



Australian Government

Australian Accounting Standards Board

Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities

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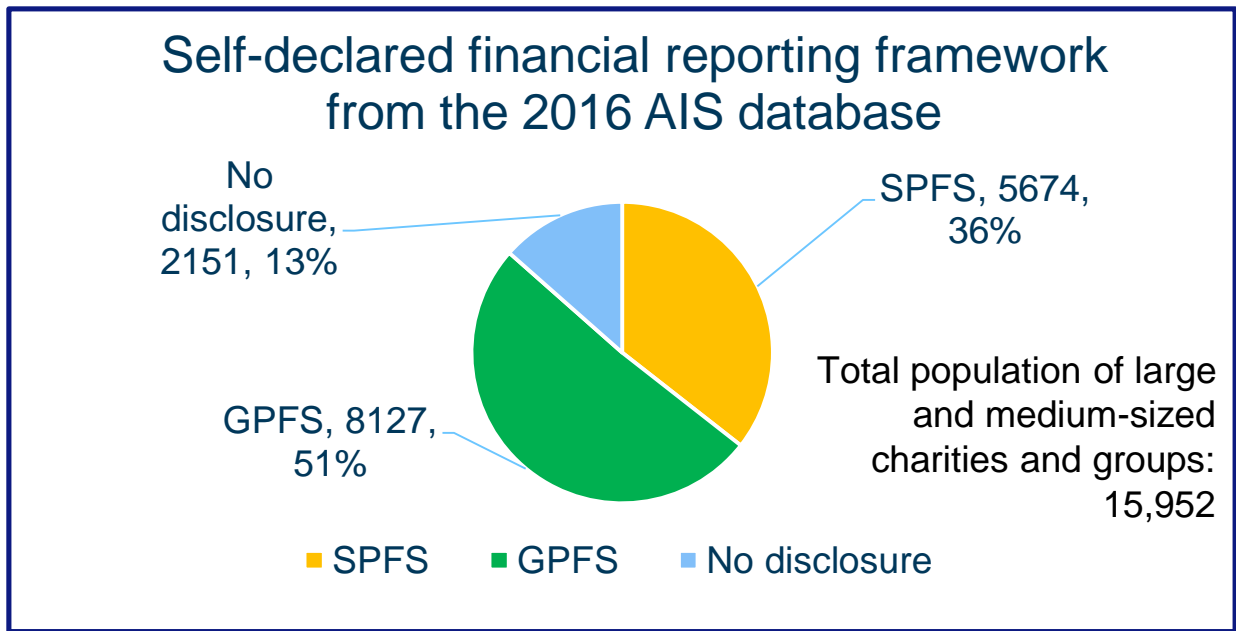
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1. Objective
2. Summary of Research Report 11
 - Population and Sample
 - Key findings
 - R&M compliance by size
 - 5 Key standards compliance
 - Compliance with other AAS
3. Comparison with Research Report 12
4. Discussion
5. Appendices



- **To present** factual findings regarding the extent to which charities lodging Special Purpose Financial Statements (SPFS) are currently complying with the recognition and measurement (R&M) and disclosure requirements in Australian Accounting Standards (AAS).
- **To provide empirical evidence** on assisting in improving the current not-for-profit financial reporting framework in Australia.
- **To consider** the findings to determine the next steps.

This report explores the quality of SPFS in the not-for-profit private sector, which aims to assist the Board with evidence-informed decision making.



Implication:

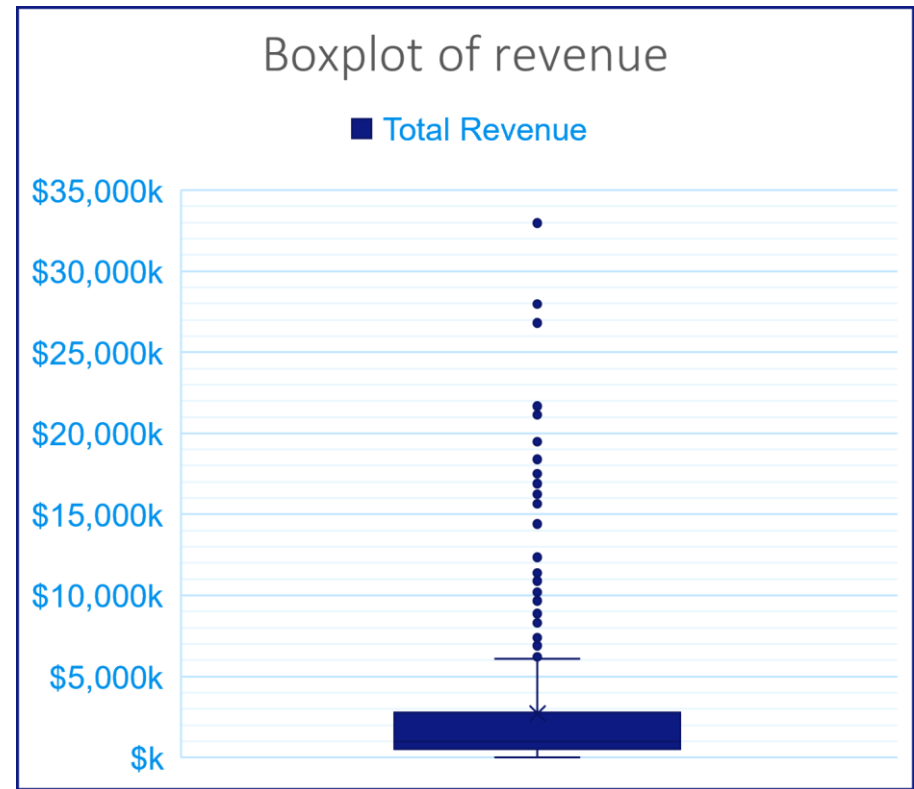
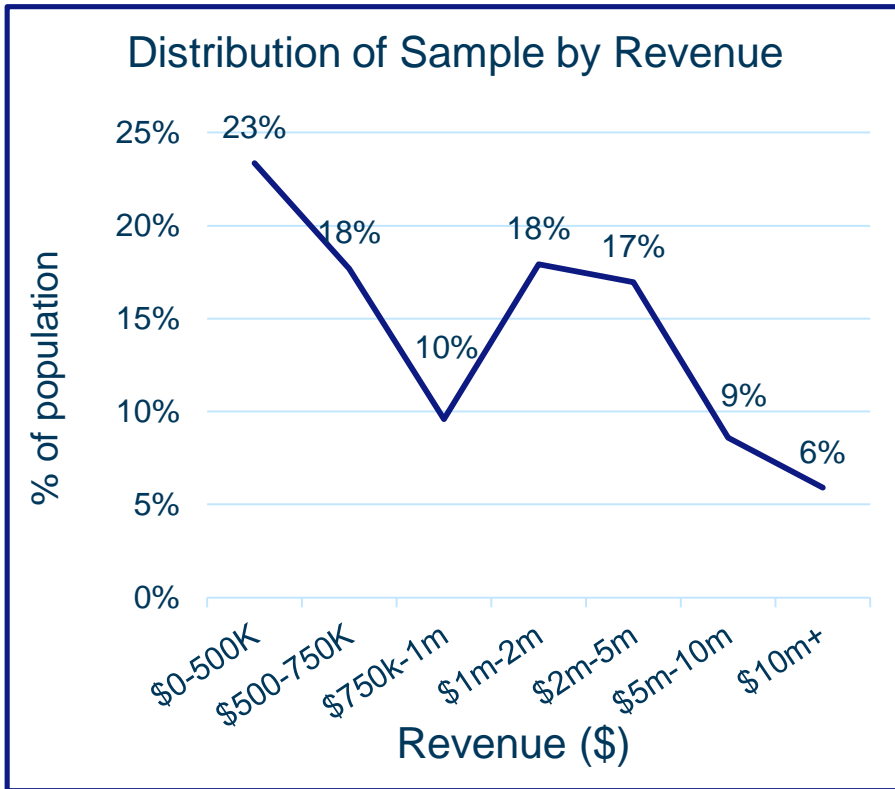
- More than 50% of the population lodges GPFS (self-assessed) with ACNC (29% for for-profit sector¹) which suggest there is a scope for streamlining of the financial reporting requirements to decrease financial reporting burden of the sector.
- Another research² noted over **20%** error rate reporting framework declared in AIS for large charities who claimed to prepare GPFS to ACNC in 2014 & 2015.

