

WORKING DRAFT AASB Research Report No. X

Financial Reporting Requirements for Charities – an Intranational and International Comparison

WORKING DRAFT FOR DISCUSSION ONLY

Staff note to Board:

We have made significant progress since the Board saw the previous draft Report at its 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).

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.

Despite the gaps, we think 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 you want us to pursue.

We also think the information in this Report, albeit in draft form, is sufficient to inform us of possible options that could be included in the forthcoming Consultation Paper (see Agenda Paper 4.2 of this meeting).

Principal authors:

Robert Keys

Tim Austin

Stella Yun

Principal authors

Robert Keys: Practice Fellow – Australian Accounting Standards Board

Tim Austin: Assistant Project Manager – Australian Accounting Standards Board

Stella Yun: Graduate Intern – Australian Accounting Standards Board

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However, any errors or omissions remain the responsibility of the principal authors.

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Publisher

Australian Accounting Standards Board
PO Box 204
Collins Street West, Victoria 8007
AUSTRALIA

Email: publications@asb.gov.au

Telephone: +61 3 9617 7637

AASB Research Report Series

The AASB Research Centre promotes thought leadership in external reporting standard-setting and policy making through in-depth analysis of financial reporting issues and related empirical work.

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Copyright notice to be inserted

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Executive Summary

An Executive Summary to be inserted here

Working Draft

Introduction

- 1 For some time now, stakeholders have raised with the AASB significant concerns¹ about the considerable complexity in and therefore confusion about the financial reporting requirements set by regulators for entities in the not-for-profit (NFP) private sector in Australia, including charities. In particular, there is complexity and confusion about whether, what and to whom to report and the level of assurance required.
- 2 This Report is part of the AASB's Financial Reporting Framework project. The objective of the project is to clarify and simplify the Australian financial reporting framework, by developing more consistent operational criteria, grounded in sound principles, that specify:
 - (a) Who needs to prepare and lodge external financial reports;
 - (b) What needs to be reported (reporting requirements); and
 - (c) What levels of assurance is appropriate (assurance requirements).
- 3 To achieve this objective the AASB will work in conjunction with Australian policymakers and regulators.
- 4 The specific requirements of various regulators (both within Australia and elsewhere) identified in this Report are provided for comparative and informational purposes only. This Report does not consider the efficacy of those requirements or whether they would be useful as a basis for reforming the current Australian framework. However, where available, the rationale given for the requirements are reported within each section of this Report. Those rationales will help inform the development of possible options for reforming the current requirements that are to be included in a forthcoming Consultation Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Charities Registered with the ACNC (working title)*. [Staff note to Board: we have commenced work on the Consultation Paper, see agenda paper 4.2]

Not-for-Profit Private Sector Entities in Australia

- 5 The NFP private sector is an important part of the Australian economy. A review of the sector published by the Productivity Commission in 2010 estimated there were approximately 600,000 NFP private sector entities within Australia. The Productivity Commission reports that the Australian Bureau of Statistics has identified 59,000 economically significant NFPs contribute \$43 billion to Australia's GDP, and 8 per cent of employment in 2006-07.²

1 These concerns have been identified in a number of fora, including most recently at the AASB Roundtable "*Financial Reporting Framework – Not-for-Profit Private Sector Entities*" held in Melbourne on 21 January 2016. A report on that Roundtable is available at: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Roundtable_NFP_Private_Sector_Summary_1-16.pdf

2 Productivity Commission. "Contribution of the Not-for-Profit Sector, Research Report." Canberra, 2010. <http://www.pc.gov.au/inquiries/completed/not-for-profit/report/not-for-profit-report.pdf>

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- 6 NFP private sector entities in Australia can generally be categorised as:
- (a) charities; or
 - (b) other entities.
- 7 The independent national regulator of charities is the Australian Charities and Not-for-profits Commission (ACNC), which has been set up to achieve the following objects:
- (a) maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency;
 - (b) support and sustain a robust, vibrant, independent and innovative not-for-profit sector; and
 - (c) promote the reduction of unnecessary regulatory obligations on the sector.³
- 8 As part of its role, the ACNC only registers ‘charitable entities’ (as defined – see paragraphs 9 and 10 below) – although registration is voluntary. If registered, charities are required to comply with the reporting requirements set by the ACNC, as outlined in Table 1 below. In some cases there are reporting requirements in addition to ACNC requirements.
- 9 For the purpose of this Report, the definition of ‘charity’ is that used by the ACNC, taken from the *Charities Act 2013 (Cth) section 5*. Consistent with that definition, to be a charity an organisation must be:
- (a) a not-for-profit entity;
 - (b) have only charitable purposes that are for the public benefit, or incidental or ancillary to, and in furtherance or in aid of, such purpose;
 - (c) not have disqualifying purposes⁴; and
 - (d) not be an individual, a political party or a government entity.
- 10 The concept of ‘charitable purpose’ used in the definition of charity has changed over time and has been developed by courts and parliament. The *Charities Act 2013 (Cth) section 12* outlines a number of charitable purposes that include:
- (a) relieving poverty, sickness or the needs of the aged;

3 See: https://www.acnc.gov.au/ACNC/About_ACNC/ACNC_role/ACNC/Edu/ACNC_role.aspx?hkey=88635892-3c89-421b-896d-d01add82f4fe

4 Some purposes are explicitly disqualified by ACNC from being charitable, such as the purposes of engaging in or promoting activities that are unlawful or against public policy, or promoting or opposing a political party or a candidate for political office. (ACNC 2017)
Source of information:
http://www.acnc.gov.au/ACNC/Register_my_charity/Who_can_register/What_char_purp/ACNC/Reg/Charitable_purpose.aspx?hkey=bc460287-f739-4ffb-81e6-976d258bceec

- (b) advancing education;
 - (c) advancing religion; and
 - (d) ‘other purposes beneficial to the community’ such as providing NFP childcare services, advancing arts and culture, health, promoting animal welfare and protecting the environment⁵.
- 11 Examples of charities are religious groups, homeless shelters and animal welfare societies.
- 12 Other NFP private sector entities include political parties, unions, sporting associations, employer associations, private ancillary funds and other types of entities, which may not (although some do) fit the definition of charitable purpose. Whilst these entities may qualify for exemptions from income tax or other privileges allowed by government, because they do not meet the strict definition in the ACNC Act, they are not eligible to be registered with the ACNC as a charity.

Report Scope

- 13 This Report is limited to charities on the basis that charitable entities are a common type of NFP private sector entity worldwide, and there are various types of legal structures for charities to choose from in Australia to suit the particular charity’s needs. For example, possible legal structures include companies limited by guarantee, proprietary limited companies, incorporated associations, unincorporated associations and co-operatives. The various legal entity structures able to be registered as a charity means that a review of the reporting framework of entities able to be registered as charities covers a large proportion of Federal and State/Territory reporting requirements of Australian NFP entities.
- 14 The charities sector is also an economically significant part of the NFP private sector in Australia. Based on the most recent data from the ACNC for 2015, charities accounted for \$134 billion total income, net assets of \$186.2 billion, employed 1.2 million people and had an estimated 3 million volunteers (Figure 1).⁶

5 See http://www.acnc.gov.au/ACNC/Register_my_charity/Who_can_register/What_char_purp/ACNC/Reg/What_char_purpose.aspx

6 Cortis, N, et al. *Australian Charities Report 2015*. Centre for Social Impact and Social Policy Research Centre, UNSW Australia, 2016.

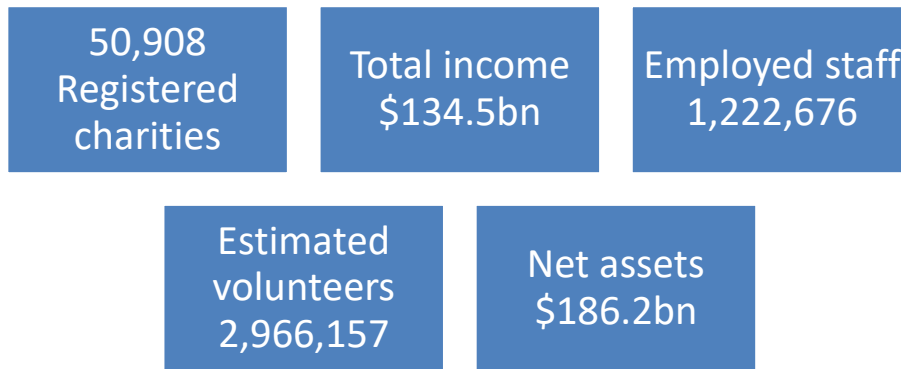


Figure 1 - Australian charity sector statistics 2015

- 15 This 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. These requirements must be complied with if an entity is to maintain its status as a charity. One reason for focusing on ACNC registered charities is the upcoming ACNC legislation review.
- 16 Because the main focus is on charities registered with the ACNC, charities structured as proprietary companies and companies limited by guarantee that have elected not to register with ACNC are of limited relevance to this Report. As noted in paragraph 47 below, charities that are companies registered with the ACNC are exempt from ASIC reporting requirements and are subject to ACNC reporting requirements instead. ASIC reporting requirements for proprietary companies differ substantially from ACNC reporting requirements (particularly the reporting thresholds) and therefore a full separate analysis of the ASIC requirements is of limited relevance in the context of this Report.⁷ ASIC reporting requirements for companies limited by guarantee are almost identical⁸ to the ACNC reporting requirements, and therefore a full separate analysis of ASIC requirements would be repetitive. However, the rationale given by ASIC for its reporting requirements, including reporting thresholds, for proprietary companies and companies limited by guarantee (that apply to charities that are not registered with ACNC) is useful to consider, particularly given that other regulators have used the same or similar thresholds. Accordingly, this Report addresses those ASIC thresholds and their rationale in Appendix A rather than in the body of this Report.
- 17 In addition to charities being registered with both ACNC and ASIC, charities might also be registered with both ACNC and ORIC (the regulator for indigenous

7 Based on data collected by ACNC, of the total number of charities (53,273 registered charities as at 25 July 2017) registered with ACNC, less than 500 are registered as proprietary companies. It is intended that the ASIC reporting requirements for proprietary companies that are not registered with ACNC will be the subject of future research work.

8 The only difference is that the deductible gift recipient (DGR) status was removed as one of the thresholds. The DGR status was adopted under ASIC requirements to differentiate NFP from other types of entities. As entities that register with ACNC have to be of a charity nature and automatically have DGR status, this threshold is unnecessary.

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corporations), or with both ACNC and State/Territory Regulators of incorporated associations and co-operatives. These charities are also included within the scope of this Report.

18 In addition to considering the reporting framework applicable to Australian charities registered with ACNC, this Report also considers the charity reporting framework of the following other jurisdictions:

- (a) New Zealand;
- (b) the United Kingdom (UK);
- (c) the United States of America (USA) [Staff note to Board: we are in the process of investigating the feasibility of including USA in this Report and, if so, the extent to which to include it – with 50 states, there is a risk this Report would be swamped by USA information];
- (d) Hong Kong;
- (e) Singapore;
- (f) South Africa; and
- (g) Canada.

Information about these jurisdictions might identify options that are available to help resolve the concerns with the Australian reporting framework referred to in paragraph 1 above.

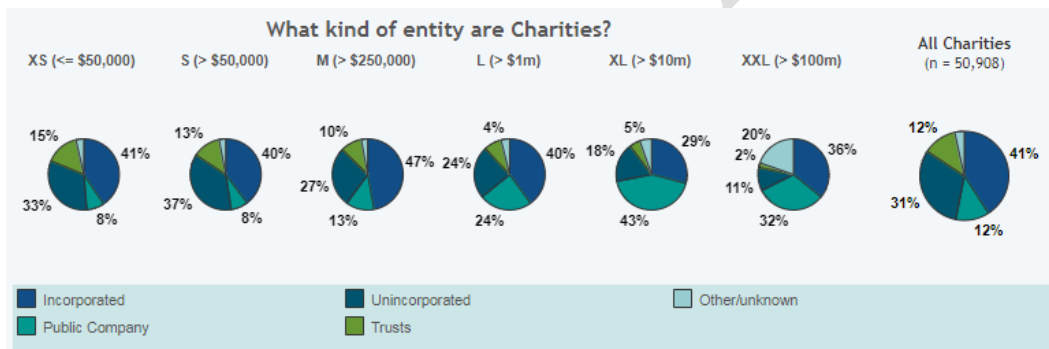
Australian Charities

Introduction

- 19 The lodgement of financial statements for a registered charity is dependent on a number of factors such as location of incorporation, legal structure and reporting thresholds (such as size).

Legal structures

- 20 The choice of legal structure is an important decision for a charity. The choice can have implications for the liability of members, the ability to operate in multiple jurisdictions, availability of government grants, eligibility for tax concessions, and, currently, financial reporting requirements.
- 21 The following graphic is based on data collected by ACNC from the 2015 Annual Information Statements received from registered charities⁹. As stated by ACNC, larger charities are more likely to be companies (mainly companies limited by guarantee – referred to in the graphic as ‘public company’) or incorporated associations, and are more likely to have deductible gift recipient (DGR) status (61% for “L” Charities up to 85% for “XXL”). Smaller charities are more likely to be Unincorporated Associations.



- 22 Within Australia a charity can choose to structure itself as either incorporated or unincorporated. Individuals, sole traders, government entities and partnerships are ineligible for registration as a charity with the ACNC.

