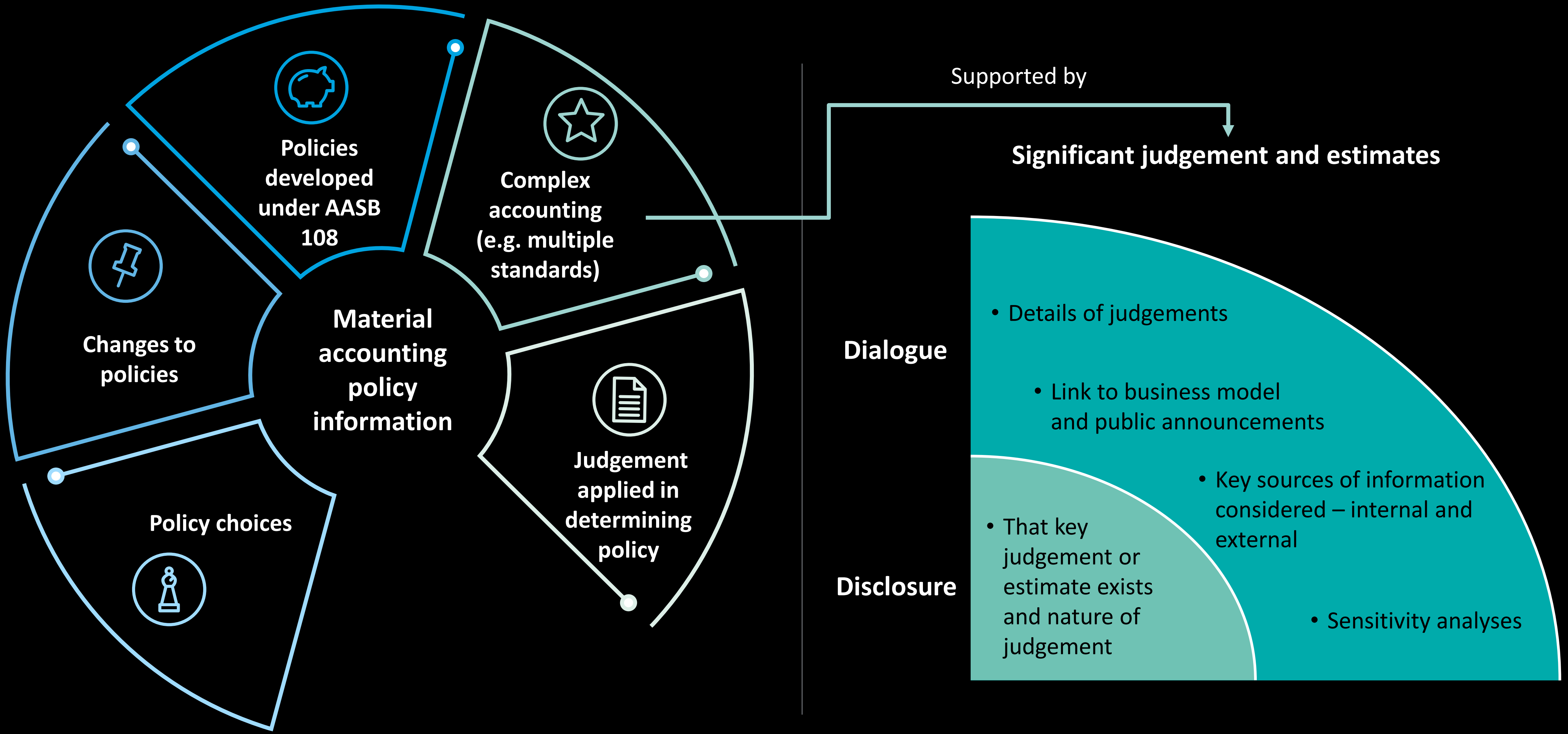
Accounting policy choice in AASB 16 *Leases* to initially measure a class of concessionary right-of-use assets at cost or fair value

- NFP private sector lessees – Retain the accounting policy choice on an ongoing basis
- NFP public sector lessees – Defer consideration of the accounting policy choice pending Board decision on any additional guidance for measuring the fair value of ROU assets under concessionary leases

Disclosure to dialogue

New accounting standards – Accounting policy information

Effective: Periods beginning on/after 1 Jan 2023



Disclosure to dialogue

New accounting standards – Significant judgements and estimates

Note X – Significant accounting policies

Property, Plant and Equipment

Property, Plant and Equipment is recognised on the statement of financial position when its costs be reliably measured it is probable that future economic benefits will flow to the entity.