1 Refer to AASB [Research Report 12](#) for detail. The 29% includes Tier 1 GPFS (16%) and Tier 2 GPFS-RDR (13%) for large proprietary companies, foreign controlled small proprietary companies and unlisted public companies (excluding companies limited by guarantee).

2 Yang, Y. and R. Simnett, (2019), Large Charities' Financial Reporting Framework Choice in Australia, Available at: <https://ssrn.com/abstract=3412617>.

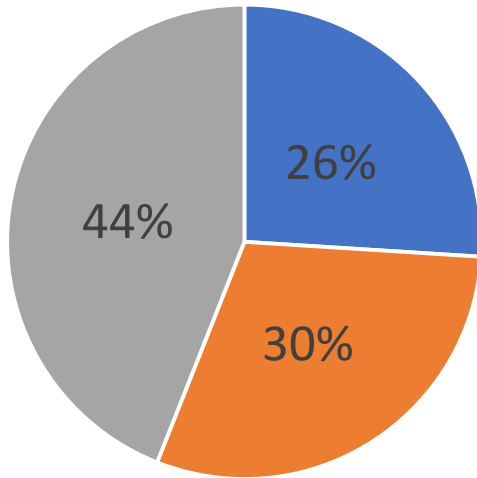
Sample by size

A random sample of 407 large and medium-sized charities preparing SPFS selected from the population to ensure 95% confidence level.

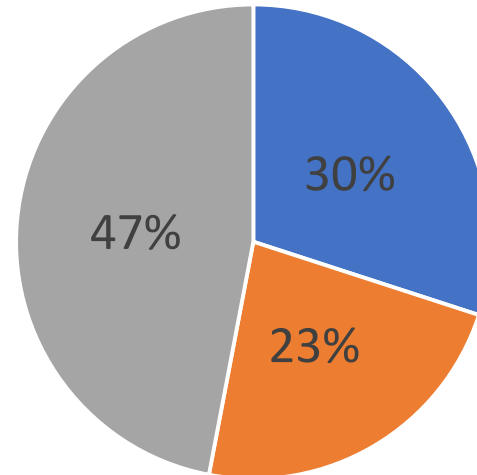


Implication: The representative sample is largely skewed to the right with 85% of the sample with revenue less than \$5m (largely in line with findings in AASB Staff Paper *Improving Financial Reporting for Australian Charities*, November 2017)

Full sample (n=407)



Excluding Non-government Schools (n=342)



■ stated compliance ■ stated non-compliance ■ unclear

65 non-government schools examined separately as most of these schools in the sample are still transitioning to accrual accounting.

Implication: Compliance with R&M of AAS at 26% is significantly lower than for the for-profit sector (76%, Research Report 12) supporting the need for NFP financial reporting reform

Compliance with R&M by size

Size		Entire sample (n=407)			Excluding non-government schools (n=342)		
		Stated compliance	Stated non-compliance	Trend	Stated compliance	Stated non-compliance	Trend
Rate		26%	30%	↘	30%	23%	↘
Total assets (\$)	Mean	7,559,255	7,292,944	↘	7,092,625	9,258,245	↘
	Median	1,904,660	468,311	↘	1,701,685	1,023,509	↘
Total Liabilities (\$)	Mean	1,046,577	587,232	↘	850,327	650,885	↘
	Median	183,114	102,106	↘	148,345	271,501	↘
Revenues (\$)	Mean	3,463,769	3,049,491	↘	3,036,563	1,914,041	↘
	Median	908,393	1,624,154	↘	867,810	710,355	↘
Income (\$)	Mean	3,525,718	3,091,560	↘	3,094,054	1,979,151	↘
	Median	935,592	1,639,690	↘	904,476	743,737	↘
Expenses (\$)	Mean	3,098,220	2,664,056	↘	2,653,873	1,525,336	↘
	Median	803,914	1,381,832	↘	734,116	625,719	↘
Employee numbers	Mean	25	25	↔	21	15	↘
	Median	4	12	↘	3	6	↘

1) Trend refers to a comparison of the size variables between "Stated compliance" and "Stated non-compliance";