Incorporated Structures

Companies Limited by Guarantee

- 23 This is a common structure used by Australian charities. A company limited by guarantee is a type of public company incorporated at a federal level under the *Corporations Act 2001* by ASIC.¹⁰ Refer to APPENDIX A for specific ASIC reporting requirements that would apply in the absence of ACNC registration and the rationale

9 See: <http://australiancharities.acnc.gov.au/visualisations/explore-all-charities/>

10 *Corporations Act 2001* sect 292 http://www.austlii.edu.au/au/legis/cth/consol_act/ca2001172/s292.html

given for those requirements. Refer to paragraphs 33-38 for specific ACNC reporting requirements applicable to charities that are companies limited by guarantee that are registered with ACNC.

Proprietary Companies (Pty Ltd)

- 24 A proprietary company is a private company incorporated at a federal level under the *Corporations Act 2001* by the Australian Securities and Investment Commission (ASIC).¹¹ The liability of shareholders of a proprietary company is limited to outstanding amounts owing on any shares. Refer to APPENDIX A for specific ASIC reporting requirements, which align with ACNC requirements even in the absence of ACNC registration, and the rationale given for those requirements. Refer to paragraphs 33-38 for specific ACNC reporting requirements applicable to charities that are proprietary companies that are registered with ACNC.

Indigenous Corporations

- 25 An indigenous corporation is an incorporated legal structure only available for Aboriginal and Torres Strait Islander organisations. An indigenous corporation is incorporated at a federal level under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (Cth) (CATSI). Indigenous corporations are regulated by the Office of the Registrar of Indigenous Corporations (ORIC). Refer to paragraphs 39-45 for specific reporting requirements and the rationale given for those requirements.

Incorporated Associations

- 26 This structure creates a separate legal entity, like a company, that can hold assets and can sue or be sued in its own name. An incorporated association protects members from debts and liabilities of the association. This type of entity is incorporated at a state or territory level. An incorporated association is different from a company as it provides a simpler and more affordable way to create a legal entity. In contrast to a company, an incorporated association can only operate in the state or territory of incorporation. Refer to paragraphs 51-55 for specific reporting requirements and the rationale given for those requirements.

Co-operatives

- 27 A co-operative is a people-centered organisation that is owned, controlled and used by its members. A co-operative's main purpose is to benefit its members. Co-operatives are registered at the state or territory level¹². Refer to paragraphs 58-58 for specific reporting requirements and the rationale given for those requirements.

11 *Corporations Act 2001* sect 292 http://www.austlii.edu.au/au/legis/cth/consol_act/ca2001172/s292.html

12 What is a co-operative. Consumer Affairs Victoria.
<https://www.consumer.vic.gov.au/businesses/registered-businesses/co-operatives/what-is-a-co-operative>

Unincorporated structures

Unincorporated Associations

- 28 These associations are not incorporated but are treated as incorporated associations for tax purposes. Generally, the association will have a holding company or corporate trustee that holds property. In addition to specific incorporated association reporting requirements, the entity will also need to comply with any reporting for gaming or fundraising activities as well as the ACNC requirements.
- 29 There are no statutory financial reporting requirements imposed on unincorporated associations or other bodies by the States or Territories.¹³ Unincorporated associations and other bodies (except basic religious charities) that are registered with ACNC have the same financial reporting obligations as other ACNC registered charities and are subject to the same thresholds (see paragraph 33 and Table 1 below).

Trusts (including testamentary trusts created in a will)

- 30 These are charitable trusts set up through a trust deed for a charitable purpose. The obligations of a trust are based on the trust deed and requirements of the ACNC Act when trusts are registered with the ACNC¹⁴.
- 31 Similar to unincorporated associations, there are no statutory requirements for financial reporting imposed on charitable trusts by the States or Territories.¹⁵ A corporate trustee is subject to the Corporations Act. Charitable trusts (except basic religious charities) that are registered with ACNC have the same financial reporting obligations as other ACNC registered charities and are subject to the same thresholds (see paragraph 33 and Table 1).

Overview of Australian Reporting Requirements

- 32 Reporting requirements for entities registered as charities come from multiple sources, depending on the state/territory of operation and the legal structure chosen. Figure 2 shows the legislation that may apply to entities registered as charities (the reference to AASB accounting standards in the figure is explained in paragraphs 64-81 below). This figure highlights that entities often have reporting requirements from multiple sources and that, although a charity, reporting requirements are not always solely specified by ACNC.

13 Council of Australian Governments 2013, page 90. See:

<http://ris.pmc.gov.au/sites/default/files/posts/2013/03/coag-not-for-profit-reforms-RIS.pdf>

14 Report Annually. ACNC.

<https://www.acnc.gov.au/ACNC/Manage/Reporting/ACNC/Report/ReportInformation.aspx?hkey=1c68676b-8be6-4fe8-965f-0ba204bbc793>

15 Council of Australian Governments 2013, page 90. See:

<http://ris.pmc.gov.au/sites/default/files/posts/2013/03/coag-not-for-profit-reforms-RIS.pdf>

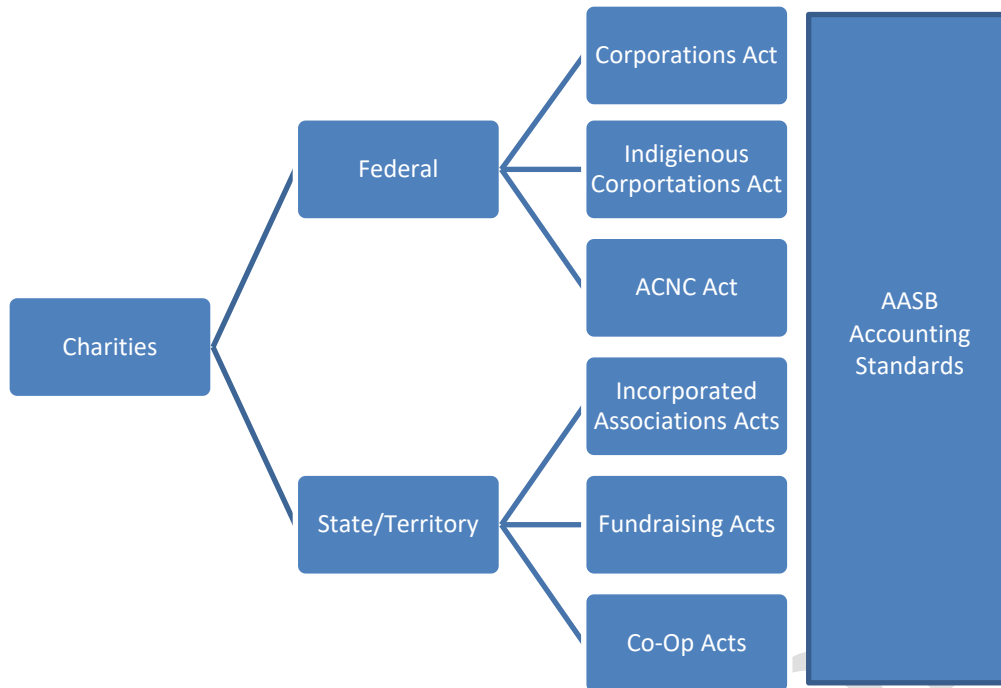


Figure 2- Examples of relevant legislation for charities

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Federal Reporting Requirements

ACNC Registered Charities

- 33 Entities registered as a charity with the ACNC are required to report annually to the ACNC. They must submit an Annual Information Statement¹⁶, unless they are registered by the ORIC. A ‘basic religious charity’¹⁷ does not need to answer the financial information questions in the Annual Information Statement – nor do they need to submit annual financial reports.
- 34 Table 1 shows the thresholds of the reporting requirements, which are based on revenue. Revenue, per the *Australian Charities and Not-for-Profits Commission Act 2012*, is to be calculated in accordance with AASB accounting standards in force at the relevant time (s205-25).

Table 1 - ACNC Reporting thresholds

Tier	Criteria	Reporting required	Minimum level of Assurance
1	Small charity – annual revenue ¹⁸ is less than \$250,000	Annual information statement, and may use accrual or cash accounting (can chose to submit a financial statement)	N/A
2	Medium charity – annual revenue is \$250,000 or more, but less than \$1,000,000	Annual information statement and Annual financial report. If a reporting entity (as defined by the AASB): (a) Full General Purpose Financial Statements; ¹⁹ or (b) Reduced Disclosure Regime (RDR) General Purpose Financial Statements . If not a reporting entity: Special Purpose Financial Statements, complying with at least AASBs 101, 107, 108, 1048, 1054 ²⁰ .	Review
3	Large charity – annual revenue is \$1,000,000 or more	Annual information statement and Annual financial report. Financial reporting requirements as for Tier 2 charities	Audit

16 The Annual Information Statement includes questions about the charity, its activities, basic financial information and optional questions to help ACNC understand and reduce the reporting burden on the charity sector as a whole. Some questions are mandatory and some questions are optional. Refer to ACNC website ‘[What is asked for in the Annual Information Statement](#)’.

17 A ‘basic religious charity’ is a registered charity with the purpose of advancing religion and that meets five other requirements (see the hyperlink at the end of this footnote). Only a small number of charities that advance religion meet all of these requirements. Refer to ACNC website ‘[What is a basic religious charity?](#)’

18 The ACNC website includes guidance for charities in determining ‘revenue’ – and provides a ‘Charity size calculator’.

19 See: <http://www.acnc.gov.au/ACNC/Manage/Reporting/SizeRevenue/ACNC/Report/SizeRevenue.aspx>
Under AASB 1053 *Application of Tiers of Accounting Standards*, no charities would be required to prepare full general purpose financial statements. Refer to paragraphs 76-79 for a description of the application of AASB 1053.

20 As stated in the [Explanatory Statement of Australian Charities and Not-for-profits Commission Amendment Regulation 2013 \(No. 3\)](#) “The disclosure of the report on a public register, such as the ACNC information portal, does not necessarily mean that the report needs to be a GPFS. Often, the reports on other public registers, such as ASIC’s public registers, are SPFSs.” (See: <https://www.legislation.gov.au/Details/F2013L01015/Explanatory%20Statement/Text>)

Rationale given for the requirements

- 35 The ACNC reporting thresholds are established in the *Australian Charities and Not-for-profits Commission Act 2012*²¹(the Act). As stated in paragraph 6.23 – 6.27 of the Explanatory Memorandum (EM) that accompanied the associated Bill, the purpose of setting the thresholds was to “minimise the compliance burden placed on registered entities”.
- 36 The EM also states that because NFPs receive concessions and benefits from the government and donations from the public, registered entities “have some level of accountability to the public and meet community expectations about the behaviour of entities in receipt of public monies and support” (paragraph 6.33 of the EM).
- 37 The Act and the EM do not provide an explicit rationale for the particular thresholds used for determining the type of reporting required. There is no clear justification given for the use of revenue as the determining criterion. However, the use of a revenue threshold appears to be consistent with the rationale given for requiring reporting in the first place (see paragraph 16 above) – that is, accountability for receiving public monies and support.
- 38 There is also no explicit reason given in the EM for the quantitative thresholds used (i.e. \$250,000 and \$1,000,000). However, ACNC’s exposure draft *The ACNC Exposure Draft Reporting and Auditing*²² states that “the tiered reporting requirements are based on those in the Corporations Act that apply to NFP entities”. This suggests that ACNC’s rationale for adopting these thresholds is, at least partly, attributable to ensuring consistency with the reporting framework for NFP entities covered by the *Corporations Act 2001*. It is notable that these thresholds are consistent with reporting thresholds used for companies limited by guarantee reporting to ASIC within the *Corporations Act 2001* (see APPENDIX A of this Report for a discussion of the rationale given for those thresholds in the companies limited by guarantee context).

Indigenous Corporations

- 39 Indigenous Corporations have reporting obligations to the Office of the Registrar of Indigenous Corporations (ORIC). Indigenous Corporations are classified as small, medium or large by reference to consolidated gross operating income and the value of consolidated gross assets, measured in accordance with the accounting standards in force at the relevant time (even if the standards do not otherwise apply to the financial year of some or all of the bodies concerned) (s37-25)²³.

21 See: <https://www.legislation.gov.au/Details/C2012B00142/Explanatory%20Memorandum/Text>

22 See:
http://www.treasury.gov.au/~media/Treasury/Consultations%20and%20Reviews/Consultations/2011/Australian%20charities%20and%20not%20for%20profits%20commission%20bill/Key%20Documents/PDF/Reporting_Auditing.ashx

23 *Corporations (Aboriginal and Torres Strait Islander) Act 2006*
<https://www.legislation.gov.au/Details/C2017C00055>

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- 40 A small corporation will have at least two of the following three in a financial year:
- (a) consolidated gross operating income less than \$100,000;
 - (b) consolidated gross assets valued at less than \$100,000;and
 - (c) fewer than 5 employees.
- 41 A medium corporation will have at least two of the following criteria in a financial year:
- (a) consolidated gross operating income between than \$100,000 and \$5 million;
 - (b) consolidated gross assets valued at between than \$100,000 and \$2.5 million; and
 - (c) between 5 and 24 employees.
- 42 A large corporation will have at least two of the following criteria in a financial year:
- (a) consolidated gross operating income of \$5 million or more;
 - (b) consolidated gross assets valued at \$2.5 million or more; and
 - (c) more than 24 employees.
- 43 All corporations must lodge reports with ORIC (which satisfies ACNC reporting requirements – see paragraph 49 below). What is to be reported is dependent on the criteria shown in Table 2²⁴.