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

- Buildings – 20 years
- Plant and machinery – 10 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Primarily repetitive of the standards

Note Y – Significant accounting estimates and judgements

Useful life of plant and machinery

The Group uses judgement in determining the useful life of plant and machinery. The Group determines the number of years over which to depreciate the plant and equipment based on the assessment of how long the Group expects to be able to derive economic benefits from the plant and machinery.

Disjointed and not insightful

Policy disclosed

Other policies embedded

Focussed discussion

Key source of judgement

Specific judgement made

Data sources and consistency

Sensitivities

Linkage to other issues

Note Z – Property, Plant and Equipment

At cost – 30 June 2023

	Buildings	**Plant and Machinery**
Useful life	20 years	10 years
Cost	**200**	**100**
(Accumulated depreciation)	(100)	(40)
Carrying amount	**100**	**60**
Carrying amount at start of year	**110**	**70**
Additions	-	-
Disposals	-	-
Depreciation	(10)	(10)
Carrying amount at end of year	**100**	**60**

Significant judgement – useful life of plant and machinery

There is judgement in determining the useful life of the plant and machinery, because it is unclear whether the fuel needed to operate the plant and machinery will be available to the Group on an ongoing basis.

The Group has determined that the fuel is expected to be available until 2035, whereas the plant and machinery will be mechanically obsolete after 10 years of use. The plant and machinery is 4 years of age, and therefore the availability of fuel has no impact on the useful life.

The Group has based this assessment on the information it has received from its supplier, as well as leading industry reports. This also aligns with the Group's strategy to reduce its consumption of the fuel by 2030.

However, the useful life would need to be accelerated if:

- The suppliers of fuel made a decision to end its production before 2029.
- The fuel prices were expected to rise so significantly that it would uneconomical to continue using the assets in the long term.

As disclosed in note A, the value in use calculation for the CGU to which the Plant and Machinery relates includes the Group's expectations of future fuel prices.

Disclosure to dialogue

Accounting developments – Tier 3 reporting framework

Differential reporting tiers

- Tier 1 and Tier 2 – Available for those preparing GPFS
- Development of Tier 3 reporting (e.g. entities currently preparing SPFS)

Discussion paper

- Removal of ability of NFP private sector entities to prepare SPFS
- Not to specify application threshold for the tiers

Tier 3 – Consolidation

Controlled entities – Choice:

- Consolidated financial statements per AASB 10
- Separate financial statements (disclosure of 'significant relationships')

Tier 3 – Leases & Income

Leases (off balance sheet):

- Recognise lease expense/ income on a straight-line basis over lease term with disclosure of commitments

Simpler income recognition model:

- Income is deferred if common understanding on expected use of resources in a particular way

Tier 3 primary financials

- Statement of financial position
- Statement of profit or loss and other comprehensive income
- Statement of cash flows (with disclosure reliefs)
- Consider if statement of changes in equity is required

27 September 2022

- Discussion paper issued

31 March 2023

- Comment period closed

May 2023 & beyond

- Consider DP feedback
- Determine next steps

Disclosure to dialogue

Accounting developments – Public sector

Below are some accounting developments in the public sector space:

AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

- Amendment to AASB 13
- Issued: December 2022
- Effective for: periods beginning 1 January 2024 (prospectively)

AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments* & AASB 2022 -9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*

- Amends AASB 17 for public sector-specific modifications
- Issued: December 2022
- Effective for: periods beginning 1 January 2023 & 1 July 2026

Invitation to Comment *AASB ITC 49 Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors*

- PIR: AASB 1059
- Issued: 28 September 2022
- Comments closed: 28 February 2023

Disclosure to dialogue

AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

Exposure Draft: AASB ED 320
Issued 30 March 2022 & comments closed 30 June 2022

Fatal Flaw
Issued in October & comment closed in November 2022

Amending Standard: AASB 2022-10
Issued December 2022

Effective Date
Periods beginning 1 January 2024 (prospectively)