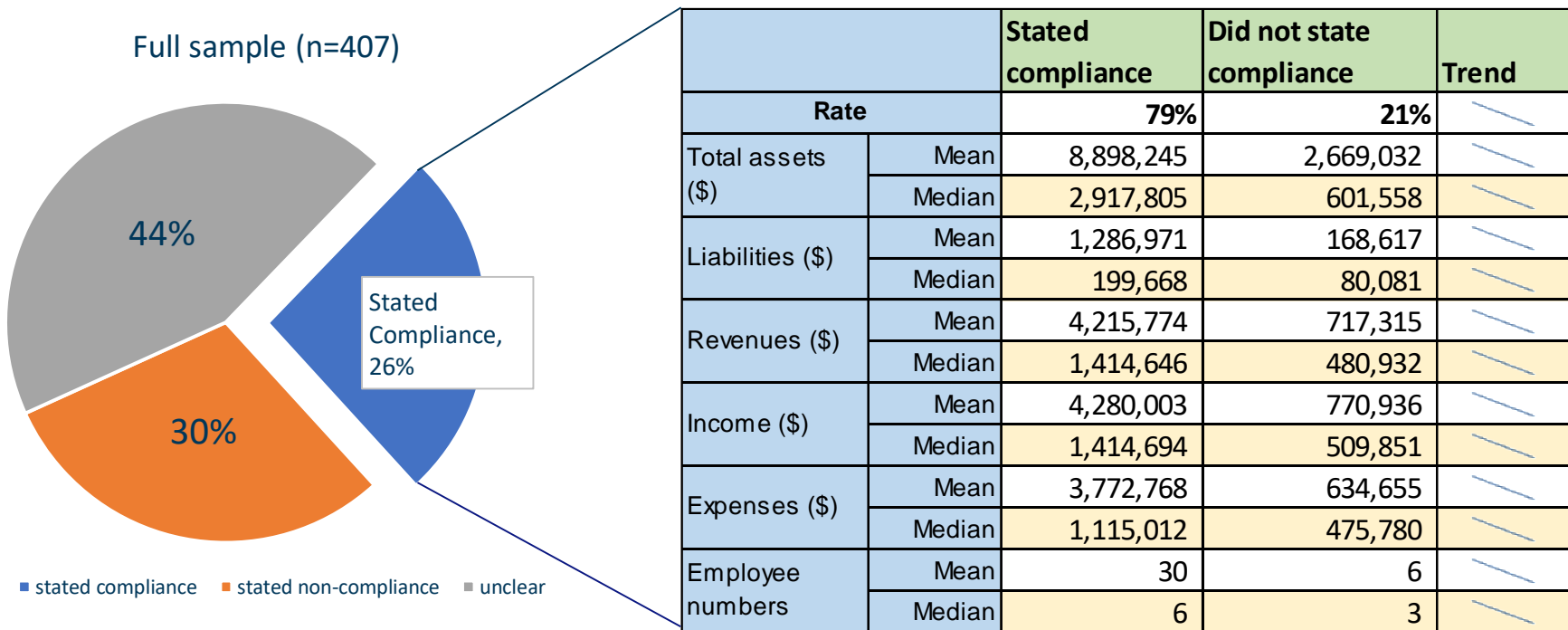
2) Yellow shading indicate statistical significance at the 0.1 level, two tailed, based on Wilcoxon rank-sum tests.

Implication: Charities stating compliance with all R&M requirements have significantly greater total assets and total liabilities, but a lower number of expenses and employees, compared to those stating non-compliance with R&M. No statistical significant correlation determined for revenue measure.



Charities' disclosure on whether they complied with the five key standards* (n=107)

- The ACNC Act requires charities that prepare SPFS to apply, as a minimum, the following five accounting standards: AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, AASB 1048 Interpretation of Standards and AASB 1054 Australian Additional Disclosures.



* Yellow indicate statistical significance at the 0.1 level, two tailed, based on Wilcoxon rank-sum tests .

Implication: The charities that did not state compliance with the key standards are significantly smaller than those stating compliance, potentially supporting need for the differential reporting requirements.



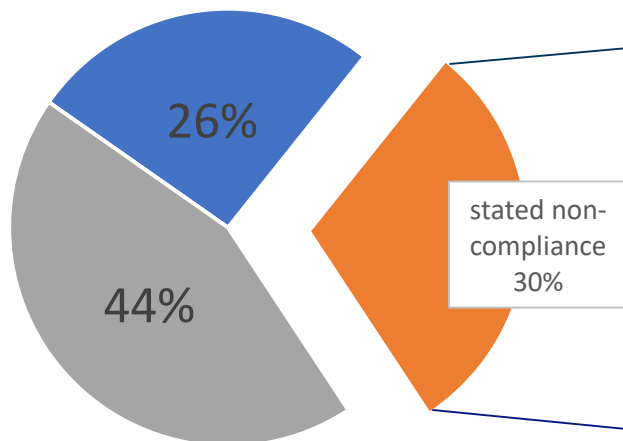
Accounting standards (other than the five key standards) listed by charities that they complied with (n=107)

	Number	Rate
AASB 1031	22	20%
AASB 1057	2	2%
AASB 110 & 1031	2	2%
AASB 1031 & 1053	2	2%
AASB 116 & 119	1	1%
AASB 110, 116 & 1031	1	1%
No other accounting standards listed	77	72%
Total	107	100%

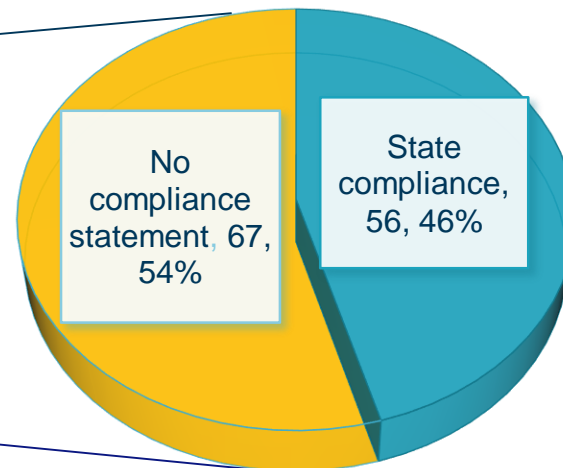
Implication: The majority of the charities (72%) did not list any additional Accounting Standards (other than the five key standards) which they had complied with, further supporting the need for an explicit R&M compliance statement to improve transparency of SPFS.

Charities' disclosure on whether they comply with the five key standards* (n=123)

Full sample (n=407)



Compliance with the 5 key standards



■ stated compliance ■ stated non-compliance ■ unclear

Further, 96% of non-compliant charities did not specify which AAS they did not comply with (Appendix 3.1) and only 36% of these specified which AAS (other than 5 key standards) they complied with (Appendix 3.2)

Implication: More than half of the charities which stated non-compliance with ALL R&M requirements did not state compliance with the 5 key standards, therefore their compliance status remain unclear.