Table 2 Indigenous Corporation financial reporting requirements

Tier	Criteria	Reporting required	Minimum level of Assurance
1	<p>Small corporations, if their consolidated gross operating income is less than \$100,000.</p> <p>[‘Small corporations’ have at least two of:</p> <ul style="list-style-type: none"> • consolidated gross operating income of less than \$100,000 • consolidated gross assets valued at less than \$100,000 • fewer than five employees.] 	General report ²⁵	N/A

24 This table is adopted from the ORIC website. Refer to: <http://www.oric.gov.au/run-corporation/agm-and-annual-reporting-time>.

25 A general report contains basic corporate details along with the corporation’s total income for the financial year, the value of the corporation’s assets at the end of the financial year and the number of employees at the end of the financial year.

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Tier	Criteria	Reporting required	Minimum level of Assurance
2	<p>Small corporations, if their consolidated gross operating income is \$100,000 or more and less than \$5 million.</p> <p>Or</p> <p>Medium corporations, if their consolidated gross operating income is less than \$5 million. [‘Medium corporations’ have at least two of:</p> <ul style="list-style-type: none"> • consolidated gross operating income between \$100,000 and \$5 million • consolidated gross assets between \$100,000 and \$2.5 million • between five and 24 employees. with consolidated gross operating income of less than \$5 million.] <p>If their</p> 	<p>1. General report 2. Financial report²⁶ and audit report or financial report based on reports to government funders (if eligible*)</p> <p>(Therefore, the financial report could be full GPFSSs, GPFSSs (RDR), or SPFSs, depending on the corporation’s assessment of its ‘reporting entity’ status)</p>	Audit
3	<p>Large corporations. [‘Large corporations’ have at least two of:</p> <ul style="list-style-type: none"> • consolidated gross operating income of \$5 million or more • consolidated gross assets valued at \$2.5 million or more • more than 24 employees.] <p>Or</p> <p>Any other corporation (Small or Medium) with a consolidated gross operating income of \$5 million or more</p> 	<p>1. General report 2. Financial report 3. Audit report 4. Directors’ report</p> <p>(Therefore, the financial report could be full GPFSSs, GPFSSs (RDR), or SPFSs, depending on the corporation’s assessment of its ‘reporting entity’ status)</p>	Audit

* a financial report based on reports given to public funding bodies is only an option if: (a) at least 90% of the corporations consolidated gross operating income during the financial year consists of government funding (Commonwealth, state or local); (b) as a condition of the funding the corporation is required to lodge an annual report; and (c) the accounting standards do not require the corporation to provide consolidated financial statements.

Rationale given for requirements

44 The thresholds are broadly based on the *Corporations Act 2001* provisions relating to how small and large proprietary companies are determined (see APPENDIX A, paragraph 15). The specific amount to apply to categories is determined by regulations to allow for future changes as circumstances relevant to Aboriginal and Torres Strait Islander corporations change²⁷.

26 A financial report contains financial statements for the financial year and notes to the financial statements (as required by accounting standards in force). The CATSI Act allows entities to adopt Tier 2 as described in AASB 1053.

27 CATSI Explanatory memorandum
<https://www.legislation.gov.au/Details/C2005B00112/Explanatory%20Memorandum/Text>

- 45 An article by ... authors ... titled ... dated ...
http://www.clta.edu.au/professional/papers/conference2007/2007KC_PND.pdf
[Page 6-7](#) makes the following comments pertinent to the rationale for the ORIC requirements:

“The categorisation of Aboriginal corporations into small, medium and large under the CATSI Act is for the primary purpose of differentiating their financial reporting obligations (plus appointment of a contact officer rather than a secretary). Under the Corporations Act, the categories of small and large are used to differentiate financial reporting obligations of proprietary limited companies, only.

The main stakeholders of small proprietary limited companies (apart from creditors) are usually the members who also are usually, the only directors. Normally, they do not receive government funding and if banks or larger creditors do require financial information, a small proprietary limited company would prepare such information notwithstanding its categorisation.

However, even small Aboriginal corporations will usually be in receipt of government funding. If they are, then should they not be required to prepare some basic audited accounts (even if the auditor is the local accountant)? Again, the comparison should not be with small proprietary limited companies but with comparably sized incorporated associations and other not for profits that receive government funding. It is possible that too little scrutiny is envisioned of the small and medium Aboriginal corporations.”

Interaction between Federal Regulators

- 46 As part of the ACNC’s red-tape reduction, ACNC is actively working on identifying and removing instances of duplicate reporting for charities. In particular, where an entity reports to the ACNC and another federal regulator, there are exceptions to reporting requirements, which result in the entity reporting only once.
- 47 One such exception is for indigenous corporations (that are registered as a charity) required to lodge financial information with ORIC. In this case, as noted in paragraph 43 above, separate lodgement with the ACNC is not required.
- 48 Another exception is for charities that would report to ASIC. ASIC has provided exceptions within the *Corporations Act* to Parts 2M.1 to 2M.3, which require the lodgement of financial statements. The effect of the exemption is that a charity is only required to meet the ACNC financial reporting requirements.
- 49 Therefore, an indigenous charity registered with the ACNC may be structured as a company under ASIC, or as an Indigenous Corporation under ORIC. In this example, as noted in paragraph 43, there are mechanisms in place to minimise duplication of financial reporting. Companies that are registered with the ACNC, do not need to provide separate financial reporting to ASIC, instead they report directly to ACNC. Likewise, indigenous charities that are registered with both ORIC and ACNC only need to report to ORIC instead of duplicating that reporting with the ACNC.

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50 In summary, Table 3 shows that entities that have multiple federal reporting obligations are able to report once and have the financial statements accepted by both federal regulators.

Table 3 Federal financial reporting interactions summary

Federal level charity reporting			
	Company Limited by Guarantee	Proprietary Company	Indigenous Corporation
Regulator	ASIC	ASIC	ORIC
When a Charity, lodge financial report with	ACNC	ACNC	ORIC
Threshold	Revenue	Revenue	Income Gross Assets Employees
Financial statements minimum	To do	To do	To do

State and Territory Reporting Requirements

Incorporated Associations

- 51 Reporting requirements for an incorporated association are dictated by state and territory legislation. Reporting requirements are usually based on tiers relating to revenue or assets as per relevant AASB Standards. See Table 4 for details.
- 52 These requirements do not apply to charities incorporated under state/territory legislation and registered with ACNC in Australian Capital Territory, Tasmania and South Australia. This means that charities in these states/territory that are registered with the ACNC are exempt from providing their financial statements to state and territory regulators (and accordingly, these states/territory are excluded from Table 4 – Table 1 is more relevant to their circumstances).
- 53 According to ACNC²⁸, in relation to the other states/territory:
- (a) The ACNC approached the New South Wales Office of Fair Trading in 2016 to discuss red tape reduction. At that time, the NSW Commissioner indicated their support for harmonising reporting requirements, beginning in 2018.
 - (b) The ACNC is currently in discussion with the Northern Territory Government in regards to exempting charities from association reports. There is currently no fundraising reporting or regulation in the Northern Territory.
 - (c) The ACNC has been working with Queensland's Office of Fair Trading to find opportunities for harmonisation, however the Queensland Office of Fair Trading has indicated that they are unable to make changes for the 2017 reporting year.
 - (d) The Victorian Government passed the Consumer Acts Amendment Act in May 2017 that will allow the Minister to exempt certain ACNC charities from reporting directly to Consumer Affairs Victoria. The ACNC is continuing to work with Consumer Affairs Victoria to streamline reporting requirements.
 - (e) The ACNC is continuing to work with WA to implement streamlined reporting.
- 54 In these states/territory, charities incorporated under state/territory legislation still need to comply with reporting requirements dictated by those states/territory, as summarised in Table 4 below.

28 See:
http://www.acnc.gov.au/ACNC/About_ACNC/Redtape_redu/ACNC/Report/Red_tape.aspx?hkey=02c36842-0881-4e67-98ad-0533e728658a

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Table 4 Incorporated associations: financial reporting requirements that are not satisfied through ACNC reporting

State/Territory	Tier determination	Threshold	Reporting requirements	Assurance
New South Wales ²⁹	Total revenue and/or current assets	Tier 1: >\$250,000 total revenue or >\$500,000 current assets Tier 2: < \$250,000 total revenue and <\$500,000 current assets	To do	
Northern Territory ³⁰	Annual gross receipts, gross assets or others	Tier 1: <\$25,000 annual gross receipts or <\$50,000 gross assets	All incorporated associations must submit annual accounts or annual returns and the annual accounts must be in line with the law and Australian accounting standards	Audit ³¹
		Tier 2: \$25,000-\$250,000 annual gross receipts or \$50,000 to \$500,000 gross assets or operating with gaming machine license		Audit
		Tier 3: >\$250,000 annual gross receipts or \$500,000 gross assets or performing local government functions		Audit

29 See: http://www.fairtrading.nsw.gov.au/ftw/Cooperatives_and_associations/Running_an_association/Financial_reporting_requirements.page?#Summary_of_annual_financial_reporting_requirements

and http://www.fairtrading.nsw.gov.au/Factsheet_print/Cooperatives_and_associations/Running_an_association/_Financial_reporting_requirements.pdf

30 See: <https://nt.gov.au/law/rights/incorporated-associations/reporting-responsibilities>

31 For tier 1 associations, your accounts must not be audited by anyone who is any of the following:

- a member of your association
- a partner (spouse, de facto or business partner), employer or employee of a member of your association
- a partner (spouse, de facto or business partner) of an employer or employee of a member of your association.

For tier 2 associations, your accounts must be audited by someone who is either of the following:

- a member of an accountants' body
- or a person approved by the Commissioner of Consumer Affairs.

For tier 3 associations, your accounts must be audited by anyone who is either of the following:

- certified for public practice by an accountants' body
- or approved by the Commissioner.

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State/Territory	Tier determination	Threshold	Reporting requirements	Assurance
Queensland ³²	Current assets or total revenue	Level 1: > \$100,000 current assets or total revenue	- No tiers for financial reporting requirements - All incorporated associations must prepare financial statements (need to clarify here what kind of financial statements? in accordance with AASBs? GPFS, GPFS RDR, SPFS??)	Audit
		Level 2: \$20,000-\$100,000 current assets or total revenue		Audit or verify
		Level 3: <\$20,000 current assets and total revenue		Not required
Victoria ³³	Revenue	Tier 1: <\$250,000 revenue	Lodge the annual statement The website was not clear as to what is annual statement but detailed what needs to be included in it. The requirement is slightly lengthy and not suitable for a table So can you put the gist of it, or some examples in a footnote?	Not required
		Tier 2: \$250,000-\$1,000,000 revenue	Accounts for both the association and any trusts it administers What kind of accounts?	Review
		Tier 3: >\$1,000,000 revenue	Accounts for both the association and any trusts it administers What kind of accounts? GPFS, GPFS RDR, SPFS??	Audit
Western Australia	Revenue	Tier 1: <\$250,000 revenue	To do	
		Tier 2: \$250,000-\$1,000,000 revenue	To do	
		Tier 3: >\$1,000,000 revenue		

Rationale given for the requirements

55 ... to do ... note to Board, we need to consider whether to look at all of these states/territory or just a sample

Queensland

56 As stated in clause 64 of the EM³⁴ of Queensland's' *Associations Incorporation Bill 2014*, the rationale given for the need for reporting and the prescribed tiers is

32 See: <http://www.nqtouch.com.au/media/resources/affiliate/QLD%20Office%20of%20Fair%20Trading%20-%20Financial%20Reporting%20Requirements.pdf>

33 See: <https://www.consumer.vic.gov.au/clubs-and-fundraising/incorporated-associations/running-an-incorporated-association/annual-statement/lodging-an-annual-statement>

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“balancing the reporting burden on associations commensurate with their size and the need to be accountable to members”.

Co-operatives

57 The financial reporting requirements of co-operatives are similar across most states and territories. The introduction of uniform co-operative reporting requirements as part of the *Australia Uniform Co-operative Laws Agreement* has aligned reporting requirements in all states and territories with the exception of Queensland Table 5 shows that...

Table 5 Co-operatives: financial reporting requirements

State	Tier determination	Threshold	Reporting requirements	Assurance
Queensland	N/A needs to be clarified	Reporting requirements have been aligned with a Public Company as required by the <i>Corporations Act 2001</i> . (cite source, and give more fulsome explanation)		
All other States	Total revenue and/or current assets	Distributing co-operatives with <ul style="list-style-type: none"> - revenue greater than \$8m p.a. - assets greater than \$4m and - greater than 30 full time employees at financial year end (expand on this – eg how many shareholders can there be to what \$\$; also refer to consolidated revenue, consolidated gross assets)		

Rationale given for the requirements

58 ... to do ...

Recent Changes to State and Territory Reporting/Interaction among States and Territories and with ACNC

59 Financial reporting complexity in Australia is partly the result of reporting requirements at both the state/territory and federal level (eg ACNC).