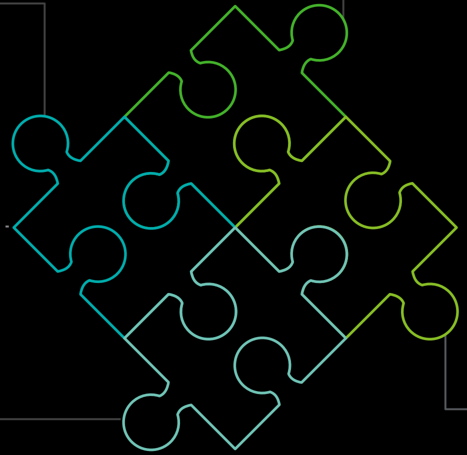
When to consider whether an **asset's highest and best use** differs from current use:

- Classified under AASB 5; or
- Alternative purpose is highly probable

Disclosures will be required

Application of **cost approach** to measure asset's FV:

- Estimate replacement cost of reference asset (assume acquisition / construction at existing location)
- Adjust estimate for:
  - ✓ Differences between current service capacity
  - ✓ Obsolescence



Asset's use is **'financially feasible'** if market participants would be willing to invest in the asset's service capacity (considering capability of asset and the resulting cost of goods/services)

Developing **unobservable inputs**:

- Use own assumptions as a starting point in developing unobservable inputs
- Adjust assumptions to the extent other market participants use different data

Disclosure to dialogue

Emerging technical issues – AASB post implementation reviews

The AASB is undertaking a post-implementation review (PIR) of the below standards:

Income for not-for-profit entities

Specifically on AASB 1058 and Appendix F of AASB 15

Invitation to comment issued (ITC 50) – comments closed 31 March 2023

Other not-for-profit topics

Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements

Invitation to comment issued (ITC 51) – comments closed 31 March 2023

Disclosure to dialogue

Emerging technical issues – Issue 1: Sufficiently specific criterion for income recognition

Issue

One of the two criteria for determining whether AASB 15 or AASB 1058 applies to the recognition of income of NFP entities is identifying whether a contract has **sufficiently specific performance obligations**. Judgement is required to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implicit, regarding the promised goods or services

Examples		Sufficiently specific?
Contract A	• Entity needs to provide counselling services over the next 24 months	**No**
Contract B	• Entity needs to provide counselling services in relation to mental health in regional Victoria over the next 24 months	**Maybe**
Contract C	• Entity needs to provide 600 counselling sessions to young adults under the age of 30 affected by mental health issues in regional Victoria over the next 24 months	**Yes**

Disclosure to dialogue

Emerging technical issues – Issue 2: Capital grants

Issue

Under AASB 1058 paragraphs 15-17 , a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset for its own use (capital grant) is one that:

(a) requires the entity to use that financial asset to acquire or construct a non-financial asset to **identified specifications**;

(b) does not require the entity to transfer the non-financial asset to the transferor or other parties; and

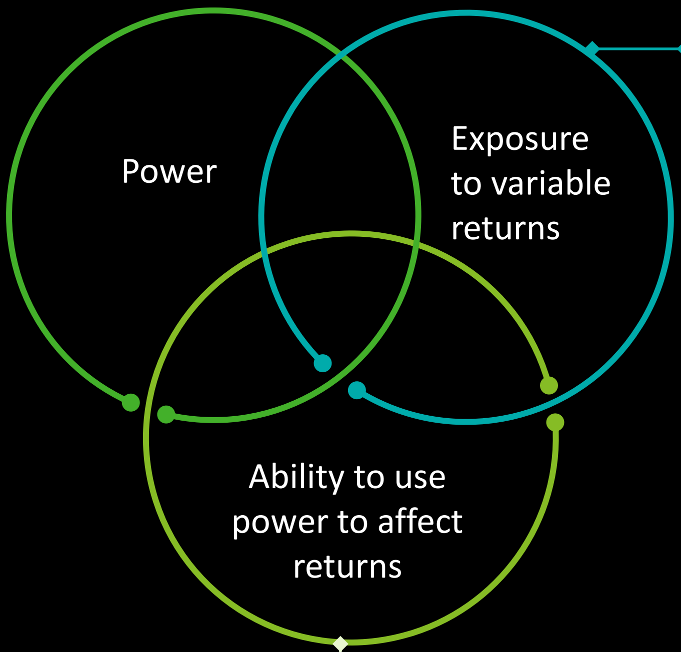
(c) occurs under an enforceable agreement

Judgement is required in determining whether **"identified specifications"** requirements under AASB 1058.15(a) are met.