Comparison with Research Report 12

	Research Report 11	Research Report 12	
Population	Large and Medium-sized charities and charity groups	For-profit private entities including: large Pty, Small Pty foreign controlled, Unlisted public and other small Pty.	
Data source for Type of FS	Self-reported to ACNC	Word Recognition (OCR) Software	
Assessment of compliance with R&M	Manually scanning statement of R&M compliance	Two stage assessment: 1. Manually scanning statement of R&M compliance 2. Qualitative assessment of financial statements	
Results	Stated Compliance	Stage 1	Aggregating stages 1 and 2
Compliance	26%	65.9%	76%
Non-compliance	30%	0.5%	10%
Unclear	44%	33.6%	14%

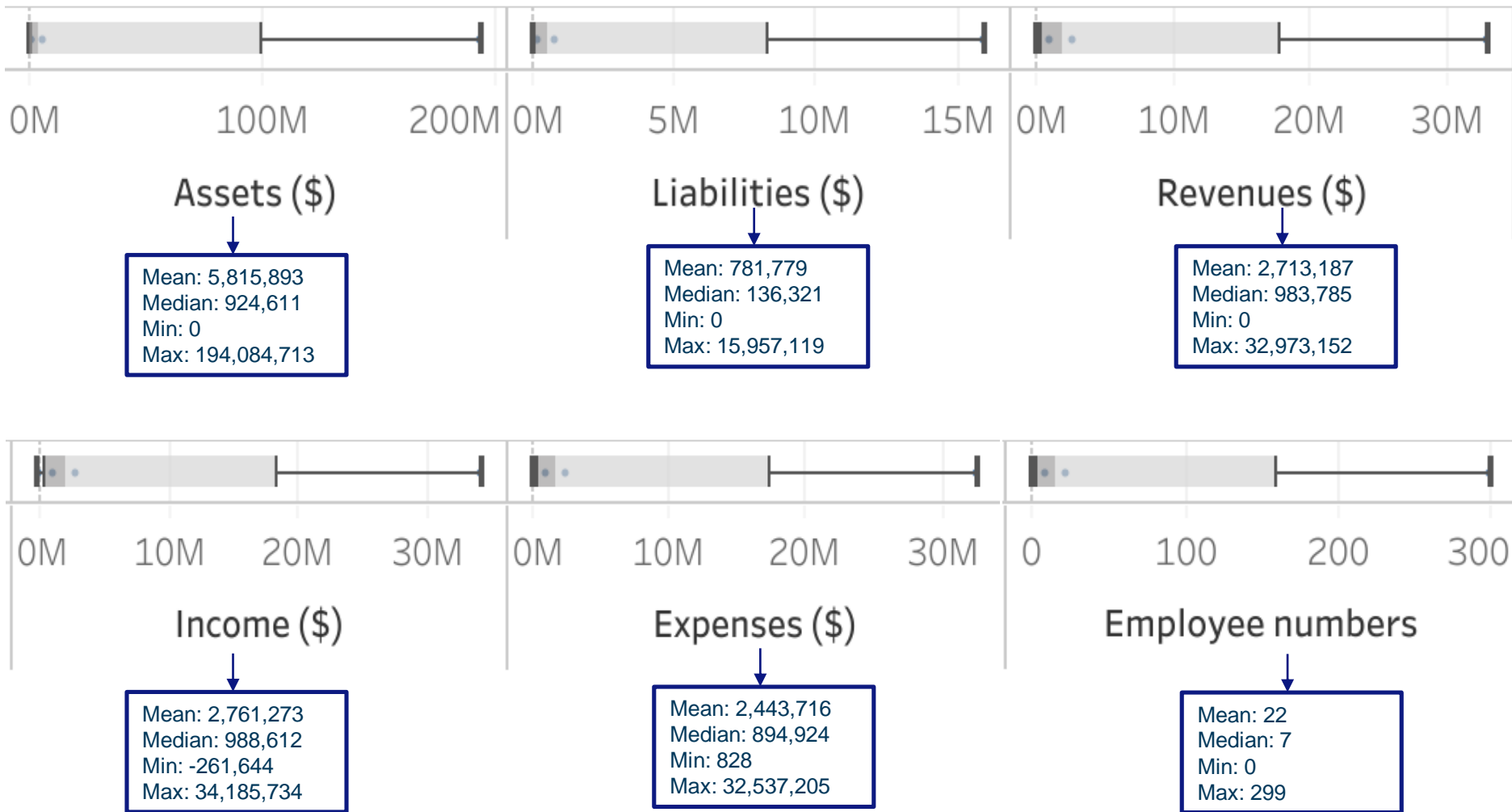
- The extent of compliance with R&M for charities preparing SPFS is lower than in the for-profit sector
 - The solution to the SPFS problem for the charity sector may well be different to that for the for-profit sector.
 - Proposals to remove SPFS in charity sector likely to have significantly greater costs than the for-profit sector.
- Next steps to improve the reporting framework for charities
 - Differential reporting - thresholds/tiers for recognition, measurement and disclosure requirements



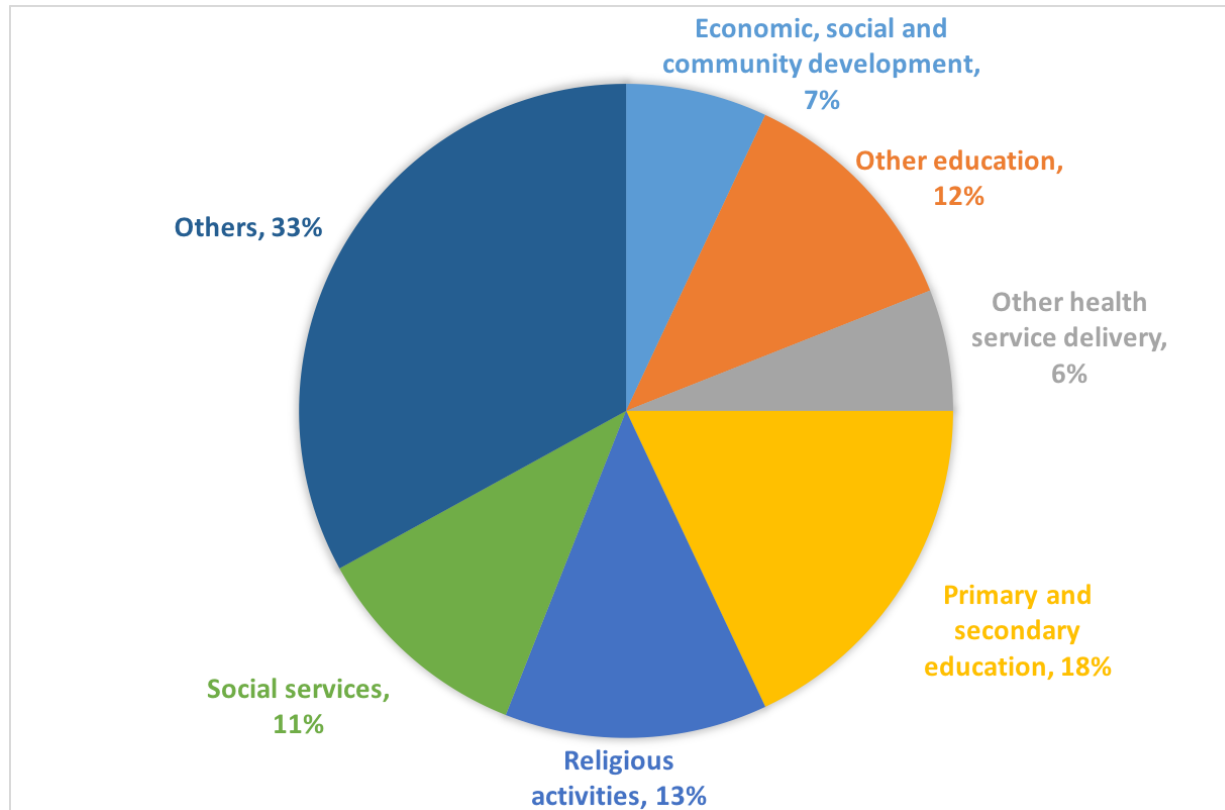
1. Sample distribution by:
 - 1.1 different size measures
 - 1.2 main activities of charities
 - 1.3 charities' legal structure
 - 1.4 states/territories
2. Compliance with all R&M requirements by:
 - 2.1 charity activities
 - 2.2 legal structure
3. Charity referencing additional disclosures:
 - revenue disclosures
 - impairment of assets
 - related party disclosures
4. Compliance with AASB 10 for consolidated financial statements



