



CHARTERED SECRETARIES
AUSTRALIA

Leaders in governance

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Manager
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Indirect, Philanthropy and Resource Tax Division
The Treasury
Langton Crescent
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By email: nfpreform@treasury.gov.au

Dear Treasury

***Exposure draft – Requirements for the annual financial reports
under the ACNC framework***

Chartered Secretaries Australia (CSA) is the peak body for over 7,000 governance and risk professionals. It is the leading independent authority on best practice in board and organisational governance and risk management. Our accredited and internationally recognised education and training offerings are focused on giving governance and risk practitioners the skills they need to improve their organisations' performance.

Our Members are all involved in governance, corporate administration and compliance with the *Corporations Act* (the Act). Many of our Members serve as officers of not-for-profit (NFP) organisations, or work for or are involved with companies limited by guarantee. CSA itself is a company limited by guarantee, established to promote and advance the efficient governance, management and administration of commerce, industry and public affairs and the development of secretaryship of organisations through education and the dissemination of information.

CSA welcomes the opportunity to comment on the exposure draft on the *Requirements for annual financial reports under the ACNC framework* (the exposure draft) and draws upon the experience of our Members in formulating our submission.

General comments

The introduction of the Australian Charities and Not-for-profits Commission Act 2012 (the ACNC Act) and the subsequent commencement of the Australian Charities and Not-for-profits Commission (ACNC) will create, among other changes to the not-for-profit (NFP) sector, a new reporting framework for charities.

CSA was pleased to see, among the changes made to the initial ACNC Act, that the concerns of the sector were reflected in the delaying of the reporting obligations for registered entities to the 2013–14 financial year, and the removal of the reporting requirements from the legislation to the regulations. This approach offers the necessary time for transitioning to the new reporting

obligations and more flexibility should issues arise in implementation. Regulations are far more flexible and responsive than legislation should amendment be required. Of great concern is that the financial reporting requirements could be prescriptive, even inadvertently, rather than principles-based, adding substantially to the compliance burden faced by charities and other NFP organisations. Their inclusion in regulations rather than as a schedule to the legislation confirms that they are principles-based and flexible, to take into account the diverse range of organisations in the sector.

CSA is of the view that the draft financial reporting requirements are, for the most part:

- not onerous for the NFP sector
- not prescriptive as they provide sufficient flexibility for each registered charity to comply according to their particular size and circumstances
- an appropriate benchmark for the sector, and
- appropriate in their expectations of individuals and registered charities.

However, we do have considerable concern with one aspect of the draft regulations. The proposed drafting will force those medium and large-sized entities that meet the criteria to allow them to prepare special reports (which means that therefore they do not currently prepare general purpose accounts) to have to prepare a set of financial statements for the first time. This necessitates considerably greater reporting obligations than the current 'special purpose accounts'. While CSA is of the view that production of some form of financial report is necessary and this is an appropriate compliance burden, a 12-month transition rule should apply to provide sufficient time for these entities to establish appropriate accounting systems. We set out our concerns in more detail later in this submission.

We note that the ACNC has released a summary of the information that will be required by the Annual Information Statement (AIS). Clarity is needed as to whether registered charities can lodge this and the financial report together or whether two separate lodgements will be required.

CSA also notes that the exposure draft does not discuss the interaction between financial accounts which are already provided by charities registered with the Australian Securities and Investments Commission (ASIC) and the new financial reporting requirements. In particular, CSA observes that there is no explanation as to how ASIC will 'turn off' the requirements in favour of reporting to the ACNC. The matter of ASIC 'turning off' reporting obligations was dealt with in the consultation paper accompanying the draft governance standards. It is confusing when a different approach is taken in various consultations on similar issues as it has the potential to leave charities confused about their reporting obligations and to whom they may apply once the reporting regulations commence.

Specific comments on the exposure draft

Impact of proposed reporting requirements on medium-sized entities that are not companies limited by guarantee

Currently almost all NFP companies limited by guarantee, if they meet the criteria, can select not to be reporting entities and therefore need only produce 'special purpose accounts'. CSA notes that many NFP companies, particularly larger ones, choose to produce full accounts for a variety of reasons beyond the scope of this submission. The important issue is that NFP companies currently have a choice, if they meet the criteria, to select to produce 'special purpose accounts', which choice brings with it a significantly reduced reporting requirement and consequent potential for savings.