34 See: [http://www.parliament.wa.gov.au/Parliament/Bills.nsf/580108A8C8D6BF4448257D4E002A6E44/\\$File/EM90-2.pdf](http://www.parliament.wa.gov.au/Parliament/Bills.nsf/580108A8C8D6BF4448257D4E002A6E44/$File/EM90-2.pdf)

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60 Table 6 shows the interactions between state/territory reporting requirements and the ACNC. Significantly, the table shows instances of duplicated reporting, once to the ACNC and a second time to the state/territory based regulator.

Table 6 Reporting framework for a Charity that is incorporated at a state/territory level

	WA	VIC	QLD	NSW	NT	ACT	TAS	SA
Incorporated associations								
Will ACNC accept financial reports prepared under other legislation?*	x	✓	✓	✓	✓	✓	x	✓
Will entity be exempt from reporting to the relevant state regulator if registered with ACNC?	x	x	x	x	x	✓ ³⁵	✓	✓ ³⁶
Do state reporting requirements reflect the requirements of the ACNC	✓	✓	x	x	x	x	x	x
Cooperatives								
Will ACNC accept financial reports prepared under other legislation?	✓	✓	✓	✓	✓	✓	✓	✓
Will entity exempt from reporting to the relevant state regulator if registered with ACNC?								
Do state reporting requirements reflect the requirements of the ACNC								
Charitable Fundraising Organisations								
Will ACNC accept financial reports prepared under other legislation?*	✓	✓	✓	✓	x	✓	x	✓
Will entity be exempt from reporting to the relevant state regulator if registered with ACNC?								
Do state reporting requirements reflect the requirements of the ACNC								

*reports are not required by the regulator of charitable fundraising organisations in WA or Tas, or of incorporated associations in WA.

61 There is variability in thresholds between the various legislation and regulations. For example, charities set up as cooperatives in Queensland have to report irrespective of their annual turnover, revenue or assets; whereas incorporated associations in Queensland only need to report if they generate more than \$20,000 revenue. (need to make sure this is up to date – I understand some changes came in on 1 July. Before

35 The Australian Capital Territory has recently passed legislation to exempt charities that are incorporated associations from duplicating their reporting requirements. Entities that report to the ACNC will no longer be required to lodge financial statements with the territory Regulator.

36 South Australia has made changes to the reporting requirements of incorporated associations and fundraisers aiming to streamline reporting for registered charities. The amendments to the Associated Incorporations Act 1985 and the Collections for Charitable Purposes Act 1939 in South Australia will allow ‘prescribed incorporated associations’ which have gross receipts (excluding member subscriptions) of more than \$500,000 during a financial year to lodge financial statements with one regulator. Financial statements of these entities that are lodged with the ACNC are not required to be lodged with the Consumer and Business Services (South Australia).

finalising the Report I assume we'll ask the various regulators to review their bit for accuracy, which should pick up any errors or oversights).

- 62 The ACNC website states: “Your medium or large charity may currently submit financial reports to the state or territory because it is:
- (a) an incorporated association
 - (b) a cooperative, or
 - (c) a charitable fundraising organisation.

If so, you can submit the same financial report to the ACNC. We will accept this financial report as meeting our requirements for the 2014, 2015, 2016 and 2017 reporting period.” (ACNC³⁷, 2017)

- 63 When a charity is structured as an incorporated association or co-operative, as noted in paragraph 53, not all States or Territories provide relief from financial reporting. Accordingly, a charity registered with the ACNC may have to report to both regulators where the charity meets the minimum reporting thresholds set by each of the regulators.

37 See:
<http://www.acnc.gov.au/ACNC/Manage/Reporting/ReportTransitional/ACNC/Report/ReportTransition.al.aspx>

Interaction between Federal/State/Territory Legislation/Regulations and AASB Accounting Standards

Need to ask AUASB staff to help write a section on AUASB standards

- 64 It is evident from the foregoing information about the Australian regulatory environment for charities that, under current arrangements, financial reporting requirements applicable to Australian charities, (who must report, what must be reported, what level of assurance is required, and to whom the reports must be submitted), and the regulators that oversee those requirements, are determined by the way in which a charity elects to be legally structured and the regulator with which it elects or is required to register – see Table 3 and Table 6.
- 65 It is also evident that in specifying who must report, most regulators have specified an arbitrary threshold, to relieve those they assess to be relatively insignificant entities from the burden of having to comply with any AASB accounting standards.

Interaction between regulations and specific AASB accounting standards

- 66 In assessing whether the minimum thresholds set by regulators are met, reference to specific accounting standards might be necessary to determine an amount where a threshold is expressed in terms of a number typically recognised in financial statements prepared in accordance with AASB accounting standards. For instance, in determining which category a charity falls into, which then triggers minimum reporting requirements, it may be necessary to calculate the charity's revenue, operating income or assets by reference to relevant AASB accounting standards even if the charity is not required to prepare financial reports in accordance with AASB accounting standards. For example, a charity is classified as 'small' for the purposes of financial reporting (that is, it is not required to submit a financial report), when it is registered with the:
- (a) ACNC and has less than \$250,000 'annual revenue';
 - (b) ORIC and has less than \$100,000 'annual operating income', and at least one of the following – less than \$100,000 'assets' at the end of the financial year, and less than five employees; and
 - (c) NSW Fair Trading and has 'total revenue' less than \$250,000 and 'current assets' less than \$500,000.
- 67 In making these assessments, some subjectivity is involved given that AASB accounting standards are principles based and therefore require judgement in their application.
- 68 Other thresholds are not dependent on, or are not entirely dependent on, measurements being made under AASB accounting standards. For example:

- (a) a charity registered with Access Canberra³⁸ that is not registered with the ACNC is required to prepare an annual financial report if any two of the following have been exceeded:
 - i. \$500,000 in gross receipts during the financial year;
 - ii. 1,000 members at the end of the financial year; and
 - iii. holder of a liquor licence.
- (b) a charity that is a co-operative in any State or Territory other than Queensland is required to prepare an annual financial report if any two of the following have been exceeded:
 - i. \$8,000,000 in revenue during the financial year;
 - ii. \$4,000,000 in gross assets at the end of the financial year; and
 - iii. 50 employees at the end of the financial year.

69 Even where reference needs to be made to specific AASB accounting standards to determine whether a minimum threshold has been met, the level of subjectivity/judgement involved is relatively low compared with the current level of judgement that is required by charities that exceed the minimum threshold to determine what form their financial report must take – whether it is to be GPFs or SPFs. As noted in paragraph 73 below, many of the regulators within the scope of this Report require this decision to be based on the concept of a ‘reporting entity’ as described in AASB accounting standards, with reporting entities needing to prepare GPFs, whereas non-reporting entities being able to prepare SPFs in satisfying their regulator’s requirements.

Interaction between regulations and the AASB’s reporting entity concept

70 In accordance with paragraph 40 of the AASB’s Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*, “Reporting entities are all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources”.

71 Paragraphs 19-22 of SAC 1 provide guidance for identifying the likely existence of dependent users, including consideration of:

- (a) separation of management from economic interest;
- (b) economic or political importance or influence; and

38 Access Canberra is responsible for the incorporation of associations in the Australian Capital Territory and maintaining the associations public record under the *Associations Incorporation Act 1991* and the *Associations Incorporation Regulation 1991*.

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- (c) financial characteristics, such as the size of revenue, assets, employees, indebtedness, scarce resources and other financial characteristics.
- 72 Ideally, application of the reporting entity concept contained in AASB accounting standards would result in consistent financial reporting of charities within Australia. However, because of the high degree of subjectivity involved when identifying dependent users, the reporting entity concept can be applied in a way that results in some entities that should prepare GPFs, being treated as non-reporting entities and preparing only SPFs, and vice-versa. This is supported by empirical research described in AASB Essay 2014-1 *The Critical Role of the Reporting Entity Concept in Australian Financial Reporting*; as well as AASB Research Report No. 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* (date)
- 73 It is evident that many regulators have, as would be expected, made extensive use of the reporting entity concept by directly referencing ‘the preparation of financial statements and notes to the financial statements in accordance with AASB accounting standards’ in their requirements. For example, this is the case for all:
- (a) medium and large charities registered with ACNC (see Table 1 above);
 - (b) medium and large charities registered with ORIC (see Table 2 above); and
 - (c) large co-operative charities registered with NSW Fair Trading (see Table 6 above).

Interaction between regulations and the application clauses of AASB accounting standards

- 74 Most individual AASB accounting standards have application clauses that specify, so far as charities are concerned, they apply to:
- (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) GPFs of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, GPFs.
- (See paragraph 5(a)-(c) of AASB 1057 *Application of Australian Accounting Standards*). Therefore, most AASB accounting standards specify they only apply to reporting entities.
- 75 However, there is a handful of AASB accounting standards that apply more broadly – to each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act even if the entity is not a reporting entity. These AASB accounting standards are:
- (a) AASB 101 *Presentation of Financial Statements*;
 - (b) AASB 107 *Statement of Cash Flows*;
 - (c) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;

- (d) AASB 1048 *Interpretation of Standards*; and
- (e) AASB 1054 *Australian Additional Disclosures*.

76 Even though the application clauses of these AASB accounting standards only refer to Corporations Act reporting requirements, regulators of other legislation (ACNC, ORIC, State/Territory regulators) have adopted equivalent requirements, effectively substituting the reference to 'Part 2M.3 of the Corporations Act' with their own legislation and/or regulations that specify the preparation of financial reports in accordance with AASB accounting standards.

Interaction between regulations and AASB Tiers of GPFSSs

77 It is evident that, in addition to leveraging off the AASB accounting standards approach to determining whether GPFSSs and SPFSs need to be prepared and with which standards those financial statements should comply, regulators also leverage off the AASB's differing types of GPFSSs – being full GPFSSs (Tier 1 under AASB 1053) or Reduced Disclosure Requirements (RDR) GPFSSs (Tier 2 under AASB 1053). AASB 1053 establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for reporting entities required to prepare GPFSSs:

- (a) Tier 1: Australian Accounting Standards ('full GPFSSs'); and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements ('RDR GPFSSs').

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1, with the benefit of substantially reduced disclosures corresponding to those requirements. AASB 1053's Tier 2 requirements are available, at a minimum, to the GPFSSs of all NFP private sector entities (including charities within the scope of this Report), unless the regulator(s) of those charities exercise a power to require the application of Tier 1 requirements (see paragraph BC61 of AASB 1053).

78 Paragraph BC65 of AASB 1053 also states: "... The Board noted regulators may develop their own size thresholds to identify those entities about which there would be sufficient interest to justify applying Tier 1 requirements. To arrive at consistent results, the Board noted it might be appropriate to use a number of different size indicators such as total assets, revenue, and number of employees as the basis for thresholds."

79 No regulators that were studied for the purpose of this Report have exercised their power to prescribe that any of their charities apply Tier 1 (full GPFSSs) requirements, and therefore they have not taken up the AASB's comments in paragraph BC65 in that context. However, all regulators do use the size indicators referred to in paragraph BC65 as their basis for specifying who should report, what should be reported under different thresholds and what level of assurance should be provided.

Interaction between regulations and professional obligations of accountants

80 A final layer of complexity in the interaction between legislation/regulations and AASB accounting standards is the role the accounting profession plays. In the absence

of legislation/regulations specifying financial reporting requirements for charities, and indeed potentially despite any relief that legislation/regulations might intend to provide to charities below a certain threshold or within a certain tier (including, potentially, those charities that regulators deem to be too insignificant to impose annual financial reporting requirements on), AASB accounting standards might still be applicable to a greater or lesser extent through professional requirements.

- 81 Accounting Professional and Ethical Standard APES 205 *Conformity with Accounting Standards* issued by the Accounting Professional and Ethical Standards Board sets professional and ethical obligations with respect to fundamental responsibilities for Members³⁹ involved with the preparation, presentation, audit, review or compilation of Financial Statements⁴⁰, (either GPFs or SPFSs), of entities in the private and public sectors. Specifically, it provides mandatory requirements⁴¹ (in bold-type below) and guidance (in normal type) instructing Members to take all reasonable steps⁴² to:
- (a) "... apply the principles and guidance provided in the Statements of Accounting Concepts and the Framework for the preparation and presentation of Financial Statements issued by the AASB when assessing whether an entity is a Reporting Entity" (paragraph 4.1 of APES 205);
 - (b) "... **apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply**

39 Per APES 205, Section 2 a Member "means a member of a Professional Body that has adopted this Standard as applicable to their membership, as defined by that Professional Body". In Australia, Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants have adopted this Standard as mandatory for their memberships.

40 Per APES 205, Section 2 Definitions, "Financial Statements means a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of Financial Statements, but it can also refer to a single Financial Statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements."

41 Per APES 205, paragraph X "APES 205 sets the standards for Members involved with the preparation, presentation, audit, review or compilation of Financial Statements, which are either General Purpose Financial Statements or Special Purpose Financial Statements, of entities in the private and public sectors. The mandatory requirements of this Standard are in bold-type, preceded or followed by discussion or explanations in normal type. APES 205 should be read in conjunction with other professional duties of Members, and any legal obligations that may apply".