Appendix 1.1: Sample by size



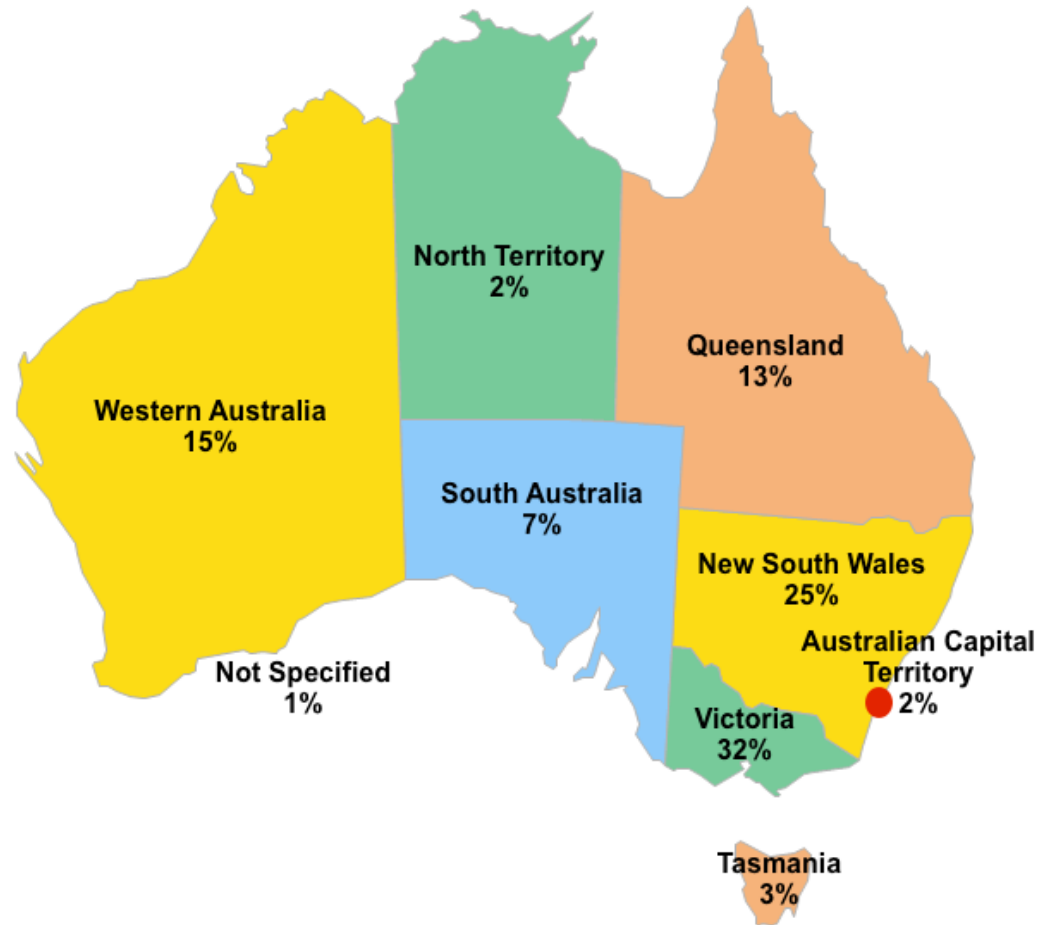
Appendix 1.2: Sample by main activities



Appendix 1.3: Sample by legal structure



Appendix 1.4: Sample by state/territory

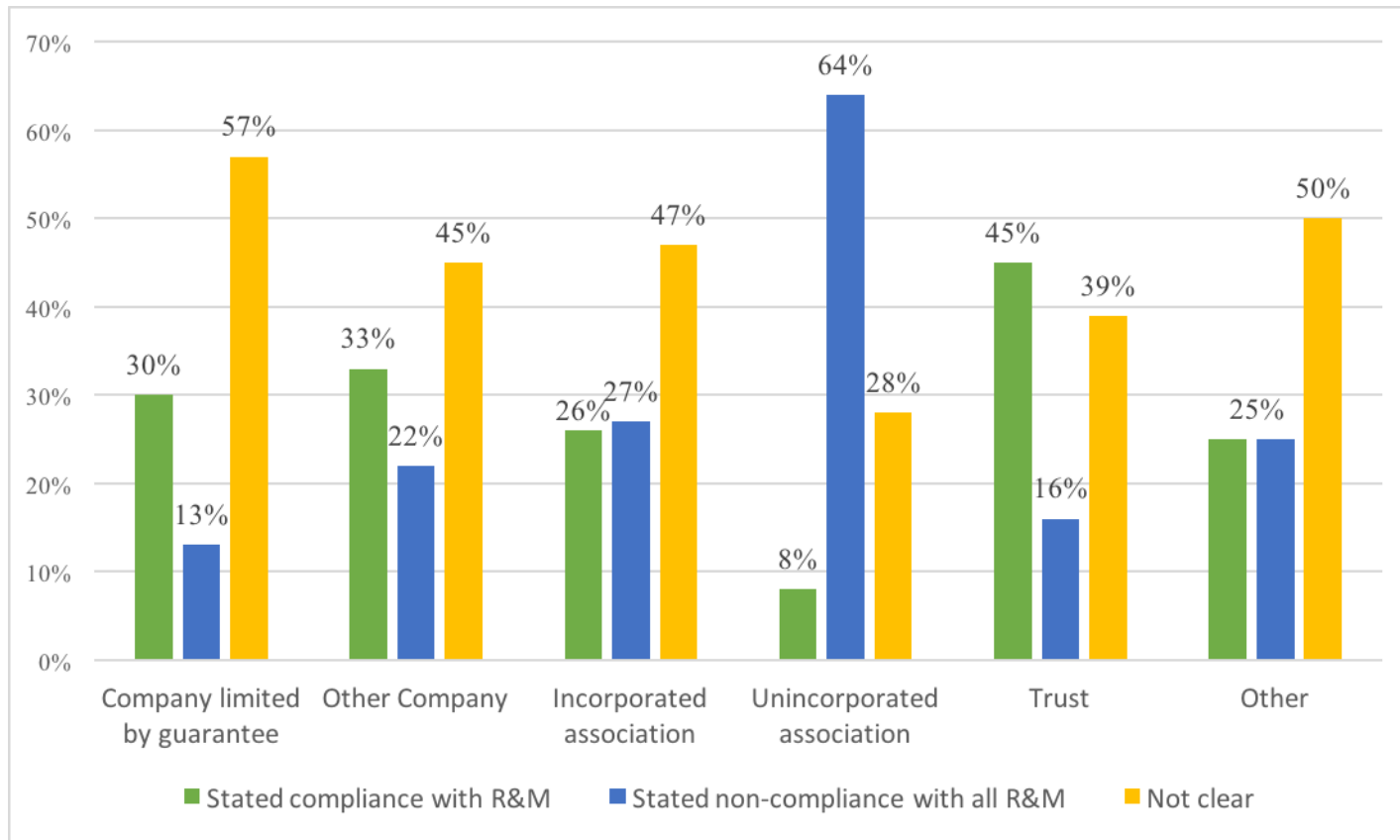


Appendix 2.1: Stating compliance with R&M by activities

Activities Category	Stated compliance	Stated non-compliance	Not clear
Environment (n=8)	63%	13%	25%
Development and Housing (n=35)	51%	17%	31%
Religion (n=2)	50%	50%	0%
Philanthropic Intermediaries and Voluntarism Promotion (n=15)	40%	13%	47%
Law and Advocacy (n=16)	38%	25%	38%
Health (n=126)	26%	23%	51%
Culture and Recreation (n=39)	26%	28%	46%
Education and Research (n=145)*	19%	43%	38%
International (n=10)	10%	20%	70%
Not Specified (n=11)	0%	36%	64%

