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**Financial Reporting Requirements
for Charities**

**– an Intranational and
International Comparison**

October 2017

Working Draft



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Executive Summary

Australian charities make up a significant sector of Australia's society and economy, managing net assets of over \$180 billion and generating \$134 billion total income. They provide essential social, cultural, community, education, health and other charitable services, employing 1.2 million people and an estimated three million volunteers to do so.

Accountability for the assets these charities control and the services they perform is clearly important. The efficient functioning of the sector also matters: many charities deliver services using taxpayer and donor funds, and any unnecessary red-tape diverts funds from those services.

Yet it has been clear for many years that the financial reporting framework governing the charitable sector is in need of reform. Charities complain of unnecessary complexity, inconsistent and uncertain requirements, and financial reports that are not focused on the needs of their stakeholders.

To understand more about the basis for these criticisms, the Australian Accounting Standards Board (AASB) has conducted a review of the financial reporting requirements applying to charities in Australia. The research also examined charity reporting regimes internationally, both as a benchmark and a potential source of solutions.

This research is part of a larger project by the AASB and the Auditing and Assurance Standards Board (AUASB) to assist in reforming the financial reporting framework in Australia for all sectors. The goal of the project for the charitable sector is to achieve financial reporting that is clear, objective and comparable, balancing user needs and preparer costs. It also aims to reduce the burden on preparers by simplifying the requirements and ensuring the information they are required to provide is useful to them and their stakeholders. This Report will be followed by an AASB Consultation Paper detailing potential options for change, and an extensive program of consultation with the charitable sector and its stakeholders.

Australian charities – reporting challenges

The research shows that, despite ongoing simplification efforts, serious issues with the current financial reporting regime remain.

Multiple regulators

Australia has perhaps the most complex system for regulating financial reporting of charities in the world, with multiple regulators, many with different reporting requirements. Despite the ACNC's important work with state regulators to reduce duplicate reporting, there is still more work to be done. For example, there is only one regulator in New Zealand compared with at least ten in Australia. This is driven in part by the sharing of responsibility for regulation between the Commonwealth and State/Territory governments, but even within and between States/Territories there is variation between requirements that is difficult to justify.

Consequently, this impacts the cost of compliance as charities have to spend time and money navigating a maze of detailed and inconsistent requirements. There is also duplication and overlap in the remit of regulators, making it difficult for charities to determine who they should be reporting to, about what.¹ For example, incorporated associations

¹ These observations have been echoed recently in a campaign entitled #FixFundraising launched by a group of charity sector stakeholders – see www.philanthropy.org.au.

registered with both NSW Fair Trading and the Australian Charities and Not-for-profits Commission (ACNC) are required to report to both regulators, and both regulators have substantially different requirements for financial reports.

There can also be inconsistencies in the way that overlapping regulators approach reporting. For example, the Office of the Registrar of Indigenous Corporations (ORIC) focuses on the consolidated entity while ACNC generally focuses on the registered/parent entity.

Variation in requirements

There is no 'level playing field' for charities when it comes to financial reporting. Similar entities may have very different reporting, driven by their geographic location, entity type or self-assessment of reporting options.

Reporting thresholds are highly variable. ACNC uses revenue, while the Northern Territory Government considers annual gross receipts, gross assets and whether the entity holds a gaming machine licence as proxies for the significance of incorporated associations. Most regulators set thresholds determined to some extent by reference to accounting standards (eg revenue, current assets), but some combine those with non-accounting thresholds, such as number of employees. Even where the same measure is used, the minimum threshold may differ: for example, ACNC sets a threshold of \$250,000 in revenue for submission of financial statements, while all states other than Queensland use a consolidated revenue threshold for co-operatives of \$8 million. The implications of exceeding a reporting threshold temporarily are also not necessarily consistent across the various regulators.

Open to significant judgment

A charity's directors and management self-assess the most appropriate form of financial report to lodge. General purpose financial statements comply with specified accounting standards and are intended for users who cannot command the financial information they need in other ways. In contrast, special purpose financial statements should only be prepared where all current and potential users can command their own financial information, for example through direct access to the organisation's systems.

