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

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Dear Sir/Madam

DRAFT REGULATIONS - AUSTRALIAN CHARITIES AND NOT-FOR-PROFITS COMMISSION - FINANCIAL REPORTING REQUIREMENTS

CPA Australia welcomes the opportunity to comment on the Draft Regulations – Australian Charities and Not-for-profits Commission – Financial Reporting Requirements (draft regulations). CPA Australia is one of the world’s largest accounting bodies and represents the diverse interests of more than 144,000 members in finance, accounting and business in 127 countries throughout the world. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest. We have set out below our views in response to the proposals within the Draft Regulations.

Joint and Collective Reporting

Currently there are no accounting standards or other requirements that set out the criteria for how to prepare “joint” or “collective” financial reports. Consequently, their preparation would rely solely on the decisions of management as to how general accounting principles might be applied to joint/collective reporting. We do not believe this is an appropriate outcome, at the very least it is not consistent with the production of financial information capable of being comparable with financial information produced by other similar entities. For this reason, we believe it is essential for requirements (be they through accounting standards, legislation, regulations or some other process) to be established for the preparation of financial reports.

Some, possibly many entities will be preparing financial reports under Australian Accounting Standards for the first time; a new burden for them. For those opting to prepare joint/collective reports, the absence of specific requirements represents an additional reporting burden that is likely to increase the risk of low quality, inconsistent information being prepared and submitted.

Charities that are reporting entities will be required to prepare General Purpose Financial Reports under the Australian Accounting Standards. However the Australian Charities and Not-for-profits Commission Act 2012 (ACNC Act) allows for a departure from Australian Accounting Standards in the case of joint/collective reporting (and non-presentation of comparatives in the first year), and entities opting to do so will be preparing Special Purpose Financial Reports. This gives rise to a conflict between the Australian Accounting Standards, which require a reporting entity to apply all Australian Accounting Standards, and the ACNC Act.

For the reasons stated above, we consider it important for financial reporting criteria on joint and collective reporting to be developed and established, to assist preparers and auditors/reviewers of such financial reports. We believe the financial reporting accounting standard setter, the Australian Accounting Standards Board (AASB) is best placed to formulate specific requirements to be used in the preparation of joint/collective reports. We note that they are already considering similar issues under their project on “control in the not-for-profit sector”. Such requirements could form a new accounting standard or could be added to existing relevant standards as “Aus” paragraphs. If the AASB is not able to undertake this project, we suggest exploring the possibility of either including requirements to be included in the preparation of joint/collective reports in legislation/regulations or through requirements developed and mandated by the ACNC.

Exploring the financial reporting frameworks of other jurisdictions which cater for the needs of their charities sector may also provide insights into the development of suitable reporting requirements in Australia for the charities sector. In the United Kingdom for example, a reporting standard is being developed based on the IFRS for SMEs, incorporating specific reporting requirements applicable to public benefit entities (including charities).

Exemption from presenting comparative information in the first year

We recognise that this exemption will ease some of the compliance burden for those charities required to prepare financial reports for the first time. However where such charities preparing financial reports for the first time have determined they are reporting entities we consider the exemptions provided in AASB 1 *First Time Adoption of Australian Accounting Standards* sufficiently addresses the difficulties preparers may face when adopting the Australian Accounting Standards framework for the first time. Therefore, we suggest this exemption is limited to those charities that are non-reporting entities preparing Special Purpose Financial Reports. This approach will also address the conflict between the Australian Accounting Standards and the ACNC Act we have identified in the previous section on joint/collective reporting.

Responsible Entities Report

Neither the legislation nor the draft regulations include a requirement for a report to be provided by a charity's Responsible Entities (equivalent of a directors report under Corporations Act). Not all information about the work performed, benefits provided and future prospects of many charities is capable of being expressed numerically. The provision of such information in narrative form through a Responsible Entities Report together with the financial report will provide stakeholders with a more comprehensive overview of a charity's performance and position. We suggest the inclusion of an additional requirement for those charities that are required to prepare and submit financial reports to also prepare and submit a Responsible Entities Report at the same time.

General Purpose Financial Reports (GPFR) and Special Purpose Financial Reports (SPFR)

As set out in the explanatory material to the Draft Regulations, in determining whether a registered entity is required to prepare GPFR or SPFR, preparers will have to take into consideration the existence of users who are not in a position to require the entity to prepare reports tailored to their particular information needs. Users of the financial reports of many registered entities can include donors and others who support the charity and may fall into the category of those unable to require the entity to provide reports tailored to meet their particular information needs. Whilst the explanatory material provides some guidance and examples in making the determination as to whether an entity is a Reporting Entity or not, we believe it does not examine thoroughly the range of possibilities that would result in an appropriate determination. In consideration of the fact that many of the registered entities will be encountering any financial reporting regulations for the first time (e.g. unincorporated associations), and are likely to need significant assistance in making a determination as to whether they are required to prepare GPFR or SPFR, we suggest further practical guidance and examples specific to the sector be developed and provided.

The explanatory material to the draft regulations refers to the five key accounting standards that would have to be applied as a minimum when preparing SPFR. The application paragraphs of these five standards stipulate that they must be applied mandatorily by all entities required to prepare financial reports under the Corporations Act. However, in the absence of equivalent requirements for charities regulated by the ACNC, these five standards will not be mandatory for those charities preparing SPFR. We suggest Treasury/ACNC approach the AASB to amend the five standards so their application to charities is mandated through the standards. This would align with the current approach adopted for entities reporting under the Corporations Act.

Acceptance of Reports given to other Australian government agencies

Whilst we support, in principle, the ability of registered entities to provide the ACNC with financial reports prepared and given to other Australian government agencies, as a minimum we believe such financial reports should be prepared and presented as GPFR or SPFR as appropriate. This approach will allow for consistency in published financial reports allowing stakeholders to better compare financial information.

Guidance needed for registered entities regarding their financial reporting requirements and entitlements

In addition to entitlements available to registered entities about “joint/collective” reporting they need to be made aware of other entitlements including:

- Avoiding transition from one tier to another (subject to application to the Commissioner) if the transition is caused by something extraordinary and it would be likely that the entity will transition back to the original tier the following year.
- Once finalised, the possibility of the Commissioner accepting financial reports given under an Australian law to an Australian government agency.

Review engagements for Tier 2 charities

Whilst not directly related to this consultation, we would like to take this opportunity to refer to a change made through the Australian Charities and Not-for-profits Commission (Consequential and Transitional) Act 2012 (the ACNC Consequential and Transitional Act). The ACNC Consequential and Transitional Act removes the requirement for individuals able to undertake review engagements to hold a practising certificate. We support this decision as it will expand the pool of individuals suitably qualified to undertake review engagements and assist with minimising the compliance burden on charities.

CPA Australia members who may not hold a PPC and seek to undertake review engagements will still be required to follow prescribed professional and ethical standards, and comply with our Continuous Professional Development requirements. Additionally, we also have an arrangement to offer free professional indemnity cover to our members who undertake pro-bono work. We believe these measures are sufficient to ensure the quality of review engagements being conducted in a way appropriate to the scale of the entity.

If you require further information on any of our views, please contact Dr Mark Shying, CPA Australia by email at mark.shying@cpaaustralia.com.au.

Yours sincerely



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cc: M Shying