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Manager
Philanthropy and Exemptions Unit
Personal and Retirement Income Division
The Treasury
Langton Crescent
PARKES ACT 2600

By Email: NFPReform@treasury.gov.au

RE: EXPOSURE DRAFT: AUSTRALIA CHARITIES AND NOT-FOR-PROFITS COMMISSION BILL 2012

Introduction

We are a Chartered Accounting firm with have a strong interest in the not-for-profit sector, including churches, charities and other community groups, providing taxation, audit and management advisory services.

We make this submission drawing on our experience in this sector and on behalf of our clients.

Summary of Concerns

1) June year-end reporting will impose needless transitional requirements on many charities and unnecessary pressure on accountants servicing them.
2) The additional work involved in preparing accounts compliant with the accounting standards for the first time will make it very difficult for not-for-profit organisations to meet the four months window to lodge with the ACNC.

1) June Year-End

We question the need for charities to move to a 30 June year-end.

Transitional Issues for Charities

The year-end for most charitable organisations is defined in their governing documents. Organisations with a year-end other than 30 June will have to go to the trouble of amending their articles of association or constitutions to avoid duplicate reporting. This may also require the additional expense of a part-year audit or review while transitioning.

In our opinion these are unnecessary, albeit once-off, costs for no perceivable benefit.

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Issues for Accountants and Auditors

Our firm acts as auditors for in excess of 130 not-for-profit organisations. These audits are currently spread throughout the year, allowing us to continue to service our income tax and GST clients at the same time.

With our current not-for-profit client base, the June year-end change would require all of our staff (and more) to be working exclusively on not-for-profit audits and reviews in order to have any hope of meeting the 31 October deadline. This is a troubling prospect because the August to October period is also a peek period for small income tax clients anxious to receive their income tax returns.

We are sure that we will not be facing this dilemma alone. We anticipate that there will be an influx of work from organisations that have not previously been required to have their financial statements looked at by an accountant or auditor. These audits will have to be juggled with income tax work, or the audits of taxable entities that are generally due at the same time.

Recommendation

Allow all charities to report within four months of their existing year-ends. This will:

- Help to minimise the transitional impact to charities
- Enable Accountants and Auditors to spread their workflow more evenly across the year.

2) In accordance with Accounting Standards

Transitional Issues for Charities

The ACNC will capture thousands of unincorporated not-for-profit organisations that have either never been audited or may be voluntarily audited currently, but prepare reports that are inconsistent with accounting standards such as reporting on a cash basis.

In our experience many of these organisations have competent bookkeepers and are quite capable of maintaining accounting records sufficient for their current needs. However producing financial statements in accordance with accounting standards will be a significant learning curve. If they have never been audited, they may be unaware of the additional work involved in preparing for and undergoing an audit.

This will add complexity, time and cost to the audit especially for that first year.

Transitional Issues for Accountants and Auditors

We understand that registered charities will be required to report to the ACNC for the first time for the year ended 30 June 2013. Accounting standards require comparative accounts, so for this first year auditors and accountants will need to do twice as much work in order to sign off on both the 2012 and 2013 years.

We note that these reports will contain financial information from 1 July 2011 in organisations that are not currently aware that they will be required to be audited in the future. This has implications for the standard of supporting documents that are currently being kept or not kept as the case may be. We are concerned that inadequate supporting documentation may result in qualified audit reports that will reflect poorly on the public register.

Recommendation

Introduce significant blanket extensions to reporting deadlines for the first year to take into account the additional complications for producing audited financial accounts in accordance with the accounting standards for the very first time.

Consider transitional provisions to exempt organisations from the need to produce comparative accounts in the first year.

Conclusion

Although we understand the desire to promote accountability and transparency in the Not-for-Profit sector, the transitional realities of the proposed reporting requirements will be particularly onerous for the first year of reporting and in the case of introducing a 30 June year-end, arguably unnecessary.

Please contact us should you wish to discuss any of these matters further.

Yours faithfully,

Rob Hurrell
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