42 APES 205 does not define 'reasonable steps', although APES 110 *Code of Ethics for Professional Accountants* (the Code), Section 2 defines 'acceptable level' as "... a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the Member at that time, that compliance with the fundamental principles is not compromised". Furthermore, there is an International Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments* (January 2017) that goes further into this issue. Accordingly, there may be future amendments to the Code to provide further guidance, depending on the results of the Exposure Draft.

with the Australian Financial Reporting”⁴³ (paragraph 5.1 of APES 205); and

- (c) “... ensure that the Special Purpose Financial Statements, and any associated audit report, review report or compilation report clearly identifies:
- (a) that the Financial Statements are Special Purpose Financial Statements;
 - (b) the purpose for which the Special Purpose Financial Statements have been prepared; and
 - (c) the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements”⁴⁴.

43 Per APES 205, Section 2 Definitions, “Australian Financial Reporting Framework means the framework that uses Australian Accounting Standards as the Applicable Financial Reporting Framework and is adopted by Those Charged with Governance when preparing Financial Statements.”

44 This requirement is in accordance with paragraph 6.1 of APES 205, which applies to members who are involved in, or are responsible for, the preparation, presentation, audit, review or compilation of an entity’s SPFSs (except where the SPFSs will be used solely for internal purposes).

May need a heading here: Concluding comments on the research into Australia

82 Concluding para – state what has been done in this Australian Charities section of the Report. (What has been shown, what the readers know now, after reading this section)

Working Draft

International Comparisons

83 This section describes reporting and assurance requirements in other countries. The purpose is to gain an understanding of the reporting framework of other countries.

84 As noted in paragraph 18 above, the scope of our comparison has been limited to New Zealand, United Kingdom (UK), United States of America (USA), Hong Kong, Singapore, South Africa and Canada. These countries are selected for comparison because they are relatively comparable in terms of regulatory rigour are jurisdictions that are often compared with Australia in terms of financial reporting issues.

we might say something like: Given the US situation, where each of the 50 states is responsible for regulating reporting requirements of charities within its jurisdiction, this Report only considers two (say) of the more substantive states because ... due to...

New Zealand

85 In comparing New Zealand with Australia, it is relevant to note that New Zealand does not have the state/territory issues that Australia has, that were noted in previous sections.

86 The lodgement requirements in New Zealand appear to be relatively clear and easy to follow, as evident from the description below. Charities in New Zealand have adopted similar structures to the for-profit tiers structure in Australia. More specifically, the 'public accountability' concept (as defined in paragraph 91 below) is adopted in deciding which tier is to report. The main difference with Australia is that New Zealand has extra tiers for smaller entities.

87 New Zealand charities can be in the following structures:

- (a) Company limited by guarantee
- (b) Charitable trusts (Incorporated or unincorporated)
- (c) Charitable society (Incorporated or unincorporated)

They can choose, but are not required, to register with Charities Services in order to obtain the legal privilege of being a Registered Charity as well as to gain access to concessional tax provisions.

88 Registered charities are required to report annually to Charities Services. This includes completing an **Annual Return (... to provide a footnote explanation ...)** and providing non-financial and financial information through a performance report/financial statements that comply with [reporting standards](#) (Charity Services 2017).⁴⁵

45 Source: <https://charities.govt.nz/apply-for-registration/considering-registering-as-a-charity/benefits-and-obligations-of-being-registered/>

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- 89 Charities are referred to as Public Benefit Entities (PBEs) in the New Zealand Reporting Framework. PBEs in New Zealand is defined by the New Zealand Treasury as “a reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders” (New Zealand Treasury 2017).
- 90 As mentioned, New Zealand adopts the concept of public accountability when determining entities’ reporting requirements for both for-profit entities and NFP private entities (External Reporting Board 2017).
- 91 Unlike Australia, New Zealand has adopted its definition for public accountability from IFRSs for SME. According to IFRSs for SMEs (IFRS 2017), an entity has public accountability if:
- (a) “its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (b) “it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.”
- 92 There are four tiers of reporting requirements applying to PBEs in New Zealand. Moving from the top tier to the bottom tier, the level of disclosure requirements and the number of accounting Standards to follow decrease when preparing financial statements. The differential reporting requirements are illustrated in the diagram designed by the XRB below.



- 93 The following table also provides a summary of reporting requirements of PBEs that are registered with the Charity Service in New Zealand.

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Table 7 Summary of reporting requirements of PBEs in New Zealand (External Reporting Board 2017)

Tiers	Entity attributes	Reporting requirements and standards
Tier 1	<ul style="list-style-type: none"> Has public accountability (as defined); or Has total expenses (including grants) > \$30 million 	PBE Standards
Tier 2	<ul style="list-style-type: none"> Has no public accountability (as defined); and Has total expenses (including grants) ≤ \$30 million <i>and elects to be in Tier 2 rather than Tier 1</i> 	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> Has no public accountability (as defined); and Has expenses ≤ \$2 million <i>and elects to be in Tier 3 rather than Tiers 1 or 2</i> 	PBE Simple Format Reporting (SFR)– A (PS) or PBE SFR–A (NFP)
Tier 4	<ul style="list-style-type: none"> Has no public accountability (as defined); and Has total operating payments of less than \$125,000 in each of the previous two reporting periods (i.e. not a “specified not-for-profit entity”); and Is permitted by an enactment to comply with a “non-GAAP Standard” <i>and elects to be in Tier 4 rather than Tiers 1, 2 or 3</i> 	PBE SFR– C (PS) or PBE SFR–C (PS)

94 Further explanation is as follows:

- (a) The **Tier 1 and 2** PBE standards consist of 38 individual standards derived largely from International Public Sector Accounting Standards (IPSAS).
- (b) **Tier 2** entities are generally subject to the same recognition and measurement requirements as Tier 1 entities but are able to use significantly reduced disclosure requirements.
- (c) The **Tier 3** accounting standard is based on a simple format reporting approach using accrual accounting. This appropriately reflects the small size and reduced level of complexity within many entities in this tier, as well as the needs of the users of these entities.
- (d) The **Tier 4** accounting standard also uses a simple format reporting approach, but uses cash accounting and is simpler than the tier 3 standard as tier 4 entities are very small.

95 For assurance, new requirements became effective from 1 April 2015 due to recent changes to the *Charities Act 2005* in New Zealand. This change created statutory audit and review requirements for medium and large Registered Charities. Table 8 summarises the auditing requirements applicable to medium and large PBEs in New Zealand.

Table 8 Summary of auditing requirements of PBEs in New Zealand

Criteria	Standards
Total operating expenditure for each of the previous two accounting periods was: over \$1 million (large)	Financial statements must be audited by a qualified auditor
Total operating expenditure for each of the previous two accounting periods was: over \$500,000 (medium)	Financial statements must be either audited or reviewed by a qualified auditor

Rationale given for the requirements

- 96 In the proposal for the New Zealand Accounting Standards Framework (2012)⁴⁶, XRB listed the reasons for the current reporting thresholds. The XRB used entity size as the Board considered size to be a more general cost-benefit proxy. This is because the smaller the entity the smaller the likely number of users, and therefore the fewer the benefits that are likely to accrue from general purpose financial reporting.
- 97 As mentioned in the proposal, entity size is particularly useful in the PBEs context where there are entities that are hugely variable in terms of size. The XRB decided to use the size criterion in that sector with four tiers needed to reflect the size variability. PBE Tier 3 entities are required by the XRB to prepare their general purpose financial reports in accordance with a simple format reporting approach. This reflects the small size and reduced level of expertise within entities in this tier. The fourth tier caters for those entities that will be required to prepare general purpose financial reports but that can do so on a cash accounting basis.
- 98 The use of expenses as the criterion to define entity size is considered a more appropriate proxy for cost and benefit in the PBE context than revenue because PBE financial performance is typically driven by expenses rather than revenue. Expenses are considered more reflective of the underlying activity of PBEs (XRB 2012).
- 99 The use of \$30 million expenses as the threshold is designed to simplify the overall financial reporting framework by using the same measure and amount as used to define large in the Government's framework.
- 100 The \$30m expense threshold was based on the \$30m revenue threshold that is used for statutory reporting purposes in the for-profit sector. In particular, under the Companies Act, companies with revenue over \$30m (or assets over \$60m) are considered 'large' and are required to prepare GPFR (assuming that they are NZ-owned, as there are lower thresholds for companies with more than 25% overseas ownership).
- 101 The \$30m revenue threshold in the Companies Act arose from the reforms of the statutory reporting framework commenced some 8 years ago (which ultimately resulted in most SMEs being removed from the statutory reporting framework). The relevant government ministry at the time (Ministry of Economic Development (MED), now part of the Ministry of Business, Innovation and Employment) proposed using the existing size thresholds that were used for companies with overseas ownership, which included a revenue threshold of \$20m (para 66 of the MED consultation paper *The Statutory Framework for Financial Reporting*⁴⁷). There was some discussion of how this threshold compared with the situation in Australia at the time for large proprietary companies (see paras 70-73). The MED allowed for the differences between the size of the NZ economy versus Australia in proposing a lower threshold than Australia. However, there was push-back on this threshold. For example, a letter from the NZ Business Roundtable argued (hyperlink) that NZ should use \$25m to be consistent

46 <https://xrb.govt.nz/dmsdocument/1802>

47 <http://media.nzherald.co.nz/webcontent/document/pdf/Financial-reporting-framework-discussion-document.pdf>

with Australia. It is also noted from a Deloitte publication that one of the purposes for this reporting reform is to achieve a greater alignment with Australia and to minimise the compliance costs for entities that trade at both sides of the Tasman.⁴⁸ The ultimate selection of \$30m rather than \$25m was presumably related to the foreign exchange rates at the time, so AUD25m was roughly NZD30m.

102 The lowest threshold of \$125K for Tier 4 PBEs also comes from the statutory reporting framework, which does not require GAAP-compliant financial statements below this threshold. The MED document originally proposed a much lower threshold of \$20K (para 126 **to confirm**). Again, there was push-back about this being too low. The original Financial Reporting Bill when it was first introduced into Parliament increased the threshold to \$40,000 in its first reading. It ended up being set at \$125,000 by the end of the legislative process.

103 For the \$2m threshold for determining whether an entity is 'small' so can report in Tier 3, this seems to have come from an existing statutory threshold for what were called 'exempt companies' under the old statutory reporting framework (which were permitted to prepare simple accounts using a template, rather than apply GAAP). The predecessor body to the XRB, the Accounting Standards Review Board (ASRB), used this as the basis for proposing a \$2m **expenditure (to be confirmed, not expenses?)** threshold for public sector PBEs, with a lower \$1m threshold for private sector NFPs. The ASRB also used some data it had at the time to determine how many entities would end up below this threshold. (See paragraphs 90-99 of ASRB's Discussion Document *Proposed Application of Accounting and Assurance Standards Under the Proposed New Statutory Framework for Financial Reporting – this document is no longer available online* **Is it at least still publicly available – please check with NZ staff?**). There was some push-back about setting a lower threshold for the private NFP sector, which presumably resulted in using \$2m for both public sector and private sector PBEs.

United Kingdom (UK)

104 In the UK, charities can generally be categorised into two groups:

- Non-company charities
 - Unincorporated associations
 - Charitable trusts
 - Charitable incorporate organisations (CIO)
- Company charities (previously known as charitable companies)

105 Every charity with an annual income above £5,000 is required by law to register with the Charity Commission.

106 All charities shall prepare financial statements either:

- on an accrual basis; or

48 See <https://www.iasplus.com/en/publications/new-zealand/accounting-alerts/0910nzalert/file>

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- receipts and payments accounts (cash accounting)

107 A charity preparing financial reports based on accrual accounting must follow *the Statement of Recommended Practice: Accounting and Reporting for Charities (SORP)*. The *SORP* sets out recommended practice for preparing the Trustee's Annual Report and the accounts of a charity on an accruals accounts basis. Financial statements prepared in accordance with the *SORP* normally include:

- a statement of financial activities (SOFA) which shows the results of operations and activities for the year;
- a balance sheet, which shows assets, liabilities and funds held at year end;
- a cash flow statement (not required for small charities) which provides an analysis of cash movements; and
- notes to financial statements, which are an integral part of financial statements, providing additional explanations and details on financial statement items.

108 In general, the charity's gross income (and/or gross assets) for a given financial year will determine the type of accounts to be prepared for that particular year. If:

- the charity's constitution says it should prepare accrued accounts;
- the charity trustees have taken a decision to prepare accrued accounts; and
- any enactment says that the organisation should prepare accrued accounts.

then accrued accounts must be prepared even if the charity's gross income would otherwise allow accounts to be produced on the receipts and payments basis.

109 Table 9 provides a summary of reporting and audit requirements of charities in the UK. {{{Note some key points of the table}}}.

Table 9 Summary of reporting requirements⁴⁹

Accounting requirements	Gross income up to £5,000	Gross income £5,000 to £10,000	Gross income £10,000 to £25,000	Gross income £25,000 to £250,000	Gross income £250,000 to £1 million ⁵⁰	Gross income above £1 million ⁵¹
Unincorporated charities						
Type of accounts	Receipts and Payments or Accruals	Receipts and Payments or Accruals	Receipts and Payments or Accruals	Receipts and Payments or Accruals	Accruals	Accruals
Audit requirement	Not required, unless stated in constitution	Not required, unless stated in constitution	Not required, unless stated in constitution	Either independent examination of accounts, or audit, unless	Either independent examination of accounts, or audit, unless	Full audit

49 <http://www.resourcecentre.org.uk/information/charity-reporting-and-accounts/>

50 and gross assets under £3.26m.