In practice, these reporting judgments are not straightforward and are readily open to challenge, leaving directors and management (and accountants/auditors) open to potential disputes or even legal liability. Of the seven countries considered in this Report, Australia is the only one that permits charities that prepare publicly available financial statements to self-assess whether they need to comply with all applicable requirements of accounting standards in preparing their financial reports.

Where charities prepare SPSFs, the minimum requirements vary: the ACNC specifically requires them to comply with a handful of accounting standards, while NSW Fair Trading requires incorporated associations with total revenue of less than \$2 million to comply with (among other things) all recognition, measurement and classification requirements in all applicable accounting standards. These differences often do not appear to be driven by considerations of user needs: for example, related party disclosures are one of the areas of most interest to stakeholders, but are not required by regulators.

Rationale unclear

The rationale for some requirements, or for variation in requirements, is often not clear. For example, Queensland's reporting requirements for co-operatives varies from all other states, without any readily apparent reason.

There appears to be little focus on what information is most likely to be useful to the users of charities' financial reports, or how charities can present that information in a way that helps them to explain their purpose and performance. As a result, charities have to spend time and money on preparing and, possibly, auditing unnecessarily complex and potentially irrelevant reports, without a corresponding benefit to their organisation or stakeholders. If a charity genuinely has no general purpose users and is not economically significant, requirements to publicly lodge financial statements impose an unnecessary burden.



Another consequence is that there is no objective criteria for how a reporting threshold is determined, and therefore it is not clear when criteria and thresholds should be reviewed (for example, reviewing a revenue threshold in response to inflation).

Audit

The audit requirements applying to charities also varies according to the regulator. The ACNC requires a review of the financial statements of 'medium' charities, while ORIC requires an audit of the financial statements of 'medium' corporations. The ACNC requires an audit to be performed by a registered company auditor or an authorised audit company, but ORIC allows some audits to be performed by a member of one of the professional accounting bodies.

Comparison to international models

Our research also examined the financial reporting frameworks applicable to charities in six overseas jurisdictions, for the purposes of comparison and to identify potential alternative approaches that might suit an Australian context.

That international research, documented in Appendix B of this Report, generally shows that other jurisdictions have a clearer, less onerous financial reporting framework. For example, in all other jurisdictions, regulators prescribe what is to be reported rather than entities being required to self-assess.

There are also good examples from other jurisdictions of financial reporting requirements being set through clear and logical thresholds: for example, New Zealand has four tiers of reporting ranging from entities with less than \$125,000 annual operating payments without 'public accountability' (as defined) through to entities with 'public accountability' or over \$30 million annual expenses. The former adopt simple format (cash) reporting with a statement of service performance, the latter adopt full accrual accounting standards. South Africa requires different types of reporting depending on an entity's 'public interest score', based on a weighting of the number of employees, amount of third party liabilities, revenue and number of members.

Where to from here?

This research is the beginning of a process through which the AASB will work with other regulators, such as the ACNC, to reach a clear, effective and broadly accepted framework for financial reporting by charities. For us to achieve that aim, we need your input.

Possible options for reform of the current financial reporting framework will be detailed in the forthcoming AASB Consultation Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Charities Registered with the ACNC*. These are intended to facilitate discussion and input into the ACNC legislative review process which commences on 3 December 2017. Outreach sessions conducted by the ACNC, AASB and others will also be held later in the year.



Financial reporting requirements for charities – an intranational and international comparison

Introduction

1. For some time now, stakeholders have raised with the AASB significant concerns² about the considerable complexity in and therefore confusion about the financial reporting requirements, including reporting thresholds, 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. There is also concern that charities are not subject to a level playing field, as similar charities might prepare very different financial statements.
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 applicable to all sectors by developing more consistent and operational criteria/thresholds grounded in sound principles that specify:
 - who needs to prepare and lodge external financial statements on the public record
 - what needs to be reported (reporting requirements)
 - what level of assurance is appropriate (assurance requirements).
3. To achieve this objective the AASB is working in conjunction with Australian policymakers and regulators.
4. The specific requirements of various regulators (both within Australia and overseas) identified in this Report are provided for comparative and informational purposes only. This Report does not consider in detail the efficacy of those requirements or whether they would be useful as a basis for reforming the current Australian financial reporting framework. However, where readily available, the rationale given for the requirements are reported within each relevant appendix to this Report. Those rationales will help inform the development of possible ways of reforming the current requirements that are to be included in the forthcoming Consultation Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Charities Registered with the ACNC*.