* The category “Education and Research” includes the non-government schools.

Appendix 2.2: Stating compliance with R&M by legal structure



Appendix 3.1: Accounting standards listed by charities that they did not comply with (n=123)

	Number	Rate
AASB 139	1	0.8%
AASB 7, 13, 124, 132, 137	1	0.8%
AASB 7, 101, 119, 124, 1004	1	0.8%
AASB 7, 101, 112, 116, 117, 123, 124	1	0.8%
AASB 7, 101, 107, 110, 114, 116, 117, 119, 124, 132	1	0.8%
Charities that did not state which standard they have not complied with	118	96%
Total charities stated non-compliance with all R&M	123	100%



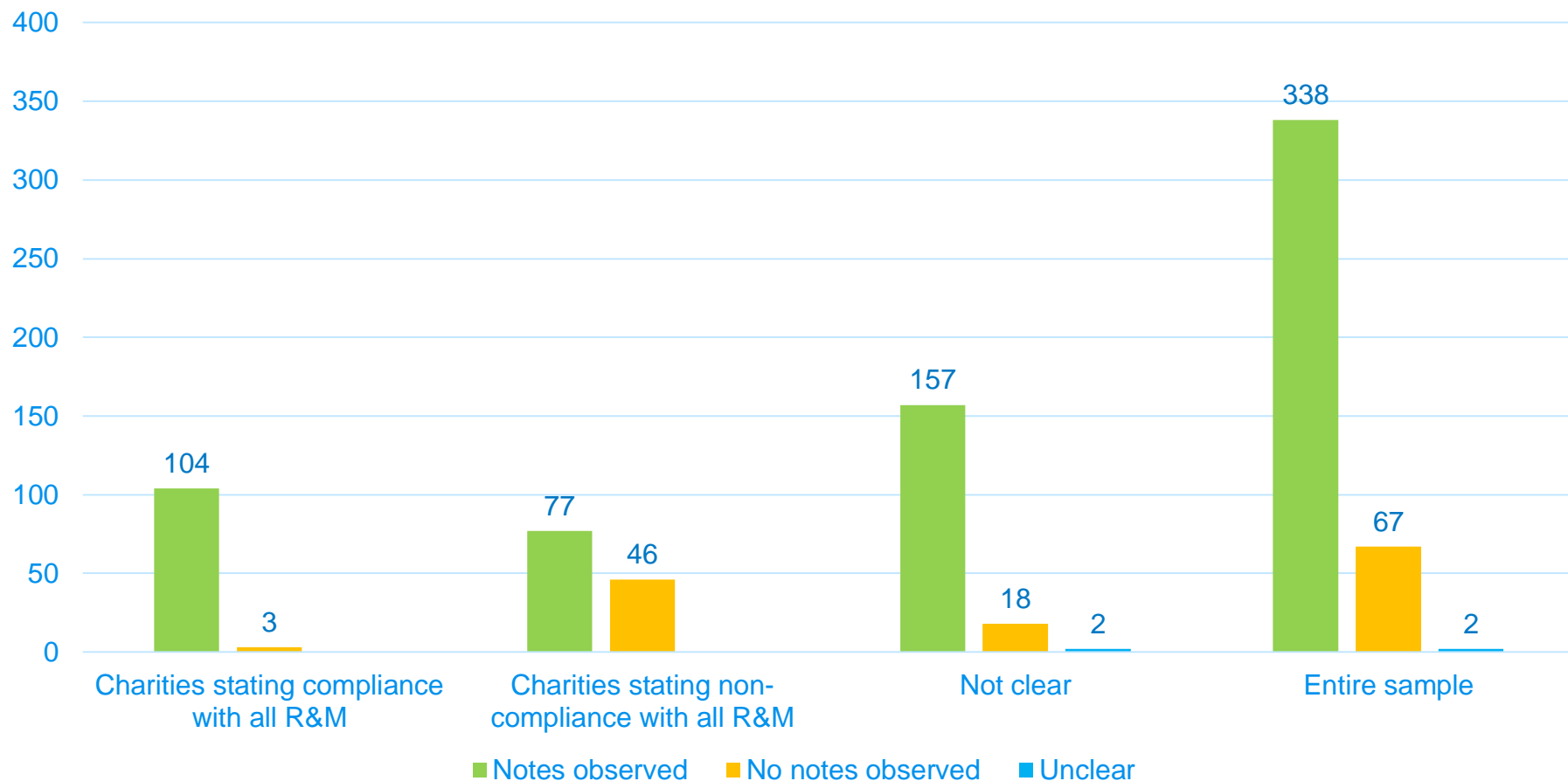
Appendix 3.2: Accounting standards listed other than the five key standards that charities complied with (n=123)