51 or gross assets above £3.26 (and income above £250,000).

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Accounting requirements	Gross income up to £5,000	Gross income £5,000 to £10,000	Gross income £10,000 to £25,000	Gross income £25,000 to £250,000	Gross income £250,000 to £1 million ⁵⁰	Gross income above £1 million ⁵¹
				specified in constitution.	specified in constitution.	
Lodging annual report with Charity Commission	X	X	Only if requested by Charity Commission	√	√	√
Charitable Incorporated Organisations (CIOs)						
Type of accounts	Receipts and Payments or Accruals	Receipts and Payments or Accruals	Receipts and Payments or Accruals	Receipts and Payments or Accruals	Accruals	Accruals
Audit requirement	Not required, unless stated in constitution	Not required, unless stated in constitution	Not required, unless stated in constitution	Either independent examination of accounts, or audit, unless specified in constitution.	Either independent examination of accounts, or audit, unless specified in constitution.	Full audit
Lodging annual report with Charity Commission	√	√	√	√	√	√
Small charitable companies⁵²						
Type of accounts	Accruals	Accruals	Accruals	Accruals	Accruals	Accruals
Audit requirement	Not required, unless stated in constitution	Not required, unless stated in constitution	Not required, unless stated in constitution	Either independent examination of accounts, or audit, unless specified in constitution.	Either independent examination of accounts, or audit, unless specified in constitution.	Full audit
Lodging annual report with Companies House	√	√	√	√	√	√
Lodging annual report with	Only if	Only if	Only if	√	√	√

52 A small company is one which meets two of the following criteria: annual turnover below £6.5m; gross assets below £3.26m; up to 50 employees.

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Accounting requirements	Gross income up to £5,000	Gross income £5,000 to £10,000	Gross income £10,000 to £25,000	Gross income £25,000 to £250,000	Gross income £250,000 to £1 million ⁵⁰	Gross income above £1 million ⁵¹
Charity Commission	requested	requested	requested.			

Rationale given for the requirements

110 ... to do ...

United States of America (USA)

- 111 The following structures can be used in USA to set up a charity organisation:
- Corporation
 - Trust
 - Association
- 112 Charities have the option to register with the Internal Revenue Service (IRS) as a “501(c)(3) non-profit⁵³” to obtain the federal tax-exempt status. The eligible purposes of these charities are defined by the Federal legislation in section 501(c)(3) as charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals.
- 113 This status allows a charity to receive a tax-deductible charitable contribution. To maintain this status, charities are required to file an annual report with the IRS using the IRS Form 990 except when a charity receive less than \$50,000 donation in a financial year. However, charities are not required to follow the FASB standards when preparing their annual report. There are some differences between FASB financial statements and Form 990 such as treatments of unrealized gains and losses and in-kind contributions.
- 114 In addition to the IRS, securing tax-exempt status on a state level is also required for charities prior to engaging in fundraising solicitation purposes in certain states. Each state has its independent state authority where charities are required to maintain ongoing reporting requirements. See Table 10.
- 115 For example, in Kansas, charities need to lodge a Form 990 with IRS and an annual report with the Kansas Attorney General. In Texas, Form 990 needs to be lodged with

53 501(c)(3) non-profit is defined by IRS as an organization that is organized and operated exclusively for exempt purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an action organization, that is, it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates.

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both the IRS and the Texas Attorney General, in addition to lodging a periodic report and various solicitation renewal forms at the state level. Due to the number of states in US (50), reporting requirements in each state are not listed individually in this Report.

Table 10 Annual reporting requirements for charities in US

Federal Reporting Requirements	Typical State Reporting Requirements
<ul style="list-style-type: none"> - Annual return detailing revenue, expenses and changes in net asset or fund balances are filed through a 'Form 990' - Level of reporting requirements are dependent on charity characteristics - Reporting exemptions for charities with gross receipts < \$50,000 in a financial year 	<p>Four mandatory filing requirements:</p> <ul style="list-style-type: none"> - corporate filings – update/renewal of corporate records - financial reports – disclosure requirements is specific for each state - fundraising registrations – update/renewal of registration describing type of fundraising activities engaged - state tax-exemption filings – update/renewal of tax-exempt status at state level

116 Audit requirements are dependent on the amount of federal/state funding received and expended in a financial year, as summarised in Table 11.

Table 11 Audit requirements for charities in US

Federal Audit Requirements	State Audit Requirements
<ul style="list-style-type: none"> - When federal funding is received AND when it expends >\$750,000 of that federal funding in a single year 	<ul style="list-style-type: none"> - Dependent on amount of state funding received, total revenue/total contributions received - Specific to each state.⁵⁴

Rationale for the requirements

117 Yet to assess whether this section is feasible/warranted

Hong Kong

118 Charities are defined as charitable organisations in Hong Kong. The majority of charities do not have any specific continuing obligations; neither do they need to file any annual returns or any other reports, unless the charity takes on the form of company limited by guarantee.

119 Charitable organisations in Hong Kong are commonly established through the use of a:

- trust;

54 Refer to <https://www.councilofnonprofits.org/nonprofit-audit-guide/state-law-audit-requirements#AZ> for audit requirements for each state

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- society (established under the Societies Ordinance); and
 - company limited by guarantee (incorporated under the Companies Ordinance).
- 120 Under Hong Kong law a charity must be established exclusively for charitable purposes and must fall into the following categories:
- relief of poverty;
 - advancement of education;
 - advancement of religion; and
 - other purposes of a charitable nature beneficial to the community not falling under any of above categories.
- 121 Charities only need to file their financial report if they are a company limited by guarantee. In this case, the charity is required to file its audited account with the Companies Registry annually.
- 122 The reporting requirements for charities using the form of a company are the same as other type of companies and it is covered in AASB **Research Report No. X title**. To summarise it briefly, a company in Hong Kong is required to use Full HKFRS (equivalent to full IFRS), HKFRS for Private Entities (equivalent to the IFRS for SMEs) and the locally developed Reporting Standards depending on its characteristics such as whether it is publicly held.
- 123 For charitable societies and charitable trusts, there are no specific regulatory requirements that require them to fulfil any continuing reporting obligations.
- 124 Table 12 provides a summary of reporting and audit requirements for charities in Hong Kong.

Table 12 Summary of reporting and audit requirements of charities in Hong Kong

Types of Entities	Reporting / auditing requirements
Charitable trusts	Not required
Charitable Societies	Not required
Company limited by guarantee	As an audited account is required to be filed with the Companies Registry annually

Rationale given for reporting requirements

125 ... to do, if warranted ...

Singapore

- 126 To establish a charity in Singapore, entities must follow several steps to apply for charity status.

- 127 First, an entity needs to register as Volunteer Welfare Organisation (VWO). VWOs are NFP entities where their surpluses from operation are retained for future activities rather than distributing to its members.
- 128 VWOs can take many forms including a:
- trust;
 - society; and
 - company limited by guarantee.
- 129 After the VWOs are registered and have legal status in Singapore, the entity may obtain charity status from the Commissioner of Charities, provided the entity fulfils the following requirements:
- submits financial statements and an annual report detailing activities conducted and proposed future plans;
 - ensures that accounting and donations records are maintained properly;
 - submits annual returns for tax purpose; and
 - holds annual general meeting.
- 130 According to [Charities \(Accounts and Annual Report\) Regulations](#)⁵⁵, the financial statements required by the Commissioner of Charities can be prepared using either the Singapore national accounting standards for public companies (Financial Reporting Standards (FRS)) or the Charities Accounting Standard (CAS). However, if a charity holds significant investments in any subsidiary, associate or joint venture that is not a charity, it is required to use FRS.
- 131 Both FRS and CAS are issued by Accounting Standards Council (ASC) of Singapore. Specifically, FRS is a set of accounting standards and interpretations that are based on IFRS Standards with some local amendments. The CAS is developed based on the requirements of the FRS, taking into account the context and circumstances that are relevant and unique to the charity sector. Once a charity has adopted one or the other financial reporting framework, it is strongly discouraged from changing to the other financial reporting framework (i.e. from the CAS to the FRS or vice-versa), unless there is compelling reason to do so. This is to ensure the comparability of the charity's financial statements across periods.
- 132 The charity can obtain another status called Institutions of a Public Character (IPC). An approved IPC is a not-for-profit organisation with a charity status with activities beneficial to the community in Singapore as a whole, and not merely limited to group

55 See:
[https://www.charities.gov.sg/Documents/Charities%20\(Accounts%20and%20Annual%20Report\)%20Regulations.pdf](https://www.charities.gov.sg/Documents/Charities%20(Accounts%20and%20Annual%20Report)%20Regulations.pdf)

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interests based on ethnicity, beliefs or religion/faith. The Commissioner of Charities approves IPCs which allows them to receive tax-deductible donations.

133 The audit requirements are shown in Table 13:

Table 13 Summary auditing requirements by charities in Singapore

Types of Entities	Standards
IPCs	Accounts have to be externally audited by a public accountant
Companies limited by guarantee	Accounts have to be externally audited by a public accountant
Other Charities	<ul style="list-style-type: none">• Income/Expenditure >\$500k Accounts have to be externally audited by a public accountant.• \$250k < Income/Expenditure < \$500k Accounts can be examined by an independent person who is a member of the Institute of Singapore Chartered Accountants, or who possesses the necessary qualifications to be a member of the Institute of Singapore Chartered Accountants.• Income/Expenditure <\$250k Accounts can be examined by an independent person (also known as the independent examiner) whom the governing board members believe have the relevant ability and practical experience.

Rationale given for the requirements

134 ... to do ... if warranted

Canada

135 In Canada there are four major legal structures which an NFP or charitable organisation may take:

- (a) Trusts;
- (b) Associations;
- (c) Corporations without share capital; and
- (d) Co-operatives without share capital.

136 To be a registered charity in Canada, the entity must incorporate, and be either a:

- (a) Charitable organisation – the entity carries on its own charitable activities and receives funds from donors;
- (b) Public Foundation – the entity gives more than 50 per cent of its income to qualified donees; and
- (c) Private foundation – the entity may carry on its own charitable activities and gives some of its income to qualified donees.

137 Charities may choose to incorporate their entity federally under the *Canada Not-for-profit Corporations Act*.

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- 138 The Canada Revenue Agency (CRA) regulates the federal charity sector. The activities of the CRA include determining which entities can be registered as a charity; revoking registered charity status of charities if necessary; and spot auditing charities to check compliance. If a charity is incorporated it is subject to the rules of the incorporating statute.
- 139 A charity must provide financial information in an annual report to the regulator, unless:
- (a) The charity's gross revenue is **more** than \$100,000.
 - (b) The amount of all property (for example, investments or rental properties) not used in charitable activities or administration is **more** than \$25,000.
 - (c) The charity has permission to accumulate property during this fiscal period. (cite source)
- 140 The financial statements must be provided to all members. The lodgement of financial statements with the CRA and the level of assurance to be provided are dependent on whether an entity is considered a soliciting corporation. Only a soliciting corporation is required to lodge financial statements. (we need to investigate further and clarify what the Canadian requirements are – and whether thresholds apply)
- 141 A corporation is considered soliciting when it has received more than \$10,000 in income from public sources in a single financial year. Public sources include gifts, donations from non-members, government grants and funds from other corporation.
- 142 The auditing requirements for charities in Canada are shown in Table 14.

Table 14 Auditing requirements for charities in Canada

Tier	Threshold	Minimum assurance
Soliciting Corporations		
1	Less than \$50,000 gross annual revenue	Review
2	Between \$50,000 and \$250,000 gross annual revenue	Audit usually, a special resolution may be passed to require a review only
3	Greater than \$250,000 gross annual revenue	Audit
Non-soliciting Corporation		
1	Less than \$1million gross annual revenue	Review
2	Greater than \$1million gross annual revenue	Audit

Rationale given for the requirements

143 ... to do ... if warranted

South Africa

- 144 In South Africa there are limited choices of legal structure for NFP private entities:
- (a) Voluntary association;
 - (b) Trust;

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- (c) Section 21 company; or
 - (d) Communal property association.
- 145 Voluntary associations (VA) are formed by entering into an agreement with three or more people to form an organisation so they can work together to achieve a common non-profit objective.
- 146 VAs are governed by common law however an association may decide to incorporate, which will result in regulation under *The Nonprofit Organisations Act 71*.
- 147 Trusts are set up similarly to Australia, in that they are formed through a Trust Deed. A trust is registered in accordance with the *Trust Property Control Act*. A not-for-profit trust is required to be registered as a not-for-profit entity.
- 148 Section 21 companies have a similar structure to a for-profit company but are specifically set up for not-for-profit and are limited by guarantee. The Companies Act, under which Section 21 companies are formed, makes all Section 21 companies publicly accountable.
- 149 Financial reporting requirements only apply to incorporated NFP entities and are dependent on the structure chosen.
- 150 Companies and must lodge audited annual financial statements prepared in accordance with GAAP with the Companies and Intellectual Property Commission. A list of all donations given must be provided along with the financial statements. The financial statements are also required to be lodged with the Directorate for non-profit organisations.
- 151 Trusts and Voluntary Associations only have reporting requirements if they are registered as a charity. There exists the same reporting requirements as a company to prepare and lodge financial to the directorate of non-profit organisations.
- 152 [staff note to Board: paragraphs 153-163 below need to be refined further (and paragraphs 144-151 above need to be better integrated), but at least they give the gist of the South African approach – particularly the ‘public interest score’ approach, which is somewhat unique]
- 153 In South Africa, *The Companies Act, No. 71 of 2008 (Co Act)*, *The Companies Amendment Act, No. 3 of 2011 (Co Amendment Act)* and *The Companies Regulations, 2011 (Co Regulations)* apply to legal entities incorporated in South Africa. These legislative requirements state that every company, including a non-profit company⁵⁶, must calculate its ‘public interest score’ (PIS) for each financial year. The PIS is calculated at the end of the year as the sum of the following:

⁵⁶ Schedule 1: Provisions concerning non-profit companies in the Companies Act 2008 “means a company—a) incorporated for a public benefit or other object as required by item 1(1) of Schedule 1; and b) the income and property of which are not distributable to its incorporators, members, directors, officers or persons related to any of b) them except to the extent permitted by item 1(3) of Schedule 1”.