Examples		Identified specifications?
Contract A	• Entity is required to construct a building using cash grant received	**No**
Contract B	• Entity is required to construct an early learning centre to specific standards required by government regulations in relation to early learning centre programs using cash grant received	**Maybe**
Contract C	• Entity is required to construct an early learning centre which should include 5 rooms on the entity's land at a specific location noted under the contract and to specific standards required by government regulations in relation to early learning centre programs using cash grant received.	**Yes**

Disclosure to dialogue

Emerging technical issues – Issue 3 Control



NFP: Returns encompasses financial, non-financial, direct & indirect benefits including achievement or furtherance of investor's objectives

Control definition under AASB 10

Consider delegated power
– e.g. trust/trustee relationship

Example

Charity A, a not-for-profit religious organisation established a community housing program operated by an incorporated association. The association:

- Constitution states that its objective is to manage the community housing facility to meet the need for low-cost housing and has not issued any equity instruments
- Owns the housing facilities and the Charity A owns the related land
- Has 14 members under its board, with 7 appointed by (and subject to removal by) Charity A.
- The Chair has a casting vote and is appointed by the board from amongst the 7 Charity A's appointees
- The board meets and reviews the association's reports regularly and makes decisions on major issues as well as have the right to override any decisions made by the association's management.
- The association retains any surplus resulting from the operation of the facilities and under its constitution is unable to provide a direct financial return to Charity A

Does Charity A control the association?

Disclosure to dialogue

Sustainability reporting - Pathway to mandatory climate reporting in Australia

March 2022
Release of IFRS S1 and S2 Exposure Drafts

November 2022
Treasury commences consultation process

December 2022
ISSB confirmed Scope 3 emissions disclosure as mandatory

Feb 2023
Treasury consultation comment window ends, Deloitte responds

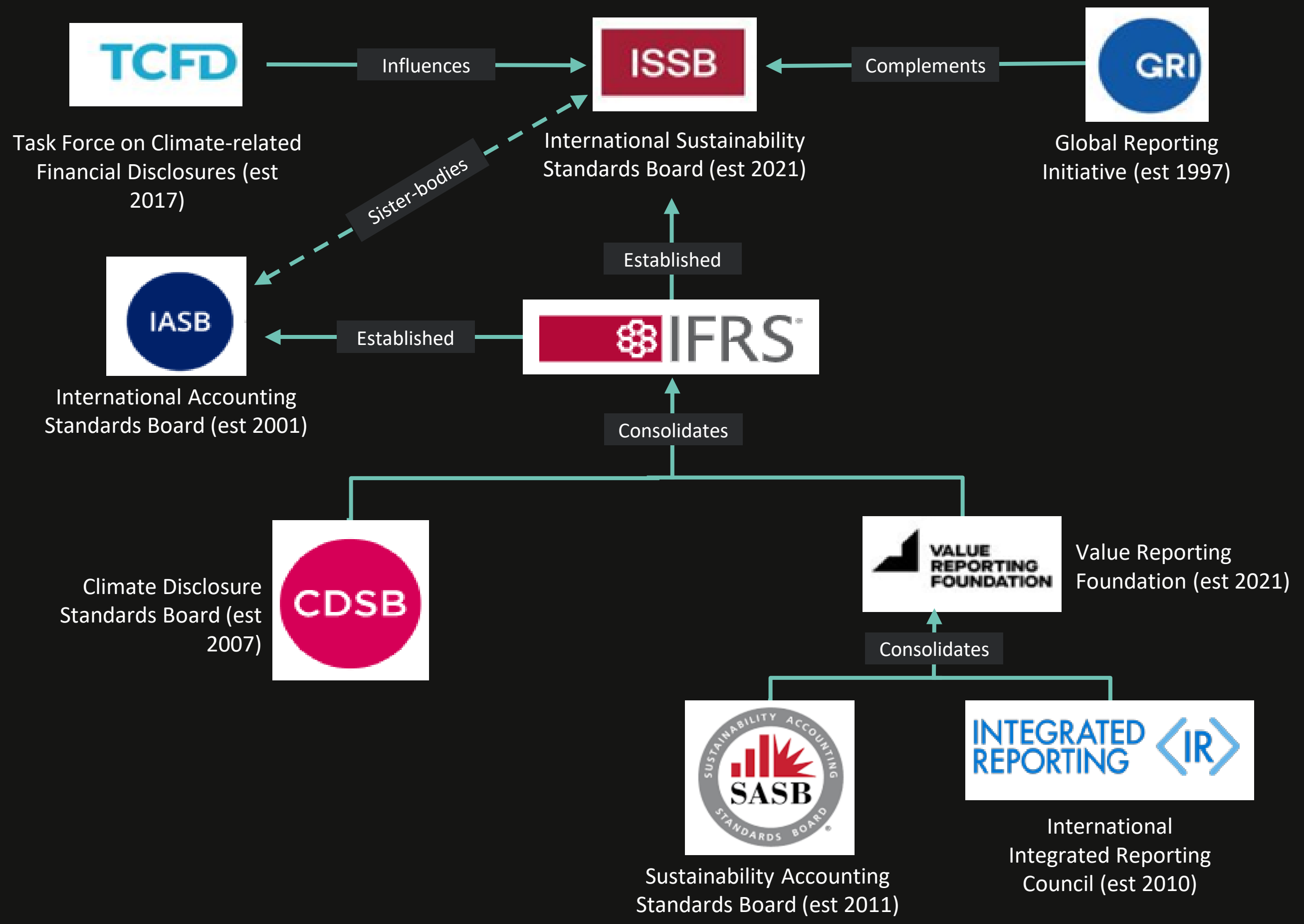
May/June 2023
Expected finalisation of Treasury consultation feedback

