



**PITCHER PARTNERS**

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Ref: DAH

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The Manager  
Philanthropy and Exemptions Unit  
Indirect, Philanthropy and Resource Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [nfpreform@treasury.gov.au](mailto:nfpreform@treasury.gov.au)

Dear Sir/Madam

#### **ACNC - FINANCIAL REPORTING REQUIREMENTS**

We appreciate the opportunity to provide comment on the draft financial reporting requirements for entities registered under the Australian Charities and Not-for-profit Commission Act 2012 (ACNC Act).

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Our clients come from a wide range of industries and include a significant number of not-for-profit (NFP) entities across various sectors including charities, community groups, industry associations and other service providers. Consequently we provide audit, accounting and advisory services to a broad range of different size NFP entities with differing governance structures and user needs for financial information.

Our comments are detailed below:

##### **1. Revenue thresholds for small, medium and large registered entities**

We recognise that previously there has been considerable divergence in the reporting thresholds set by state and federal legislation for not-for-profit entities constituted under differing legislation. We consider that it is appropriate to align the reporting thresholds of entities registered under the ACNC Act with the reporting thresholds for companies limited by guarantee under the Corporations Act 2001.

##### **2. Measurement of revenue**

While we concur with the reference to a revenue threshold, more guidance is needed to assist registered entities to determine the appropriate criteria for the measurement and



recognition of revenue. Revenue recognition has been the subject of considerable debate in the for-profit sector and revenue recognition by not-for-profits has further complications.

For example, if a registered entity receives donations in kind, under what circumstances should the value of donated non-cash items be measured and recognised as revenue? Is there a difference in receiving cash accounted for as donations in revenue, or the *rights* to a rental income from a property for a specified period and paid to the entity periodically, or donations of food items or blankets, or jewellery or shares? If a registered entity receives a bequest in a will, when should the bequest be recognised? Does the entitlement arise only when the asset is transferred to the registered entity, or at an earlier date?

### **3. Non-compliance with accounting standards by non-reporting entities**

For non-reporting registered entities there is no requirement to comply with the measurement and recognition criteria in accounting standards under the proposed financial reporting requirements. Accounting standards have been developed primarily for listed entities in capital markets and therefore we concur with the view that the accounting information prepared in accordance with the accounting standards is not always useful for stakeholders interested in not-for-profit entities.

However, it is unclear as to which alternative accounting frameworks are acceptable. If there is a presumption that a (modified) cash basis of accounting will be applied when accounting standards are not applied, then this alternative basis should be clearly described, perhaps in separate guidance developed by the ACNC.

### **4. Transition of registered entities from non-reporting to reporting status**

The nature and extent of information provided in general purpose financial reports in comparison with information that might be prepared under a non-reporting framework that does not require compliance with accounting standards, could be extremely different.

We recommend that the ACNC should provide guidance to registered entities to enable the timely monitoring of factors that indicate a change of status. For example, a size threshold and/or a stakeholder threshold may provide appropriate criteria to indicate timing for consideration of whether the entity is now a reporting entity.

### **5. The fair presentation of financial reports**

It is not clear how the fair presentation of financial information will be determined, or whether it is required, in the absence of a specified accounting framework. Further, 'fair presentation' is likely to depend on the entity's objectives and purpose, to provide context for the information reported.

Under section 300B of the Corporations Act 2001 companies limited by guarantee are required to provide certain information in their directors' report concerning:

- (a) a description of the short and long term objectives of the entity reported on; and
- (b) the entity's strategy for achieving those objectives; and
- (c) the entity's principal activities during the year; and
- (d) how those activities assisted in achieving the entity's objectives; and
- (e) how the entity measures its performance, including any key performance indicators used by the entity.

We consider that in the absence of a specified accounting framework being applied, disclosures relating to objectives, activities and performance measures should be included in the financial report.

**6. Activities conducted by registered entities that are outside their stated objectives**

We consider that there needs to be appropriate provision for reporting where activities are conducted outside the stated objectives of a registered entity.

**7. Period of six months to lodge financial reports with ACNC**

Given that most registered entities are expected to have a financial year ended on 30 June this is the most practical outcome to enable their access to pro bono services. However, we consider it would be beneficial to introduce legislation or regulation which enabled not-for-profits to change their financial year without justification to a period when there is less concentration in financial reporting.

**8. Joint and collective reporting**

A number of factors relating to these provisions are unclear:

- i. What accounting principles would be applied to these arrangements? These are not terms that are used in the accounting standards and in any event, compliance with accounting standards may not be required.
- ii. Is there any compulsion to report as a joint or collective entity? What criteria should be applied to require joint or collective reporting? Is this type of reporting expected or optional?
- iii. Do the reporting thresholds apply to the individual entities or to the joint or collective entity?
- iv. Is there an incentive to breakdown larger operations into numerous small entities with revenue less than \$250,000 to avoid the reporting obligations of a medium or large joint or collective entity?

**9. Comparative information**

It is a basic accounting principle that comparative information is provided and we would expect larger registered entities to provide this information.

**10. Consequences of non-compliance with the financial reporting requirements**

The consequences for non-compliance with the financial reporting requirements should be clearly set out in the regulations. We understand that non-compliance is likely to result in de-registration.

Please do not hesitate to contact me regarding any matters arising from this submission that you may wish to discuss further.

Yours faithfully  
PITCHER PARTNERS



S D AZOOR HUGHES  
Partner