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- (a) a number of points equal to the average number of employees of the company during the financial year⁵⁷;
- (b) one point for every R 1 million (or portion thereof) in third party liabilities of the company, at the financial year end;
- (c) one point for every R 1 million (or portion thereof) in turnover during the financial year⁵⁸; and
- (d) one point for every individual who, at the end of the financial year, is known by the company:
 - i. in the case of a profit company, to directly or indirectly have a beneficial interest in any of the company's issued securities; or
 - ii. in the case of a non-profit company, to be a member of the company, or a member of an association that is a member of the company.

154 The Independent Regulatory Board for Auditors Committee for Auditor Ethics, released a paper titled *Clarification of the definition of Public Interest Entity and Public Interest Score* in December 2016, which clarified, by reference to the Co Act and Co Regulations, that: “the PIS determines:

- Which financial reporting standards apply to a company;

Item 1(1) of Schedule 1 includes requirements for the non-profit company to have “i) a public benefit object; or ii) an object relating to one or more cultural or social activities, or communal or group interests...”

Item 1(3) of Schedule 1 states “A non-profit company must not, directly or indirectly, pay any portion of its income or transfer any of its assets, regardless how the income or asset was derived, to any person who is or was an incorporator of the company, or who is a member or director, or person appointing a director, of the company, except— a) as reasonable— i) remuneration for goods delivered or services rendered to, or at the direction of, the company; or ii) payment of, or reimbursement for, expenses incurred to advance a stated object of the company; b) as a payment of an amount due and payable by the company in terms of a bona fide agreement between the company and that person or another; c) as a payment in respect of any rights of that person, to the extent that such rights are administered by the company in order to advance a stated object of the company; or d) in respect of any legal obligation binding on the company”.

57 “Employee” is as defined in Section 213 of Chapter 9 of the *Amended Labour Relations Act, 2002* as “(a) any person, excluding an independent contractor, who works for another person or for the State and who receives, or is entitled to receive, any remuneration; and (b) any other person who in any manner assists in carrying on or conducting the business of an employer, and “employed” and “employment” have meanings corresponding to that of “employee””.

58 “Turnover” is not defined in the context of the PIS, but is defined in Co Regulations s164(4) as follows: “At any particular time, the annual turnover of —(a) a company other than a holding company is the gross revenue of that company from income in, into or from the Republic, arising from the following transactions or events, as recorded on the company’s most recent annual financial statements: (i) the sale of goods; (ii) the rendering of services; or (iii) the use by other persons of the company’s assets yielding interest, royalties, or dividends; or . . .” Co Regulations s164(1) states: “For purposes of S. 175 of the Act, the assets and turnover of a company at any particular time must be calculated in accordance with — (a) the financial reporting standards applicable to that company, as set out in regulation 27; or (b) SA GAAP, as defined in regulation 26(1)(f), in the case of a company in respect of which no financial reporting standards have been prescribed.”

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- Whether a company should be audited or independently reviewed in the public interest;
- Whether a company must file a copy of its annual financial statements with the CIPC [The Companies and Intellectual Property Commission];
- Whether a company requires a Social and Ethics Committee; and
- The size of the company for purposes of appointing a Business Rescue Practitioner.” (footnotes omitted)

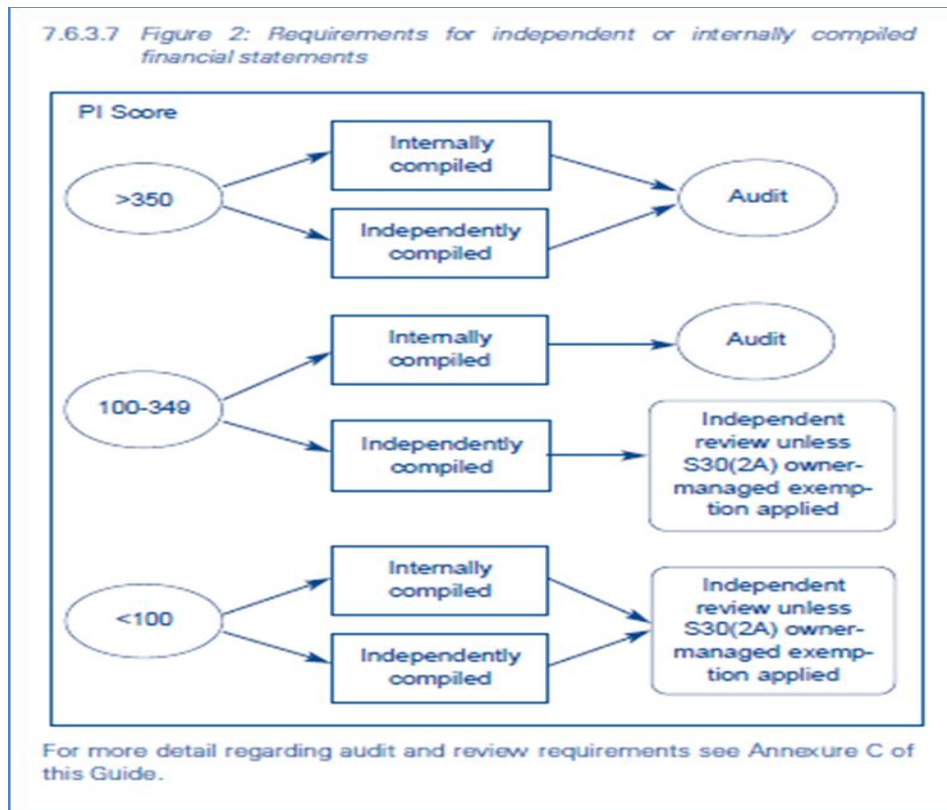
Financial reporting requirements

155 The Regulations make provision for IFRS, IFRS for SMEs and SA GAAP to be applied in the preparation of financial statements by non-profit companies, in line with the following table:

Category of Companies	Financial Reporting Standard
Non profit companies that are required in terms of Regulation 28 (2)(b) to have their annual financial statements audited.	IFRS, but in the case of any conflict with any requirements in terms of the Public Finance Management Act, the latter prevails.
Non profit companies, other than those contemplated in the first row above, whose public interest score for the particular financial year is at least 350.	One of— (a) IFRS; or (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for SMEs.
Non profit companies, other than those contemplated in the first row above— (a) whose public interest score for the particular financial year is at least 100, but less than 350; or	One of— (a) IFRS; or (b) IFRS for SMEs, provided that the company meets the scoping requirements outlined in the IFRS for
(b) whose public interest score for the particular financial year is at less than 100, and whose financial statements are independently compiled.	SMEs; or (c) SA GAAP
Non profit companies, other than those contemplated in the first row above, whose public interest score for the particular financial year is less than 100, and whose financial statements are internally compiled.	The Financial Reporting Standard as determined by the company for as long as no Financial Reporting Standard is prescribed.

156 The following is an extract from:

https://www.saica.co.za/Portals/0/Technical/LegalAndGovernance/Companies%20Act/saica-original-service_july2012.final.pdf, page 7-15:



Audit exemption

157 The Co Amendment Act provides for an exemption with regards to audit and independent review. The exemption states the following:

“30 (2A) If, with respect to a particular company, every person who is a holder of, or has a beneficial interest in, any securities issued by that company is also a director of the company, that company is exempt from the requirements in this section to have its annual financial statements audited or independently reviewed, but this exemption—

- a) does not apply to the company if it falls into a class of company that is required to have its annual financial statement audited in terms of the regulations contemplated in subsection (7)(a); and
- b) does not relieve the company of any requirement to have its financial statements audited or reviewed in terms of another law, or in terms of any agreement to which the company is a party.”

158 This implies that all companies that meet the requirement to be audited in terms of the PIS or activity test (described below within the audit requirement section) would require an audit.

Audit requirement

159 The Regulations provide for both activity and size criteria to determine whether or not companies require audited financial statements. The following companies are required to have their financial statements audited:

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- public companies⁵⁹
- state owned companies⁶⁰
- any company that falls within any of the following categories in any particular financial year:
 - a) any profit or non-profit company if, in the ordinary course of its primary activities, it holds assets in a fiduciary capacity for persons who are not related to the company, and the aggregate value of such assets held at any time during the financial year exceeds R 5 million⁶¹;
 - b) any non-profit company, if it was incorporated—
 - i) directly or indirectly by the state, an organ of state, a state-owned company, an international entity, a foreign state entity or a company; or
 - ii) primarily to perform a statutory or regulatory function in terms of any legislation, or to carry out a public function at the direct or indirect initiation or direction of an organ of the state, a state-owned company, an international entity, or a foreign state entity, or for a purpose ancillary to any such function; or
 - c) any other company whose public interest score in that financial year is
 - i) 350 or more; or
 - ii) at least 100, but less than 350, if its annual financial statements for that year were internally compiled.

160 The size criteria mean that a large number of private companies will be required to have their financial statements audited. All companies with a PIS of more than 350 will be audited. For those companies with a score below 350, an audit will nonetheless be required if the company meets the requirements of the activity test or has its financial statements internally compiled and has a PIS of at least 100.

Independent review

161 The Regulations state that an independent review of a non-profit company's annual financial statements must be carried out:

59 This does not appear to be relevant to entities within the scope of this Project, which is focussing on private sector charities.

60 This does not appear to be relevant to entities within scope of this Project, which is focussing on private sector charities.

61 This is what is referred to as the "Activity Test". This does not appear to be relevant to non-profit entities within scope of this Project because it is not expected that they would hold assets in a fiduciary capacity for persons who are not related to the company.

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- (a) in the case of a company whose public interest score for the particular financial year was at least 100, by a registered auditor, or a member in good standing of a professional body that has been accredited in terms of section 33 of the *Auditing Professions Act* (SAICA is the only body so accredited); or
- (b) in the case of a company whose public interest score for the particular financial year was less than 100, by—
 - i. a person contemplated in paragraph (a); or
 - ii. a person who is qualified to be appointed as an accounting officer of a close corporation in terms of section 60 of the Close Corporations Act, 1984.

162 The effect of this Regulation is that only registered auditors and CAs (SA) may do an independent review of companies with a public interest score of more than 100.

163 An independent review may also not be carried out by an independent accounting professional (IAP) who was involved in the preparation of the financial statements. This prohibition is interpreted to apply only to the individual concerned and not the firm. Where one partner prepares the financial statements and another performs the review, the firm will need to consider whether there is an impairment of independence before accepting the appointment as IAP.

Rationale given for the requirements

164 ... to do ... [staff note to Board, we have not been able to find the rationale given for the PIS – either a general rationale or a specific rationale for its calculation or the 100 and 350 thresholds, despite an extensive internet search. We have contacted the South African standard setting staff to ask if they can help us]

Summary of the international comparison

Highlight the major similarities between countries. Note any important differences.

Highlight similarities to AUS.

Note what we can learn from the international comparison. Also what the comparison does NOT tell us ie how to determine our thresholds.

Conclusion to the whole Report

165 ... to be drafted once the Report is substantively finalised

APPENDIX A

Introductory para to be inserted and para numbering to be in A1 format

Company Limited by Guarantee

- 1 A company limited by guarantee has obligations under the *Corporations Act* to report to ASIC unless it is registered with ACNC. Reporting requirements are based on meeting thresholds, which classify the company as small, medium or large as shown in Table A1.
- 2 In 2007, the Treasurer issued a discussion paper titled “Financial Reporting by Unlisted Public Companies”. The discussion paper highlights the unique nature of many unlisted public companies due to their not-for-profit focus. This review eventually lead to reporting reform in 2010 for companies limited by guarantee.
- 3 The discussion paper considered the financial reporting obligations of unlisted Australian companies, in particular smaller companies. The review aimed to ensure that the costs incurred by these companies in preparing financial information do not outweigh the benefits to stakeholders in having access to the information.
- 4 The discussion paper states: **(Cite precise source, paras)**
 - (a) Following an analysis of the comments received, the Government is proposing to increase ... thresholds to ensure that only economically significant proprietary companies are required to report. This will result in fewer proprietary companies having financial reporting obligations.
 - (b) The paper examines the issue of whether some type of differential reporting framework should be introduced for these companies based on the existing differential requirements for proprietary companies.
 - (c) The paper highlights the unique nature of many unlisted public companies due to their not-for-profit focus. This differentiates these companies from both proprietary companies and listed public companies. In general, members in these companies are not seeking a direct financial return on their investment in the company. This changes the demand from members for comprehensive financial statements. However, these companies are also likely to have a broader range of stakeholders interested in their operations relative to for-profit companies. In addition, financial reporting assists in promoting transparency and good governance in these companies. These issues must be taken into account when determining the appropriate financial reporting requirements.
- 5 When deciding tiers, it is required under *section 285A* of the *Corporations Amendment (Corporate Reporting Reform) Bill 2010*⁶²: “revenue and consolidated revenue are to be calculated ... in accordance with accounting standards in force at the relevant time (even if the standard does not otherwise apply to the financial year of some or all of the companies concerned)”.