June 2023
Expected release of final IFRS S1 and S2 standards

1 January 2024
Expected effective date of ISSB standards

FY24/FY25
Expected effective date for first phase of Australian entities

Harmonising the ‘alphabet soup’ of sustainability reporting frameworks



Disclosure to dialogue

Example – Australian Red Cross-ending June 2022

"Front half" disclosures

Climate strategy

We aim to reduce our scope 1 and 2 gross emissions by 15% in 2025 and work towards net zero by 2040. Find out how on our website.

Clearly stated climate-related goals

Climate change risk management

The Board participates in an annual strategic risk workshop to identify and review emerging risks, including those arising from climate change and biodiversity.

Whilst our risk maturity is still developing, climate and biodiversity risks have been included as part of our broader emerging risks and strategy review.

Further steps to mitigate risks:

- ongoing monitoring of external environment and impacts to funding;
- strong project planning, implementation, and governance; and
- maintaining the balancing act in our collective focus: managing near-term challenges whilst focusing on investing for longer-term.

Risks associated with climate change include 'transition', 'physical and 'wellbeing' risks. In the lead up to the COP26 negotiations in Glasgow, and as a result of the release of the The Intergovernmental Panel on Climate Change (IPCC) reports in 2021, we developed resources to help people manage climate anxiety.

Opportunities associated with addressing our environmental impact include reduced operating costs through resource efficiency, solar energy, reduced waste, increased recycling and reuse and increased climate resilience. We have already seen improved financial returns on our ethical investment portfolio, compared to industry benchmarks. Another identified opportunity is our capacity to form partnerships to achieve common Environmental Social Governance (ESG) goals, thus reducing negative environmental impacts and increasing our social impact.

Discussion of the risks associated with climate change and the planned responses

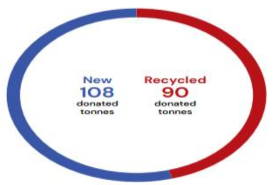
Metrics and targets

We are working to reduce our own carbon footprint and ensure our operations can be undertaken in a way that limits adverse humanitarian consequences associated with climate and environmental challenges. This includes sourcing renewable energy, energy and fleet efficiency, supply chain review and waste avoidance, reduction and recycling.

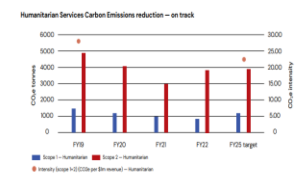
Red Cross management has developed and published targets as a signatory to the Climate and Environment Charter for Humanitarian Organisations and also as a member of the Australian Climate Leaders Coalition. These commitments demonstrate our growing ambition to support communities to prepare for and respond to climate change.

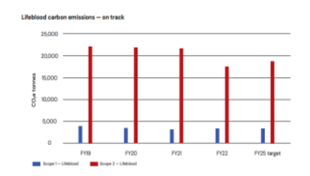
In addition, we diverted 198 tonnes of clothing from landfill into Red Cross Shops. This means that we avoided 722 tonnes of carbon emissions and 62ML of water consumption, which would have been required to produce the equivalent in new clothing.