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 eight per cent of employment in 2006-07.³
6. NFP private sector entities in Australia can generally be categorised as:
 - charities, or

2 These concerns have been identified in a number of forums, including most recently at the AASB Roundtable *Financial Reporting Framework – Not-for-Profit Private Sector Entities* held in Melbourne on 21 January 2016. [See the Roundtable report.](#)

3 Productivity Commission. [Contribution of the Not-for-Profit Sector. Research Report.](#) Canberra, 2010.

- other entities.

7. The focus of this Report is on charities – in particular those registered with the Australian Charities and Not-for-profits Commission (ACNC). See paragraphs 71-89 for a description of the ACNC and an explanation for the scope of this Report. Before those paragraphs, paragraphs 8-68 provide an overview of the findings documented in this Report, based on the details documented in Appendices A1-A3 and B of this Report.

Australian charities

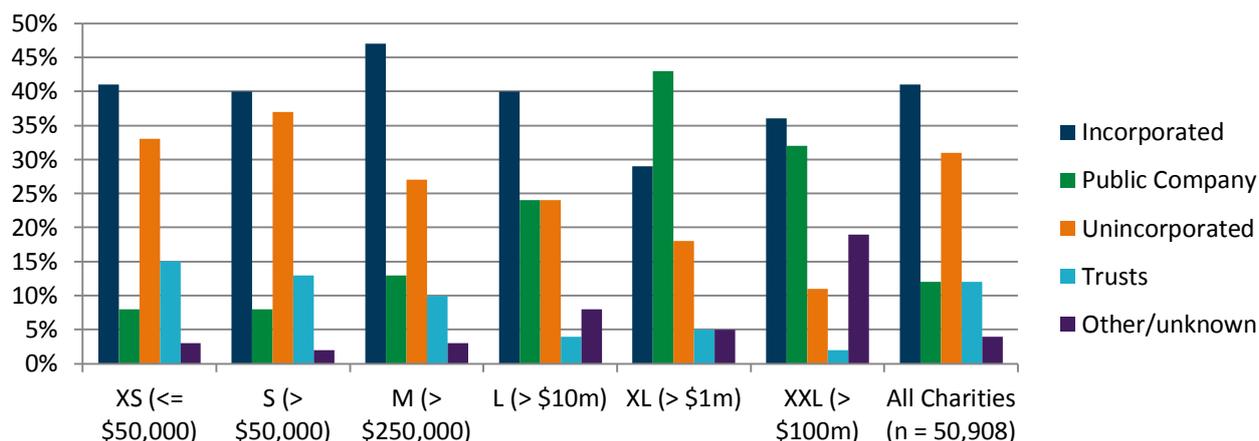
Introduction

8. 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

9. 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, of significance for this Report, financial reporting requirements.
10. The following graphic (*Figure 1*) is based on data collected by ACNC from the 2015 Annual Information Statements (AISs) received from registered charities⁴. 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.

Figure 1 What kind of entity are charities?