However, there are medium and large-sized entities that are not companies limited by guarantee that may not currently be reporting and may not have undertaken the process of deciding to be reporting entities to produce 'special purpose accounts'. The new standard proposed in the exposure draft would force those medium and large-sized entities that meet the

criteria to allow them to prepare special reports (which means that therefore they do not currently prepare general purpose accounts) to have to prepare of set of financial statements for the first time, which causes considerably greater reporting requirements than the current 'special purpose accounts'.

These entities will have to undertake the process of deciding to produce special purpose accounts, if they meet the criteria. This is likely to require the attention of senior members of staff and could also involve implementing changes to their accounting methodologies and systems and introducing new accounting software to manage new reporting obligations. For example, such medium and large-sized entities are likely to be using MYOB software, which does not produce statements of cash flow.

However, CSA believes that maintaining proper financial records and making adequate financial disclosure to key stakeholders is essential to ensuring good governance and an understanding of risk management. As a matter of transparency for those interacting with NFP entities, CSA is of the view that production of some form of financial report is necessary and this is an appropriate compliance burden.

CSA recommends that, for organisations that have never had to publicly report previously, a 12-month transition rule should apply and hence their reporting requirements should be deferred until the year commencing 1 July 2014 to provide sufficient time for these entities to establish appropriate accounting systems. For those entities that already publicly report, a commencement date of 1 July 2013 should not be a compliance burden for them.

CSA also recommends that the ACNC engage with the Australian Accounting Standards Board (AASB) in relation to its project on non reporting entities and special purpose financial reports, as this AASB project is likely to result in a change in policy regarding the application of the reporting entity concept in Australia. The direction of this policy change is unknown at present.

Review of medium-sized entities

CSA is also concerned that the current drafting does not require those undertaking a review of a medium-sized entity to hold a public practising certificate.

CSA is of the view that medium-sized entities could well turn to the person who undertakes their day-to-day accounting to undertake the review. However, such a person will not have the necessary independence from the entity to ensure the oversight required in such a review.

Alternatively, such entities could also turn to accounting firms that provide pro bono services to the NFP sector. However, while the individual provided might well be a CPA, CA or MPA, they may not be a practising accountant, but could be someone who has been in management for some time, or they could be an individual not long graduated from university, with very little experience.

CSA recommends that the regulations require an individual undertaking a review of the financial report of a medium-sized entity to hold a public practising certificate. We recognise that this will have cost implications for medium-sized entities, but CSA is of the view that if the information in the financial report is to be relied on there must be additional confidence that the person undertaking the review has the necessary skill and independence. This is a risk management issue that can be addressed by requiring those undertaking reviews to hold a public practising certificate.

Reviewing revenue thresholds

CSA supports the flexibility afforded to the implementation of the tiered reporting process. For example, CSA is aware that the ACNC Commissioner may consider the circumstances of a charity moving between the tiers before changing the reporting requirement for the charity. This might include circumstances where a charity has an extraordinary revenue influx associated

with a specific one-off event, and would likely transition back to the original tier in the following reporting year.

CSA cautions, however, against employing static thresholds as inflation will have an impact on the proposed tiered reporting thresholds. **CSA recommends**, therefore, that the tiers be reviewed regularly and that the review be aligned with changes to the thresholds in the Corporations Act 2001. This would ensure consistency across sectors. The reviewing of tiers can ensure that the threshold limits are adjusted to match inflation and do not result in unnecessary bracket creep for charities.

Referencing the examples provided

CSA is of the view that additional information is required in the reporting requirement examples provided in paragraphs (c) and (d) on pages five and six of the exposure draft. While we understand the intended relevance of the examples, the table on page five does not contain a reference to the date relating to the data from which ASIC derived its sample and the table on page six does not contain a reference to the year in which the information was captured. In regards to the latter information, it could be out-of-date within a month of publication. **CSA recommends** that the tables be amended to include the date on which the information was lifted from the ASIC database and the dates relating to the real-life examples.

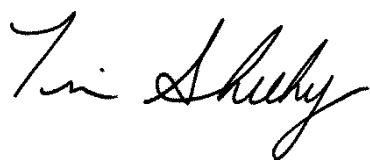
CSA notes further that the sample of real-life entities is of only 50 companies limited by guarantee. We note that the explanatory material states that the information is not representative and we agree with this and believe it should be highlighted. The table, therefore, provides limited value.

Conclusion

In principle, CSA supports the financial reporting regulations, but recommends further amendments to the drafting, in particular to provide transitional arrangements for medium-sized entities that are not companies limited by guarantee.

We would welcome the opportunity to discuss any of our views in greater detail.

Yours sincerely



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CHIEF EXECUTIVE