Donated goods tonnes diverted from landfill — Scope 4 emissions avoidance



Source: ESG, Australian Red Cross





Clearly stated climate-related goals

Linkage in financial statements

Clearly stated climate-related goals

Climate related risk is not considered in current fair value estimates due to not being considered material, likely or measurable in the current financial year, other than values already factored in by the market.

Considerations as part of contingent liabilities

c) Climate change

The pace and severity of climate change requires the Society to identify, measure and invest in emissions reduction initiatives. Whilst these are not current obligations or liabilities, they are expected to change future investment priorities including building design, workforce practices, renewable energy sources and fleet management.

There are no other contingent liabilities or events identified which would be expected to have a material impact on the financial statements in the future.

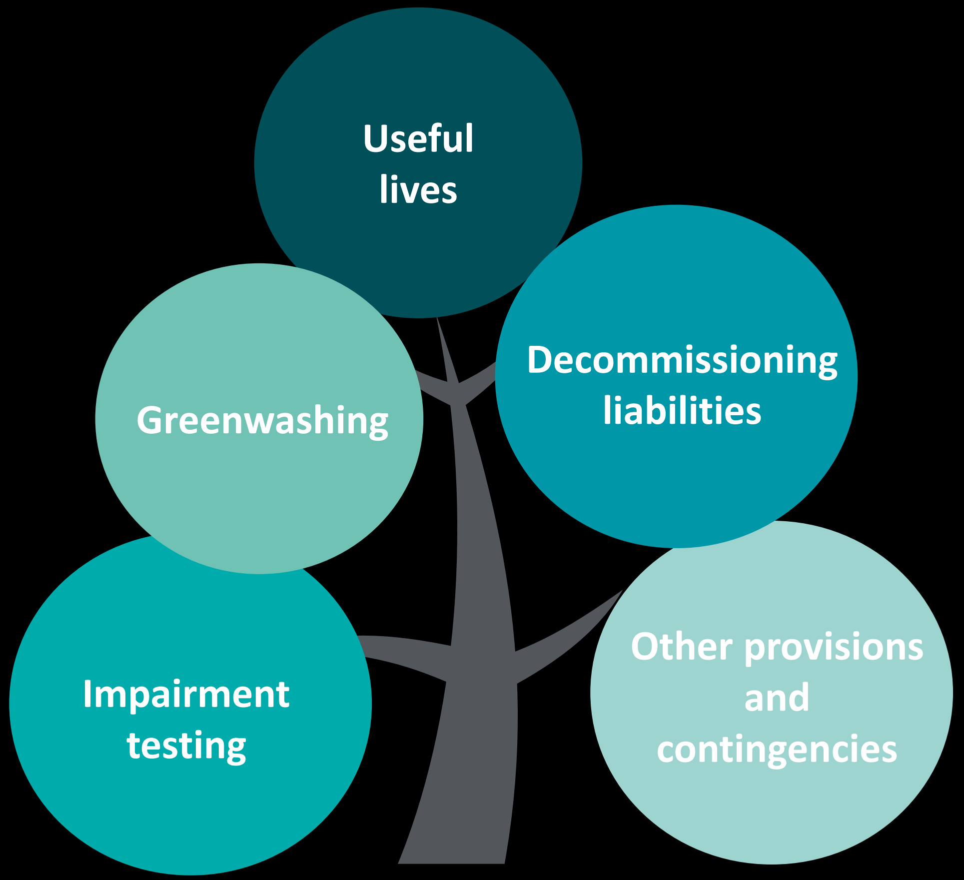
Considerations in measurement of financial instruments

The Society's investment policy and associated ethical investment guidelines reduces our investment exposure to certain industries, including fossil fuel. The Society does not believe that current impairment of market values, is required as a result of future climate related events.