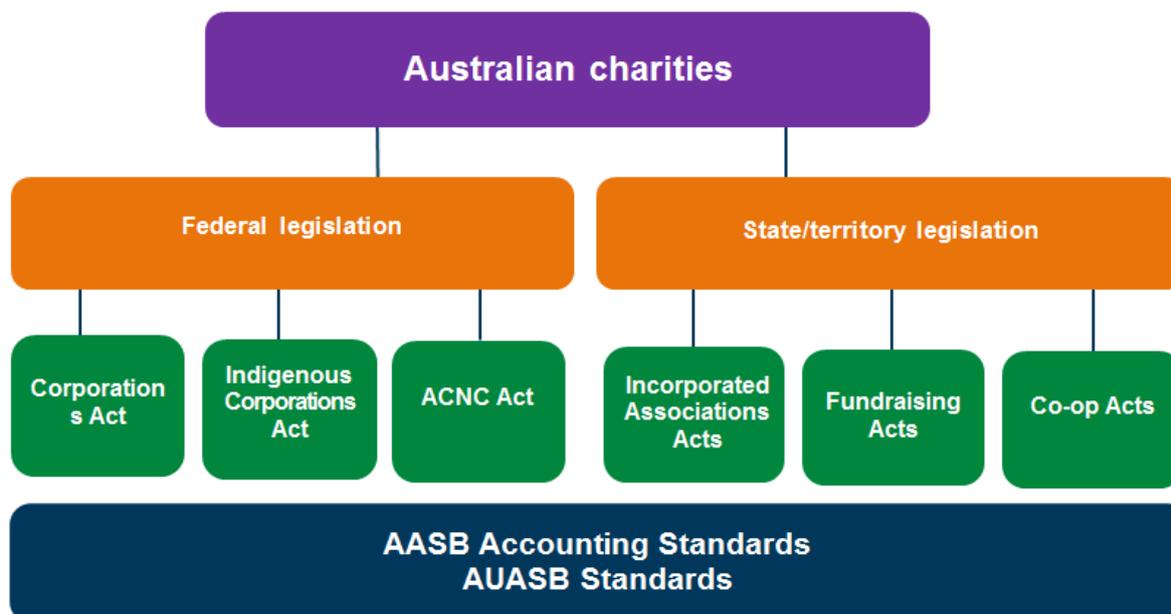
11. Within Australia a charity can choose to structure itself as either incorporated or unincorporated. Individuals, sole traders, government entities and partnerships are ineligible for registration as a charity with ACNC.

⁴ See australiancharities.acnc.gov.au.

Overview of Australian financial reporting requirements

12. 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 some of the legislation that may apply to entities registered as charities (the reference to AASB accounting standards in the figure is explained in paragraphs 25-45, and the reference to AUASB standards is explained in paragraphs 56-60, 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.

Figure 2. Examples of relevant legislation for charities



Summary of issues identified by the research

13. The following Table provides a list of ‘issues’ deduced from the research that lead to the current Australian financial reporting framework applicable to charities being criticised.

	Issues within Australia	Evidence (examples only, extracted from the research results)
1	Duplication of financial reporting	Incorporated associations registered with both NSW Fair Trading and ACNC are required to report to both regulators (see Table 2 in paragraph 24 of the Report).
2	The underlying principle for a particular regulatory framework is not readily apparent	The principle underpinning Queensland’s approach to co-operatives and the reasons for the requirements being different from all other states is not readily apparent (see Table A2. 2 in paragraph A2.8). One consequence of unclear underlying principles is there is no objective rationale for how a criteria or threshold is determined and therefore it is not clear when criteria and thresholds should be changed (see also items 4 and 5 below).
3	Different entity boundaries	ORIC focuses on the consolidated entity (see paragraph A1.12); whereas ACNC generally focuses on the registered/parent entity (see paragraphs A1.13-A1.22) – see also item 10 below.
4	Different criteria for reporting thresholds	ACNC adopts revenue (see Table A1. 1 in paragraph A1.12); whereas the Northern Territory (NT) Government adopts thresholds that include annual gross receipts, gross assets and/or operating with a gaming machine licence as proxies for size/significance of incorporated associations (see Table A2. 1 in paragraph A2.2). Furthermore, there is no clear basis for when reporting thresholds should be