62 <https://www.legislation.gov.au/Details/C2010B00109>

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Table A1 Company Limited by Guarantee financial reporting requirements

Tier	Criteria	Reporting required	Minimum level of Assurance
1	Small company: - companies with annual revenue of less than \$250,000 that are not a deductible gift recipient ⁶³	N/A unless directed by ASIC or a member of the Company	N/A
2	Medium company: - annual revenue of less than \$250,000 that are a deductible gift recipient; or - companies with annual revenue of less than \$1million irrespective of whether the company is a deductible gift recipient	Annual financial report prepared in accordance with Part 2M (and in accordance with AASBs). The nature of the report depends on whether the charity is a reporting entity. Expand on this	Audit or Review
3	Large company - companies with annual revenue of \$1million or more irrespective of whether the company is a deductible gift recipient	Annual financial report prepared in accordance with Part 2M (and in accordance with AASBs) The nature of the report depends on whether the charity is a reporting entity. Expand on this	Audit

Rationale given for the requirements

- 6 The reporting requirements for companies limited by guarantee went through a red-tape and regulatory burden reduction process commenced in June 2007 when. Treasury released a discussion paper on financial reporting by unlisted public companies (see paragraphs 1-4). Before this process, all companies limited by guarantee were required to prepare an audited financial report (in accordance with Australian Accounting Standards) and a directors' report (in accordance with the *Corporations Act 2001*), regardless of their size. In 2010, the *Corporations Amendment (Corporate Reporting Reform) Act 2010* removed these requirements for companies limited by guarantee under a certain size threshold (which resulted in the current requirements).
- 7 The current, less onerous, reporting requirements were introduced because “the company limited by guarantee structure is used predominantly by not-for-profit entities to incorporate their operations” (para 1.2 of the EM) and “the vast majority of them are relatively small” (para 1.3 of the EM). The EM notes that the small size of companies limited by guarantee means they may not have the capacity to comply with extensive reporting requirements. (para 1.3 of the EM)

⁶³ *Deductible gift recipient* has the same meaning as in the *Income Tax Assessment Act 1997*. Being a deductible gift recipient means the organisation is entitled to receive tax-deductible gifts and tax-deductible contributions ([ATO](#) 2017).

- 8 The EM goes on to imply that the rationale for requiring companies limited by guarantee above the threshold to continue reporting is because reporting by such companies: "... is an important governance and transparency mechanism given the public nature of these companies". (para 1.3 of the EM)
- 9 Consistent with the observations above, paragraphs 1.3 and 1.6 of *Corporations Amendment (Corporate Reporting Reform) Act 2010* EM⁶⁴ indicate that the thresholds resulted from the Government weighing up the competing factors of:
- (a) reporting by companies limited by guarantee is an important governance and transparency mechanism given the public nature of these companies; and
 - (b) the vast majority of companies limited by guarantee are relatively small and therefore may not have the capacity to comply with extensive reporting requirements.
- 10 In weighing up these competing factors, the EM notes that "some types of companies limited by guarantee will have a higher level of public interest due to the nature of their activities. Charities, for instance, were identified as being in this category because of their public fundraising activities (for example, donation drives) and significant community involvement. In contrast, member-focused companies limited by guarantee (for example, sporting clubs) may have a significantly lower level of public interest."
- 11 After considering this issue, the Government decided that "Any differentiation between companies limited by guarantee on the basis of the nature of their activities needs to be sufficiently clear to ensure that companies are certain of their reporting obligations. For this reason, ... classification as a deductible gift recipient for the purposes of the *Income Tax Assessment Act 1997* [is to] be used to differentiate between companies limited by guarantee in terms of the nature of their activities. Deductible gift recipients may receive tax deductible donations from the public. As such, it is considered to be indicative of a high degree of public interest in the activities of the company." (paragraph 1.7)
- 12 Taking into account these factors, a proxy for the 'size' of a company and a proxy for the nature of its activities were selected as the basis for differential reporting requirements. The table below was provided as a part of the EM to show the relative size of companies limited by guarantee in Australia.

64 <https://www.legislation.gov.au/Details/C2010B00109/Explanatory%20Memorandum/Text>

	<i>Revenue (%)</i>	<i>Cumulative Total: Revenue (%)</i>	<i>Assets (%)</i>	<i>Cumulative Total: Assets (%)</i>
Less than \$20,000	14	14	12	12
Between \$20,000 and \$50,000	9	23	9	21
Between \$50,001 and \$250,000	24	47	16	37
Between \$250,001 and \$500,000	7	54	8	45
Between \$500,001 and \$1,000,000	14	68	18	63
Between \$1,000,000 and \$12,500,000	28	96	30	93
Greater than \$12,500,000	4	100	5	100

Table A2 Relative size of companies limited by guarantee in Australia

- 13 To differentiate between different reporting requirements, operating revenue was adopted as the only proxy for size. The EM, however, does not explicitly state whether size itself is in turn a proxy for an underlying principle of user needs, economic significance, cost-benefit or some other underlying principle – although paragraph 9 above suggests it might be a proxy for cost-benefit.
- 14 The EM does not directly provide a rationale for using operating revenue rather than other possible candidates, such as assets or number of employees. However, it reports that, in June 2007, Treasury released a discussion paper on financial reporting by unlisted public companies, including companies limited by guarantee. Paragraph 1.5 notes the majority of respondents to the discussion paper indicated that, for reporting purposes, companies limited by guarantee could best be differentiated on the basis of the size of their operating revenue; and that tests based on assets or number of employees may not be accurate indicators of the ‘size’ of a company because:
- (a) although there may be a large number of assets, there may be restrictions on the company disposing of these assets;
 - (b) employee numbers are likely to be distorted by the large number of volunteers that generally participate in NFP entities.

Proprietary Company

- 15 A proprietary company has obligations under the *Corporations Act 2001* to report to ASIC unless it is registered with ACNC, in which case its obligation is to report to ACNC. Table A3 shows reporting requirements are based on meeting criteria, which classify the company as either small or large.

Table A3 Australian Proprietary company financial reporting requirements

Tier	Criteria	Reporting required	Minimum level of Assurance
	Meet 2 of 3 criteria for the year		
1	Small company: - revenue less than \$25million - gross assets less than \$12.5million - fewer than 50 employees	N/A unless directed by ASIC or a member of the Company	N/A

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Tier	Criteria	Reporting required	Minimum level of Assurance
	Meet 2 of 3 criteria for the year		
2	Large company that is a reporting entity - revenue greater than \$25million - gross assets greater than \$12.5million - fewer than 50 employees	Annual financial report (GPFR) prepared in accordance with Part 2M (and in accordance with AASBs).	Audit
	Large company that is not a reporting entity - revenue greater than \$25million - gross assets greater than \$12.5million - fewer than 50 employees	SPFS ⁶⁵ - AASB 101 <i>Presentation of Financial Statements</i> - AASB 107 <i>Cash Flow Statements</i> - AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> - AASB 1048 <i>Interpretation and Application of Standards</i>	??

Rationale given for the requirements

- 16 The current criteria for reporting are based on the large/small test for proprietary companies that is applicable to both for-profit and NFP companies. This test was introduced in 1995 by *First Corporate Law Simplification Act 1995*⁶⁶ (the Act), which amended the Corporations Law. The Act replaced the previous distinction between exempt and non-exempt proprietary companies.
- 17 There is no specific rationale given in the EM associated with the Act as to why there is a need for proprietary company reporting. However, when increasing the earlier thresholds to the current thresholds (which will be discussed shortly), the rationale given in this EM⁶⁷ for adjusting the monetary value upwards was to reduce the number of “non-economically significant entities being subject to the reporting requirements” (paragraph 2.14). This suggests that the rationale given for large proprietary companies to report is due to their economic significance. It is clearly stated in paragraph 2.15 the current reporting requirement is to ensure users receive the financial information of economically significant proprietary companies.
- 18 When first introduced in 1995, a proprietary company was deemed to be small only if it satisfied at least two of the following three criteria:
- assets less than \$5 million;

65 Regulatory Guide 85 *Reporting requirements for non-reporting entities*
<http://download.asic.gov.au/media/1239893/rg85.pdf>

66 EM for the Act: http://www.austlii.edu.au/au/legis/cth/bill_em/fclsb1994374/memo_0.html

67 EM for the Bill:
<https://www.legislation.gov.au/Details/C2007B00106/Explanatory%20Memorandum/Text>

- revenue less than \$10 million;
- fewer than 50 employees.

19 It is not clear from the EM related to the Act why those monetary values were selected. In 2000, the Parliamentary Joint Statutory Committee on Corporations and Securities (PJSC) inquired into the new reporting system (the Inquiry)⁶⁸. As discussed in this Inquiry, “the PJSC was unable to reach an unqualified view on the appropriateness of the large/small test and the criteria used for distinguishing between large and small proprietary companies” (Para 1.4). The PJSC also concluded that “the three-part test was to a degree arbitrary” (Para 1.5).

20 Relevant extracts from the Inquiry Report include the following:

“1.5 Although an estimated 98 per cent of proprietary companies would be classed as small and accordingly be exempt from the reporting requirements, the PJSC concluded that the three-part test was to a degree arbitrary. Concerns were raised that the two new categories of proprietary companies may result in incorrect classification and inadequate protection for creditors. In evidence to the PJSC, the accounting bodies proposed the reporting entity concept as an alternative to the large/small test. The benefits of the reporting entity concept were twofold: it was the more meaningful test for determining reporting obligations and it was already in use in other parts of the Corporations Law as well as the Accounting Standards.

1.6 However, the PJSC concluded, on balance, that it preferred the large/small test over the reporting entity concept as a basis for distinguishing between proprietary companies. It did so because, by comparison with the three-part test in the Bill, the reporting entity concept “does not provide a test of sufficient certainty to enable an objective assessment to be made of whether a company falls within the entity test.” The PJSC also took into account the support for the new reporting system by the ASIC (formerly the Australian Securities Commission) and the Law Council of Australia.

1.7 The PJSC then looked at the particular criteria in the test. It considered that of the three criteria, the threshold tests of assets and revenue were the most important and recommended that serious consideration be given to two options:

- that the employees criterion remain; or
- that the employees test be deleted from the Bill and the test for a large/small proprietary company be on the proposed assets and turnover criteria alone.

68 See: http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Completed_inquiries/1999-02/propcom/report/c01

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1.8 The Government did not agree to amend the Bill. It considered that the test in the Bill provided adequate flexibility. The formulation of the test was designed to achieve an approximate measure of a company's economic significance and the proposal to reduce the criteria would result in "a less appropriate test of a company's economic significance, and accordingly a less appropriate touchstone for the application of corporate financial reporting requirements."

21 Although the reporting entity test was rejected as a direct criterion, it was indirectly adopted by virtue of the reporting requirements linkage to Australian Accounting Standards – see the discussion in paragraphs X-Y of this Report. ... this para is to be developed further.

22 The *Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007* adjusted the thresholds referred to in paragraph 18 above upward in 2007. The reason given in the EM⁶⁹ of the Bill was that these thresholds were set in 1995 and therefore are "set at too low a level to determine economic significance" (paragraph 2.15).

23 It is apparent from the EM (paragraphs 2.4 and 2.5) that these increased thresholds resulted from the Government weighing up:

- (a) the need for accurate and prompt and relevant information, which is fundamental to the operation of an efficient market; and
- (b) the need for requirements that do not unnecessarily, or excessively, interfere with companies devoting resources to productive outputs.

24 The Act increased thresholds by increasing the monetary thresholds by 150 per cent and maintain the employee thresholds at 50 employees.

25 It is worth noting here that the \$25m revenue threshold was then adopted by New Zealand (equivalent of \$30m NZD) when reforming the statutory reporting framework during 2009. The \$30m revenue threshold was later been flipped to expenses and used to determine reporting requirements in the NFP sector in New Zealand. This will be discussed in detail in the International Comparison section (see paragraphs 96-103).
this paragraph needs to be redrafted

69 <https://www.legislation.gov.au/Details/C2007B00106/Explanatory%20Memorandum/Text>

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The primary objective of the [AASB Research Centre](#) is to provide thought leadership on financial reporting issues.

The Centre's activities are intended to make a substantial contribution to the domestic and international debate on particular topics and to influence the work programs of the International Accounting Standards Board (IASB) and the International Public Sector Accounting Standards Board (IPSASB) and, ultimately, the content and quality of International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS).

The research involves liaison with constituents (including academics) and other standard-setters. Some of the research is conducted in conjunction with other standard-setters.

Research Centre staff closely monitor the IASB's research agenda and post-implementation review agenda, and contribute to the IASB's work on particular projects by arrangement with the IASB.

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