



Project:	Australian Financial Reporting Framework	Meeting	AASB August 2017 (M159)
Topic:	Charities Reporting Framework	Agenda Item:	4.0
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Introduction and objective of this Cover Memo

- 1 The objective of this Cover Memo is to:
- (a) update the Board on the progress of the Australian Reporting Framework Project;
 - (b) update the Board on the progress of the working draft AASB Staff Research Report No. X *Financial Reporting Requirements for Charities – an Intranational and International Comparison* and to obtain the Board’s views on the scope and direction of further research; and
 - (c) to obtain the Board’s preliminary views on the scope and staff’s approach to the draft Consultation Paper – *Possible Options for Improving the Financial Reporting Framework Applicable to Australian Charities Registered with the ACNC*.

Attachment

- Agenda Paper 4.1 [WORKING DRAFT] AASB Staff Research Report No. X *Financial Reporting Requirements for Charities – an Intranational and International Comparison*
- Agenda Paper 4.2 [WORKING DRAFT] Consultation Paper – *Possible Options for Improving the Financial Reporting Framework Applicable to Australian Charities Registered with the ACNC* [BOARD ONLY].

Background

- 2 At its June 2017 meeting, the Board considered a draft Research Report on the not-for-profit private sector and Australian Financial Reporting Framework project plan. At the June meeting, the Board directed staff to continue work on the draft Research Report and draft a consultative document on possible options for alternative financial reporting requirements applicable to Australian charities.
- 3 The objective of the Reporting Framework project is to clarify and simplify the financial reporting framework, so that more objective criteria are used to determine:
 - (a) which entities are required to prepare and lodge general purpose financial statements (GPFs) on the public record (i.e. who should report);
 - (b) the content of those GPFs (i.e. what should be reported); and
 - (c) the appropriate level of assurance for the financial statements prepared (i.e. what level of assurance should accompany the GPFs).
- 4 To achieve the objectives of this project, staff will work in conjunction with Australian policymakers and regulators.

Draft Research Report

- 5 Since the June 2017 meeting the scope of the Research Report has been narrowed down to legislation and other regulatory requirements that require NFP private sector entities registered as 'charities' to prepare and lodge financial statements. The Report is particularly focused on charities as defined by the ACNC and registered with the ACNC. The purpose is to understand the financial reporting and assurance requirements applicable to them through legislation and other regulations. The reason for focusing on ACNC registered charities is the upcoming ACNC legislation review at the end of 2017.
- 6 Other NFP entities that are not registered with the ACNC will be considered and discussed separately in due course. Examples of these entities include State/Territory registered incorporate associations that are operating for NFP purposes that do not satisfy the definition of charitable purposes.
- 7 Staff have made significant progress since the June 2017 meeting (Agenda Paper 6.1), particularly in documenting the rationales given by many of the regulators for the specified financial reporting thresholds, and drafting a section on 'interaction between federal/state/territory legislation/regulations and AASB accounting standards'. (see paragraphs 64-81 of Agenda Paper 4.1 of this meeting)
- 8 However, there are still some gaps that we are in the process of filling, or considering whether they need to be filled. These gaps are highlighted in yellow throughout the draft Report. Since mail out of the draft Report, staff have identified another issue that warrants consideration in the Report – consolidated vs registered entity reporting. In addition, there is a question about what qualifications an auditor should have when auditing/reviewing registered charities' financial reports.

- 9 Despite the gaps, staff consider this draft is sufficiently advanced for the Board to get a sense of its content and to identify any other aspects of the topic that the Board would want us to pursue.
- 10 Staff also think the information in the Report, albeit in draft form, is sufficient to inform the possible options that could be included in the forthcoming Consultation Paper (see Agenda Paper 4.2 of this meeting).

Question for Board members

- 1 Do Board members have any comments on the revised (narrower) scope of the draft Report?
- 2 Do Board members agree that staff should fill the highlighted gaps throughout the draft Report?
- 3 Do Board members think there are other areas that need to be addressed in the Research Report?

Draft Consultation Paper [BOARD ONLY]

- 11 Staff have commenced the drafting of a Consultation Paper. The scope of the Paper (consistent with the Report) is limited to charities that are registered with the ACNC. The reasons for this scope are similar to those covered in the Research Report.
- 12 Consistent with the Board's discussion at the last meeting, the aim of the Consultation Paper is to provide a base for a wide discussion around the appropriate reporting framework in Australia for charities and, more broadly, make direct improvements to the financial reporting framework for charities in Australia. The Consultation Paper is being informed by research results of the draft Research Report (Agenda Paper 4.1), informal outreach and an academic literature review.
- 13 Most effort to-date has been devoted to writing the introduction, to provide a sound context and to set the scene.
- 14 The Consultation Paper provides potential alternative reporting requirements for charities and covers two primary questions:
 - (a) which charities should be required to lodge general purpose financial statements; and
 - (b) what financial information (and level of assurance) should those charities be required to report.
- 15 Options are only identified in bullet-point form at this stage. They will be fleshed out if the Board agrees they are worthy of inclusion in the Consultation Paper. Staff are also looking for Board members' input on other options that are not covered in the Paper. Staff also note that other options might be identified as further informal outreach is undertaken and an academic literature review on the Australian Financial Reporting Framework is completed.

- 16 At this stage, the drafting has been undertaken only by AASB staff. We will be seeking input from AUASB staff in due course. Furthermore, we intend consulting with the relevant regulators (particularly ACNC) to ensure they have an appropriate level of input.

Question for Board members

- 3 Do Board members have any comments on the scope of the Consultation Paper?
- 4 Do Board agree that the options listed are worthy of inclusion in the Consultation Paper?
- 5 Do Board members have additional options that should be added to the Consultation Paper?

Next steps

- 17 Staff plan to:
- (a) finalise the Research Report;
 - (b) finalise the Consultation Paper; and
 - (c) provide the final Research Report and Consultation Paper to the Board for review and feedback in its October 2017 meeting (staff may need Board members' input out of session), with a view to the two documents being issued in October in time for them to feed into the ACNC legislation review.
- 18 Staff will bring the updated project plan for the Australian Financial Reporting Framework project to the October Board meeting.

Question for Board members

- 6 Do Board members agree with the proposed next steps outlined above?