	Issues within Australia	Evidence (examples only, extracted from the research results)
		reviewed for changing circumstances (for example, in response to inflation or some other trigger) because the bases for the thresholds themselves are unknown.
5	Different levels of subjectivity involved in determining reporting thresholds	ACNC uses revenue and therefore requires application of AASB revenue standards. The thresholds of other regulators are dependent to a greater or lesser extent on thresholds determined by reference to accounting standards (whether it be revenue, gross assets, current assets); but some combine those with more objective non-accounting thresholds such as number of employees (eg ORIC – see Table A1. 2 in paragraph A1.34), or annual gross receipts or operating a gaming machine licence (eg NT Government for incorporated associations – see Table A2. 1 in paragraph A2.3).
6	Different minimum reporting thresholds even where the same criteria are adopted	ACNC adopts revenue of \$250,000 as the threshold for submitting financial statements whereas one of ORIC’s thresholds is operating income of \$100,000; and all states other than Queensland include a consolidated revenue threshold for co-operatives of \$8 million. Furthermore, ACNC determines revenue by reference to the registered entity whereas ORIC determines operating income by reference to the consolidated group (see also item 10 below).
7	Different approaches to determining whether a charity is a ‘reporting entity’ (and therefore whether it is required to submit general purpose financial statements (GPFs) or special purpose financial statements (SPFs)) [see item 9 below]	ACNC requires an entity to self-assess (see Table A1. 1 in paragraph A1.12) whereas ORIC deems most of its charities to be reporting entities (see paragraph A1.32).
8	Different approaches to providing relief for expected temporary movements between levels of reporting from year to year	ACNC and ORIC assess applications on their merit; whereas States/territories do not explicitly address the issue. ACNC and ORIC have different guiding principles for when relief might be granted (see paragraphs A1.23-A1.26 and A1.34-A1.38).
9	Different types of SPFs are accepted ⁵	ACNC explicitly requires SPFs prepared by non-reporting entities comply with only a handful of accounting standards (AASBs 101 Presentation of Financial Statements, 107 Statement of Cash Flows, 108 Accounting Policies, Changes in Accounting Estimates and Errors, 1048 Interpretation of Standards, and 1054 Australian Additional Disclosures – see Table A1. 1 in paragraph A1.12); whereas NSW Fair Trading requires incorporated associations with total revenue of less than \$2 million to comply with all recognition, measurement and classification requirements in all applicable accounting standards, consolidation and AASB 108 (see Table A2. 1 in paragraph A2.2).
10	Different types of group accounts are accepted	ACNC might grant permission for joint or collective reporting (see paragraph A1.14); whereas ORIC requires consolidated financial statements (see paragraph A1.33).
11	Limited number of GPFs Tiers are available for charities	AASB 1053 Application of Tiers of Australian Accounting Standards only contemplates two GPFs Tiers (full GPFs and reduced disclosure requirements [RDR] GPFs), both of which might be too onerous for some charities even if they

5 The quality of GPFs and SPFs (and therefore their usefulness for users) was the subject of the separate [AASB Research Report No.1 Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements \(2014\)](#) and therefore is not considered in this Report. See also the research reported in the footnote to paragraph 35 of this Report.

	Issues within Australia	Evidence (examples only, extracted from the research results)
		are reporting entities and above the current minimum reporting threshold (see paragraphs 41-43).
12	Conflicts between regulations and professional obligations	Members of professional accounting bodies are expected to apply the reporting entity concept. It is conceivable that entities below the minimum financial reporting thresholds specified by regulators are reporting entities and therefore expected to prepare financial statements in accordance with accounting standards under the professional standards even if not under the regulations (see paragraphs 44 and 45).
13	Differences in the level of assurance required	ACNC only requires a review of the financial statements of 'medium' charities (see Table A1. 1 in paragraph A1.12); whereas ORIC requires an audit of the financial statements of 'medium' corporations (see Table A1. 2 in paragraph A1.32).
14	Differences in required qualifications of auditors or reviewers	ACNC requires an audit to be performed by a registered company auditor or an authorised audit company (see Table A1. 1 in paragraph A1.12); whereas ORIC allows some audits to be performed by a member of one of the professional accounting bodies (see Table A1. 2 in paragraph A1.32).

Federal financial reporting requirements

14. The federal regulators within the scope of this Report are ACNC, ORIC and, to a lesser extent, ASIC. The relevant requirements are documented in Appendix A1 (ACNC and ORIC) and Appendix A3 (ASIC). A summary of ACNC reporting thresholds is provided in the following Table.

