



AUSTRALIAN CATHOLIC BISHOPS CONFERENCE

General Secretariat

15 February 2013

The Manager
Philanthropy and Exemptions Unit
Indirect, Philanthropy and Resource Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600
NFPReform@treasury.gov.au

Dear Sir/Madam

Financial Reporting Requirements

The Australian Catholic Bishops Conference (ACBC) is a permanent institution of the Catholic Church in Australia and the instrumentality used by the Australian Catholic Bishops to act nationally and address issues of national significance.

The Catholic Church contributes in a wide variety of ways across the spectrum of Australian society. As an integral part of its core mission, the Church seeks to assist people experience the fullness of life. It is concerned with all that impacts on human wellbeing. It comprises many thousands of different entities which have different purposes and modes of governance.

Reduction of red tape

The ACBC recognises the importance of effective implementation of the regulatory requirements for preparation of annual financial reports. But the ACBC is disappointed that the Government is not delivering a reduction in red tape and notes that agencies will have to divert resources from helping people to providing information to the Australian Charities and Not-for-profits Commission (ACNC) that is in many cases already being reported to other Government agencies.

The ACBC is also concerned about the possibility of incremental growth in reporting and whether the Annual Information Statement will become a back door for the ACNC to require financial reports from basic religious charities (BRCs).

In the proposed regulations, we are encouraged by recognition of the choices made by entities between reporting and non-reporting status, and in turn whether they prepare general purpose financial reports (GPFRs) or specific purpose financial reports (SPFRs). Charities which are associations incorporated in State jurisdictions and companies limited by guarantee are also familiar with requirements to meet relevant accounting standards and the well established reporting entity concept. The ACBC welcomes the transitional arrangement for charities not being required to disclose comparative information in the first year.

Those charities that are unincorporated and the most vulnerable to increased regulation will find these proposed financial reporting requirements significant. These entities are estimated to represent 35 per cent of all charities. This will result in extra expenditure being incurred for the additional resources, processes and procedures required for ACNC compliance with no funding support provided for implementation. The recently released *COAG Regulatory Impact Assessment of Potential Duplication of Governance and Reporting Standards for Charities* does not deal with or assess the impact on unincorporated associations of the requirement to comply. The assessment only deals with those entities that are incorporated and the assessment of duplication, not the reduction of red tape. The impact of these additional regulations for these entities has not been substantiated, costed or assessed.

Form of financial reports

Some entities that do not currently prepare GPFRs may be required to do so. The existing determinations by sector for companies limited by guarantee would have provided more useful information to the not-for-profit (NFP) sector rather than reporting overall data and selecting a small number of 'real life' examples. This would for example highlight that the vast majority of primary and secondary schools incorporated as companies limited by guarantee would be classified as non-reporting entities. Within large religious organisations most entities that are not currently required to lodge GPFRs with the Australian Securities and Investments Commission (ASIC) or a state regulator, prepare SPFRs because in many instances the cost of preparing GPFRs is unnecessarily prohibitive and simply impractical.

The ACBC notes however that the ACNC, having regard to public trust and confidence in the sector, is yet to indicate the extent to which the regulations will be followed by new administrative guidance relating to the choices or entity status and reporting level available to registered charities.

Catholic Church agencies report regularly to stakeholders and there is already detailed reporting to Government of education, welfare and health activities. It would assist to provide greater certainty to Church entities if the explanatory material included a comment to the effect that, in the ordinary course, SPFRs would be appropriate for religious agencies.

AASB and ACNC guidance

The draft requirements for annual financial reports under the ACNC framework outline that the Australian Accounting Standards Board (AASB) and ACNC will work together to develop

guidance materials on financial reporting for registered charities. The ACBC also requests the timing of these developments is outlined and that the NFP sector be engaged as part of this process including proposals for *service performance reporting*. These proposed developments create additional uncertainty and will have a significant impact on future financial reporting disclosures which will place a further administrative burden on charities to collate this data.

The guidance materials and reporting templates should have been prepared with these draft financial reporting requirements to assist the sector to fully assess the regulatory impact of the proposed ACNC financial reporting requirements. This will be critical in ensuring unincorporated entities are supported and comfortable in preparing the required financial reports and to help determine whether the required financial disclosures will be able to be derived easily from their financial systems. Many unincorporated charities will not be aware of the extent of administrative changes that will be required. The ACNC materials should also be able to provide detailed templates and appropriate terminology based on each type of entity including unincorporated bodies rather than the standard corporate language currently adopted. The examples should also be mindful of the differences in governance and entity structures.

Education

The ACBC and National Catholic Education Commission (NCEC) appreciate the establishment of the *ACNC Non-government school sector reporting duplication working party*. We envisage this working party will be able to deal with the transitions although it will need to be mindful that a large number of 'unincorporated body' schools currently prepare special purpose reports for the Department of Education, Employment and Workplace Relations (DEEWR) on a cash basis, in addition to the numerous existing Commonwealth government grant acquittals. Although the ACNC is required to accept during the transitional period the DEEWR Financial Questionnaire reporting requirements, this does not preclude rapid changes to schools accountabilities by DEEWR without the consultation of the non-government school sector. The preparation of financial reports as outlined within the *Draft requirements for annual financial reports under the ACNC framework* will be significant. This will be the case even for diocesan-based primary schools, which have limited resources including those entities which are already operating using accrual accounting. The ACBC requests that appropriate discussions take place so that these unincorporated entities are provided sufficient time to assist with the transition to full implementation, as with other charities.

Through this process, the Catholic education sector has put on the record its concerns that uniform league tables might be created without detailed understanding or analysis of the financial information and the complexity of the education sector. In addition comparisons with government schools will not be possible due to non-government schools having a significantly higher standard of transparency and public financial reporting. Current disclosures required for the Australian Curriculum, Assessment and Reporting Authority (ACARA) are sector neutral between the government, Catholic and Independent sectors. This point underlines the concern stated at the beginning of this submission about the failure to achieve a reduction of red tape and the real costs and detriment at the expense of

service delivery. The goal of reduction in red tape needs to inform the continuing development of an appropriate reporting framework for the education sector.

In addition, the ACBC urges the ACNC to follow up on the regulations with a further round of consultation on the proposed reporting formats for preparation and submission of financial data. Timeliness on this matter would enable registered charities to undertake any necessary alignment of their systems of financial administration to the ACNC's reporting requirements prior to the beginning of 2013-14 or approved alternative financial reporting period.

I would be happy to respond to any questions you may have and would also welcome the opportunity to amplify the several major concerns we have expressed.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Rev Brian Lucas', written in a cursive style.

Rev Brian Lucas
General Secretary