Other accounting standards listed	Number	Rate
AASB 1031	15	12%
AASB 110	3	2%
AASB 110 & 1031	13	11%
AASB 110 & 116	1	1%
AASB 10, 12 & 1031	1	1%
AASB 110, 112 & 1031	2	2%
AASB 116, 136 & 1031	1	1%
AASB 110, 118 & 1031	1	1%
AASB 110, 112, 117 & 1031	3	2%
AASB 110, 116, 117 & 1031	1	1%
AASB 7, 116, 124 & 132	1	1%
AAS 5 & 8	1	1%
AAS 5, 6 & 8	1	1%
No other accounting standards listed	79	64%
Total: Charities that did not meet all R&M requirements	123	100%

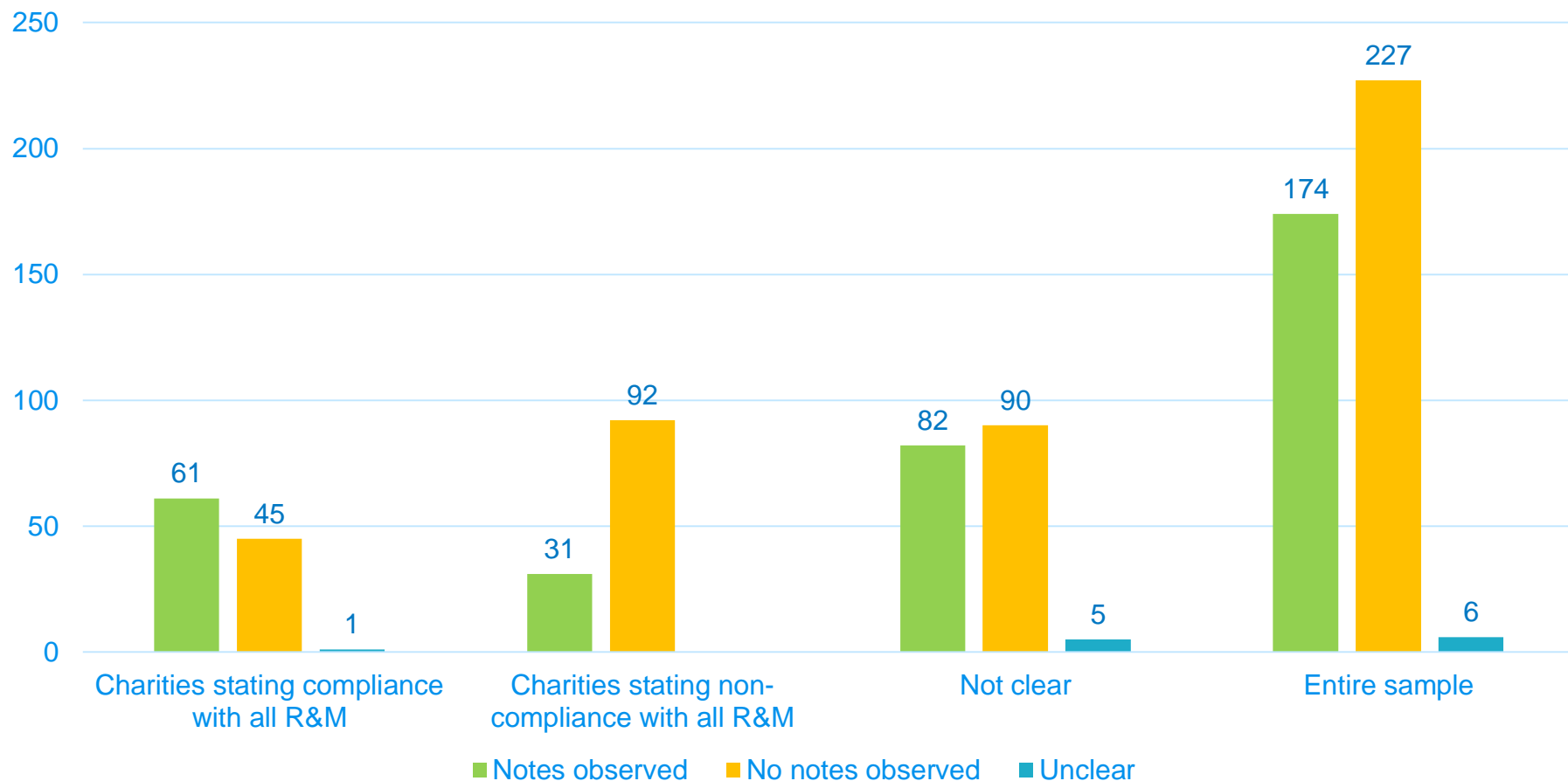


Appendix 4.1: Charities referencing the additional disclosures (n=407)