Table 1 ACNC reporting thresholds

Tier	Criteria	Reporting required	Minimum level of assurance
1	Small charity – annual revenue ⁶ is less than \$250,000	Annual Information Statement (AIS) ⁷ , and may use accrual or cash accounting (can choose to submit a financial statement).	N/A
2	Medium charity – annual revenue is \$250,000 or more, but less than \$1,000,000	<p>AIS and Annual financial report.</p> <p>If a reporting entity (as defined by the AASB, assessed by the charity):</p> <ul style="list-style-type: none"> a) Full GPFs;⁸ or b) Reduced Disclosure Requirements (RDR) GPFs. <p>If not a reporting entity: SPFSs, complying with at least⁹ AASBs 101 <i>Presentation of Financial Statements</i>, 107 <i>Statement of Cash Flows</i>, 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, 1048 <i>Interpretation of Standards</i>, and 1054 <i>Australian Additional Disclosures</i>.¹⁰</p>	<p>Review, which can be done by:</p> <ul style="list-style-type: none"> ■ a registered company auditor ■ an authorised audit company ■ a current member of a relevant professional body.

6 The ACNC website includes guidance for charities in determining 'revenue' – and provides a '[Charity size calculator](#)'.

7 The AIS 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](#)'.

8 Under AASB 1053 *Application of Tiers of Accounting Standards*, no charities would be required to prepare full GPFs. Refer to paragraphs 41-43 of this Report for a description of the application of AASB 1053.

Tier	Criteria	Reporting required	Minimum level of assurance
3	Large charity – annual revenue is \$1,000,000 or more	Same as for medium charities (see immediately above).	Audit, which can be done by: <ul style="list-style-type: none"> a registered company auditor an authorised audit company.

15. As part of the ACNC's red-tape reduction, ACNC is actively working on identifying and removing instances of duplicate reporting for charities at the federal level. 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.
16. 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 A1.32 of Appendix A1, separate lodgement with ACNC is not required.
17. 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 reports. The effect of the exceptions is that a charity is only required to meet ACNC financial reporting requirements.
18. Despite this evidence of simplification and avoidance of duplication; complexities and apparent inconsistencies still remain. Although Table 2 below shows entities that have multiple federal reporting obligations are able to report once and have the financial statements accepted by both federal regulators, the differences in requirements are quite stark. The rationales given by ORIC and ACNC for their respective thresholds do not explain the differences. For example, ORIC does not rationalise its thresholds by reference to cultural practices and individual needs – rather, as noted in paragraph A1.31 of Appendix A1, its thresholds are based on the small/large proprietary companies distinction of the *Corporations Act*. Given ASIC accepts reporting to ACNC as satisfying its reporting requirements (see paragraph 17), there may be potential to improve the reporting framework if ACNC and ORIC were to consider harmonising their thresholds and reporting requirements, to the extent to do so would be consistent with any change being sensitive to the cultural practices and individual needs of indigenous corporations. In this way, an indigenous charity corporation registered with ORIC and ACNC, and an indigenous charity corporation registered only with ORIC or only with ACNC would be subject to a consistent financial reporting framework. Such consistency would be of benefit to users, particularly when comparing one charity with another.

Table 2 Federal financial reporting interactions summary

Federal level charity reporting		
	Company limited by guarantee & proprietary company	Indigenous corporation
Charity is incorporated with	ASIC	ORIC

9 Section 60.10(3) of ACNC Regulations requires financial statements and notes give a 'true and fair view', and the determination is required by the directors as well as the auditors in their audit report. Based on this, arguably it would be necessary to apply all recognition and measurement requirements in all applicable AASB accounting standards – but this is not a universally held view.

10 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."

Federal level charity reporting		
Charity is required to lodge financial statements only with	ACNC	ORIC
Criteria for thresholds	Revenue	Consolidated gross operating income Consolidated gross assets Employees
Basis for reviewing thresholds in response to changing environmental circumstances (eg inflation)	None specified	None specified
Boundary of the charity (generally)	Registered entity	Consolidated group
Lowest level at which a charity is required to lodge financial statements	Medium charity – Annual revenue is \$250,000 or more	Small corporation, if consolidated gross operating income is \$100,000 or more.
Level of assurance required, at that lowest level of reporting	Review	Audit
Movement between tiers	Required to seek relief from Commissioner	Required to seek exemption from ORIC
Reporting requirements (generally)	As noted in Table 1 above, AIS, which includes service performance reporting requirements (in the form of a description of a charity's outcomes and activities); and Annual financial report: If a reporting entity (as defined by the AASB, assessed by the charity): (a) Full GPFs, or (b) RDR GPFs. If not a reporting entity: SPFSs, complying with at least AASBs 101, 107, 108, 1048, 1054. (ACNC does not explicitly state whether the recognition and measurement requirements of all other applicable accounting standards are to be complied with. However, the legislation requires financial statements present a true and fair view.)	General report, which does not require any service performance reporting; and Financial report, which may be: (a) GPFs (full or RDR), or (b) Financial report based on reports to government funders (if eligible*) (Generally, ORIC deems all indigenous corporations to be reporting entities.)