Disclosure to dialogue

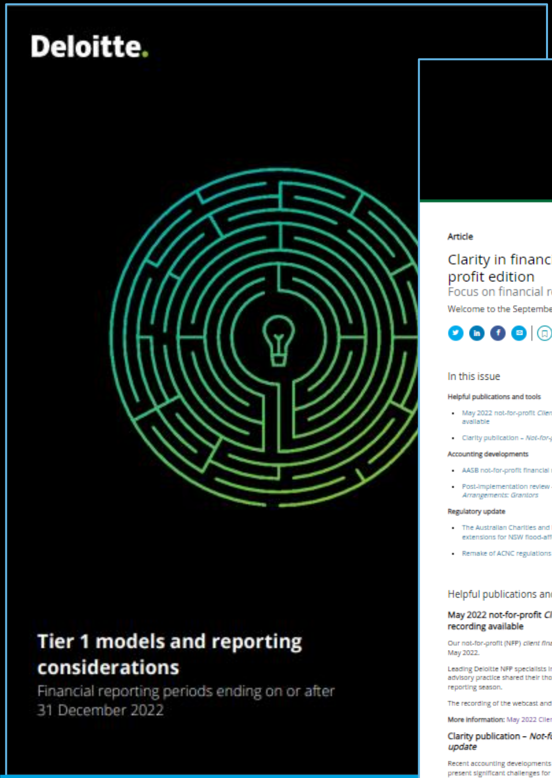
Creating sustainable conversations: What can be done now?

- Be aware of the context
- Stay on top of developments
- Think about your sustainability journeys

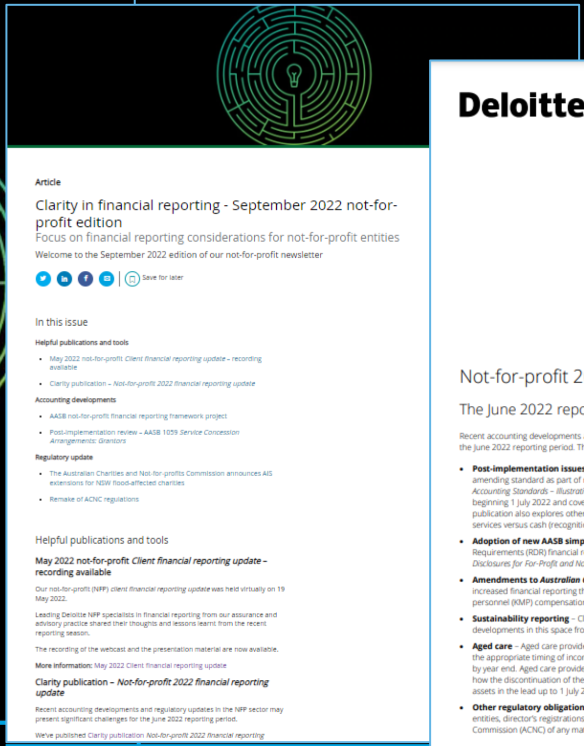


Resources

Helpful resources tailored for NFP entities

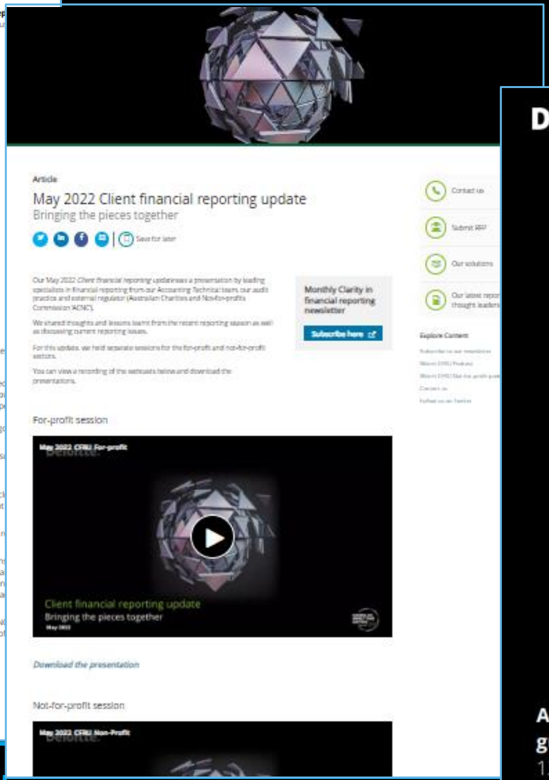


[Model financial statements – NFP supplement (Tier 1/ Tier 2 / SPFS)]



[Not-for-profit Clarity newsletters (quarterly)]

[Not-for-profit 2022 financial reporting update Clarity publication (annually)]



[Client financial reporting update – NFP session (annually)]

[Australian financial reporting guide]

Q & A