7.1 Revenue disclosures

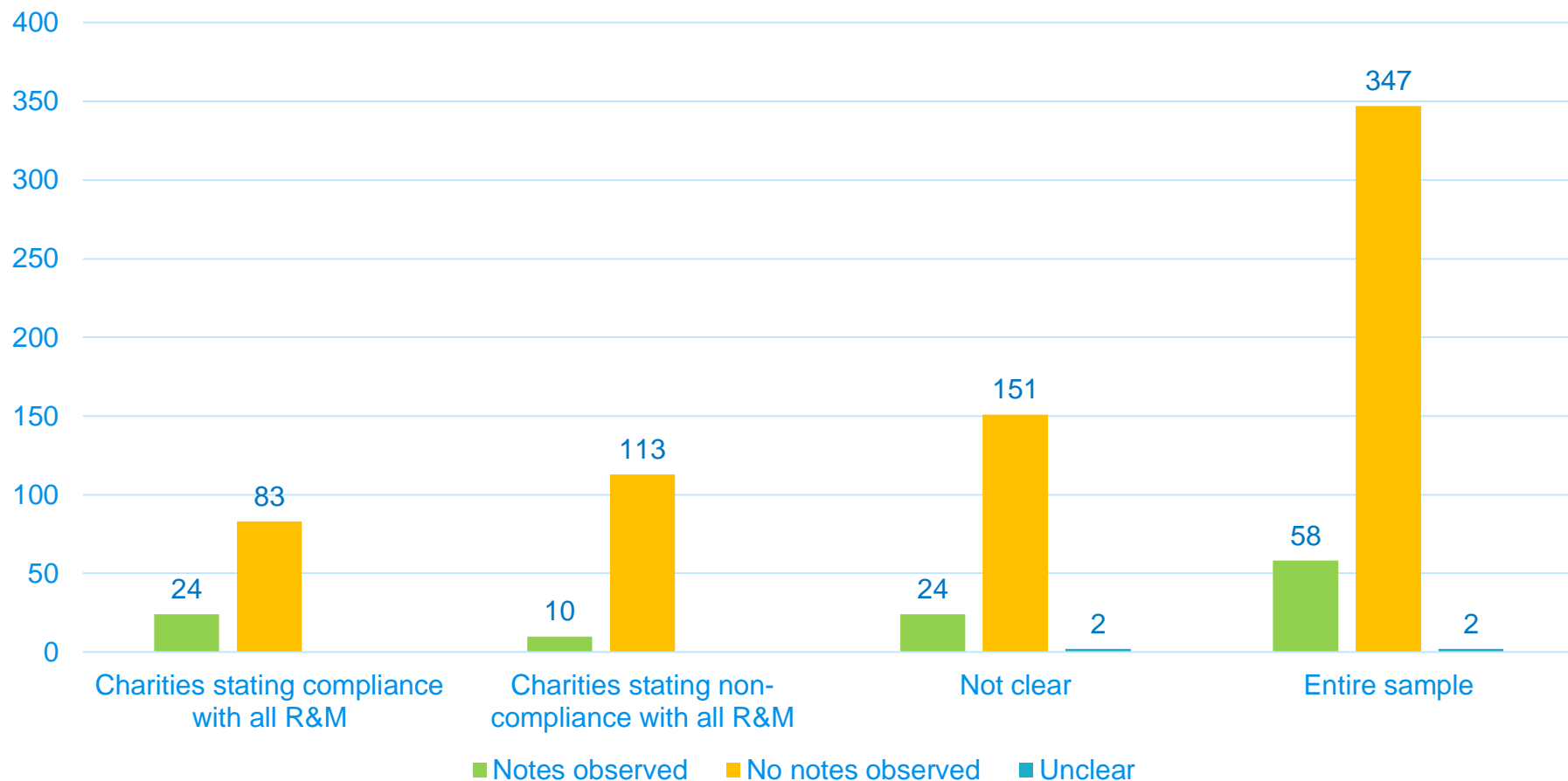


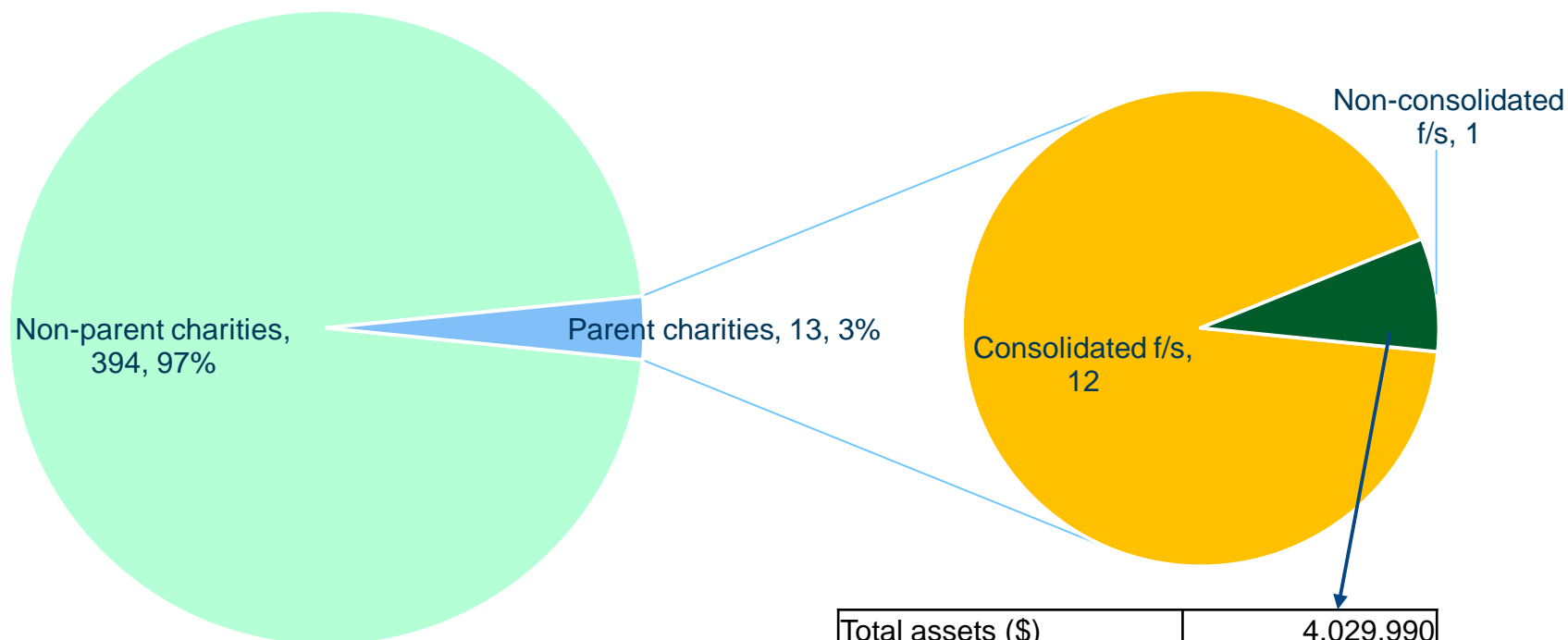
7.2 Impairment of assets



Appendix 4.3: Charities referencing the additional disclosures (n=407)

7.3 Related party disclosures





Total assets (\$)	4,029,990
Liabilities (\$)	1,185,458
Revenues (\$)	2,996,438
Income (\$)	2,996,438
Expenses (\$)	2,117,084
Employee numbers	28
State	Western Australia
Activity	Other education