State/territory financial reporting requirements

19. In addition to the inconsistencies evident within the federal level, it is evident from Table A2. 1 in Appendix A2 there is disparity among some states/territories in relation to incorporated associations (and to a lesser extent in relation to co-operatives (see paragraph A2.8 and related Table A2. 2 of Appendix A2)). For example, there are differences regarding SPFSs – NSW Fair Trading requires SPFSs of incorporated associations to comply with all recognition and measurement requirements in all accounting standards whereas Victoria does not express such an explicit requirement. Also, thresholds at which different levels of assurance are required differ, as do the required qualifications of auditors. To highlight the differences, the following Table extracts information from Table A2. 1 for two states: New South Wales (NSW) and Victoria.

Table 3 Illustrative comparison of state financial reporting requirements (summary)

Incorporated associations		
	NSW	Victoria
Charity is incorporated with	NSW Office of Fair Trading	Consumer Affairs Victoria
Charity is required to lodge financial statements with	ACNC and New South Wales Office of Fair Trading	ACNC and Consumer Affairs Victoria
Criteria for thresholds	Total revenue (described by the New South Wales Office of Fair Trading as “total revenue as recorded in the income and expenditure statement (i.e. gross receipts) for a financial year”) and/or current assets	Revenue (or declaration by Registrar)
Basis for reviewing thresholds in response to changing environmental circumstances (eg inflation)	None specified	None specified
Boundary of the charity	Not explicitly addressed	Not explicitly addressed
Lowest level at which a charity is required to publicly lodge financial statements	>\$250,000 total revenue or >\$500,000 current assets	Revenue \$250,000-\$1,000,000 (if revenue is <\$250,000, must lodge financial statements with Consumer Affairs Victoria, but they are not placed on the public record)
Level of assurance required, at that lowest level of reporting	Audit	Review
Movement between tiers	Not explicitly addressed	Not explicitly addressed
Reporting requirements (generally)	<p>Tier 1 associations (>\$250,000 gross receipts or >\$500,000 current assets) must prepare and lodge on the public record financial statements in accordance with Australian Accounting Standards.</p> <p>Note: Tier 1 associations with total revenue of less than \$2 million in a financial year are not required to fully comply with AASB accounting standards. However, they must satisfy a particular set of requirements set out in Class Order 11/01, which includes a requirement to comply with all recognition, measurement and classification requirements in all applicable accounting standards, consolidation and AASB 108. Other tier 1 associations must prepare full financial statements.</p> <p>Tier 2 associations (<\$25,000 total revenue and <\$500,000 current assets) must merely submit a summary of financial affairs (which only indicates whether total revenue and current assets are below the thresholds).</p>	<p>Tier 3 associations (>\$1,000,000 revenue): The financial statements must give a true and fair view of the financial position and performance of the association during and at the end of its last financial year.</p> <p>Tier 2 associations (\$250,000-\$1,000,000 revenue): The financial statements must be prepared in accordance with the Australian Accounting Standards.</p> <p>(The illustrative financial statements on Consumer Affairs Victoria website are SPFSs)</p>

20. From the rationales given for the various requirements, there is no apparent explanation/basis for the differences. It may simply be a consequence of, when the requirements were first developed, the level of liaison and coordination among the states/territories was lower than it is now. The greater harmonisation between states/territories that has been achieved recently, particularly through the ACNC working with ACT, Tasmania and SA regulators, and the ongoing discussions ACNC is having with the other state/territory regulators, suggests there is potential to achieve even greater

harmonisation among the states/territories. This could lead to further simplification of the financial reporting framework and further improve consistency of financial information about charities being available to users.

