



15 February 2013

Manager, Philanthropy and Exemptions Unit
Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2601

By email: NFPReform@treasury.gov.au

Dear Sir

Exposure Draft – Financial reporting regulations

The Institute of Chartered Accountants in Australia (Institute) welcomes the opportunity to make a submission to the Treasury to comment on the Australian Charities and Not-for Profits Commission (ACNC) financial reporting regulations.

We broadly support the regulations as drafted to set out the content requirements for financial reports lodged with the ACNC. However we have identified a number of issues that require your consideration. These have arisen mainly because the proposed regulations may overlap or conflict with the existing requirements under the current Australian reporting framework. These have been included in Appendix A.

We remain concerned about the timing for the adoption of the reporting requirements. We consider the application date from 1 July 2013 to impose an unreasonable burden for entities that have not been subject to public reporting in accordance with accounting standards to date. Any reporting requirements imposed by the ACNC will be additional burden for them and likely result in increased costs. As a result, they do need sufficient time to understand and implement the changes. Often these organisations will be resource poor, relying substantially on volunteers to assist with compliance tasks. To require these entities to be ready for new systems, processes and procedures by 1 July 2013 is unreasonable and we recommend a one year transition period for these entities. This will require them to commence for financial periods commencing 1 July 2014, unless they volunteer to report earlier.

Further, we continue to contend that the reporting thresholds are too low. We request a review of the thresholds in three years time to assess their appropriateness, once further information is obtained about the sector.

If you have any queries on our comments please contact Ms Kerry Hicks, the Institute's Head of Reporting via email at kerry.hicks@charteredaccountants.com.au or phone on (02)9290 5703.

Yours sincerely

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1. Comparative year reporting

We recognise that allowing a departure from accounting standards, in the case of transitional arrangements for comparative year reporting was designed to ensure that entities do not need to apply accounting standards to periods prior to 1 July 2013, thereby reducing their administrative burden. This is significant for those entities that will be required to prepare accounts in accordance with accounting standards that are publicly available for the first time under the ACNC legislation.

Giving an exemption to applying an accounting standard is problematic. This will mean that if general purpose accounts are required, then the audit opinion would need to be qualified on the basis of a departure from an accounting standard. We do not believe the ACNC should be forcing entities to have qualified audit opinions in this regard. We therefore propose that any entities that will be required to prepare accounts that are publicly available for the first time under the ACNC legislation should be given one more year to apply the reporting framework. This would give them sufficient time to change their systems to capture the required information and also solve the issue about having to disclose comparative information, thereby enabling them to comply with the relevant accounting standard.

Entities that are currently preparing publicly available accounts would already be preparing comparative year disclosure. Therefore this would not constitute any additional burden. These accounts could then be general purpose financial reports (providing the entities are reporting entities under the framework).

We therefore recommend that the reporting framework should apply to those entities required to prepare publicly available accounts for the first time under the ACNC legislation for financial years commencing 1 July 2014 or the equivalent substituted accounting period. In the event that the timing for application is not changed, we recommend that any entity that chooses to not show comparatives, fully discloses any adjustments made to their opening balances that were reported to members or stakeholders in previous years.

2. Joint and collective reporting

We are less clear about the rationale for allowing a departure from the consolidation accounting standards in respect of joint and collective reporting. The exception brings about a number of questions about its application which we have outlined below:

- In a group situation could you still apply the relevant accounting standard or does preparation of any type of group accounts require approval from the ACNC?
- If approval from the ACNC is not given and a controlled entity does exist, we suggest this would necessitate an audit qualification (on the basis of not complying with an accounting standard) if the entity was a reporting entity.
- If preparing joint or collective reports by applying to the ACNC (and not by applying the accounting standard) what is the methodology for preparing them e.g. how would any investment be eliminated?

We recommend that the whole area of joint and collective reporting and how it interacts with existing requirements is clarified. We are disappointed that this issue has not yet been resolved, as it was highlighted in submissions made to Treasury 12 months ago. This issue has the potential to impact on compliance costs if individual entity accounts are required to be prepared as well as consolidated accounts in accordance with the accounting standards. We believe any requirements for joint and collective reporting should be developed in accordance with the outcomes of the AASB's current project on control in the not-for-profit sector.

3. Special purpose financial reports

We support the use of the reporting entity concept by the ACNC. However we would recommend that the current project that is being undertaken by the Australian Accounting Standards Board (AASB) in relation to non reporting entities and special purpose financial reports is actively monitored by the ACNC. We note that this AASB project is likely to result in change in policy regarding the application of the reporting entity concept in Australia. The direction of this policy change is unable to be determined at the present time.

4. Working with AASB

Several concerns exist about the application of accounting standards to not-for-profits. These concerns primarily relate to revenue recognition in relation to grant income. This is a critical issue, as the revenue number determines what reporting and audit requirements exist for an entity. While we would not suggest the ACNC or Treasury make changes to standards through regulations, we strongly encourage the ACNC/Treasury to provide input to the AASB on such matters.

We also note that the explanatory material (page 3) states the AASB and the ACNC will work together to develop guidance on financial reporting for entities registered with the ACNC, including non-reporting entities registered with the ACNC. This would appear to conflict with the AASB's strategic plan for 2012-16 which includes the aim to develop and maintain high quality accounting (ie financial reporting) standards for **reporting entities** in all sectors of the Australian economy. Any change to the strategy of the AASB in this regard will need the approval of the Financial Reporting Council, before proceeding. We recommend the financial reporting framework for NFPs is reviewed in order to determine if the current model is the most appropriate for Australia, exploring other frameworks around the world – including those developed in the United Kingdom, New Zealand, Canada and the IASB's IFRS for SMEs.

5. Revenue Thresholds

In connection with our comments above on joint and collective reporting we note that for the purposes of determining 'large' entities the test is based on the revenue of the 'reporting group' as determined under the ACNC Act and regulations. This test may cause confusion particularly in light of the fact that two separate different tests already exist under the Corporations Law in sections 45A and 45B for proprietary companies and companies limited by guarantee respectively. We raised this point in our previous submission, and no progress seems to have been made to date in this area to clarify whether group or single entity revenue is appropriate.

6. Performance of reviews

We appreciate the objective of increasing the number of individuals able to perform review engagements by removing the requirement for reviewers to hold a Certificate of Public Practice (CPP). However, we note that this objective may not be achieved to any great extent, as the Institute's regulations require the holding of a CPP where public accountancy services are required under legislation to the public for a reward. We note that each of the accounting bodies have different regulations in this regard.



Where a CPP is not held by an individual/practice performing a review, their work will not be subject to any of the professional bodies' Quality Review Program. It will also mean that professional indemnity insurance is not required to be held.

The ACNC should consider this situation further, and how it may impact one of the key objects of the regulator to 'maintain, protect and enhance public trust and confidence in the sector...'.

7. Compliance with Standards

Whilst we support the standards that have been listed as minimum requirements, we note that a cash flow statement will be a new requirement for many non-companies. Therefore there is likely to be an increase in compliance burden in this regard, that should be assessed in terms of cost versus benefits.

We note the minimum requirements for adoption of standards does not appear in the regulations as drafted. In order to ensure organisations adopt these, we recommend one of three approaches. One approach would be to reference the standards within an ACNC regulatory guide (to be drafted) similar to the existing ASIC Regulatory Guide. An alternative could involve the ACNC approaching the AASB to amend these five standards so their application is extended to charities registered with the ACNC. A final approach could be to include these minimum standards within the regulations.

Another area that should be listed as a minimum requirement is the identification of whether a financial report is special purpose or general purpose. This must be determined by the directors and should be highlighted in the accounting policy note. This disclosure is currently contained in AASB 1054 *Additional Australian Disclosures*. Therefore we suggest that this standard should also be included within the minimum requirements.

8. Application of RDR

Page 8 comments that the application of RDR will 'significantly reduce the disclosure burden'. We consider the application of RDR may reduce the disclosure burden, but we consider that the words used in the paper could create unwarranted expectations. The amount of reduction will be dependent on the entity and the current reporting it is undertaking.

9. Responsible entities declaration

As highlighted in our governance submission, the use of the term 'responsible entity' is confusing to many stakeholders in the sector. We consider that ordinary language would best be used with the legal term referenced in brackets next this. This should therefore make it absolutely clear who is to provide the declaration.