Interaction between federal and state/territory financial reporting requirements

21. Financial reporting complexity in Australia is partly the result of different reporting requirements at both the state/territory and federal levels (eg ACNC). As noted in paragraph 20 above, ACNC is working towards reducing the complexity. For example, its 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.” (ACNC¹¹, 2017)

22. When a charity is structured as an incorporated association or co-operative, as noted in paragraph A2.2 in Appendix A2, not all states or territories provide relief from financial reporting just because ACNC accepts the report. 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.
23. To illustrate, Table 4 shows the interactions between state/territory reporting requirements and the ACNC for incorporated associations. Significantly, the Table shows instances of duplicated reporting, once to the ACNC and a second time to the state/territory-based regulator.

Table 4 Reporting framework for a charity that is incorporated at a state/territory level

Incorporated associations	WA	VIC	QLD	NSW	NT	ACT	TAS	SA
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	✓ ¹²	✓	✓ ¹³

11 See the [ACNC website](#).

12 The ACT 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.

13 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 SA will allow 'prescribed incorporated associations' that 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).



Do state reporting requirements reflect the requirements of the ACNC	✓	✓	X	X	X	X	X	X
--	---	---	---	---	---	---	---	---

**financial reports are not required by the regulator of incorporated associations in WA.*

24. In terms of the complexity and potential inconsistencies created through differences between federal and state/territory financial reporting framework requirements, it is evident from comparing Appendix A1 with Appendix A2 there is disparate reporting and assurance requirements/thresholds between ACNC and incorporated associations regulations. On the face of it, the rationales given for the respective requirements do not appear to justify the differences. Accordingly, harmonising the requirements could further reduce complexity for preparers and improve consistency for users.

Interaction between federal/state/territory legislation/regulations and AASB accounting standards

25. It is evident from the information documented in Appendices A1 and A2 of this Report that, under current arrangements, financial reporting requirements applicable to Australian charities 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.
26. 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

27. 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 statements 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 financial statements), when it is registered with the:
- a) ACNC and has less than \$250,000 'annual revenue'
 - b) NSW Fair Trading and has 'total revenue' less than \$250,000 and 'current assets' less than \$500,000.
28. In making these assessments, some subjectivity is involved given that AASB accounting standards are principles based and therefore require judgement in their application. It may be that entities assessed by the regulator to be insignificant do not have the expertise necessary to make a proper assessment of whether they meet the threshold.
29. 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 Canberra¹⁴ 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
 - 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 three thresholds have been exceeded (only the first two of which relate to AASB accounting standards):
 - i.) \$8,000,000 in revenue during the financial year
 - ii.) \$4,000,000 in gross assets¹⁵ at the end of the financial year
 - iii.) 50 employees at the end of the financial year.
30. 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 many charities that exceed the minimum threshold to determine what form their financial statements must take – whether, in the case of ACNC and some state/territory regulators, the financial statements are to be GPFSSs or SPFSs. As noted in paragraph 36 below, some of the Australian 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 GPFSSs, whereas non-reporting entities being able to prepare SPFSs in satisfying their regulator’s requirements.
31. There is also complexity and inconsistency among regulators as to whether:
- a) SPFSs, where prepared, are required to comply with all recognition and measurement requirements in all applicable accounting standards
 - b) the financial statements are to be prepared on a consolidated basis where a charity has controlled entities (whether registered or not).

Interaction between regulations and the AASB’s reporting entity concept

32. 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”.
33. 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

14 Access Canberra is responsible for the incorporation of associations in the ACT and maintaining the associations public record under the *Associations Incorporation Act 1991* and the *Associations Incorporation Regulation 1991*.

15 The regulations state that consolidated revenue and the value of consolidated gross assets 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 entities concerned). However, accounting standards do not define ‘gross’ assets and therefore it is unclear whether it is intended to be net of depreciation.



- b) economic or political importance or influence
 - c) financial characteristics, such as the size of revenue, assets, employees, indebtedness, scarce resources and other financial characteristics.
34. Ideally, application of the reporting entity concept contained in AASB accounting standards would result in consistent financial reporting of charities within Australia (ie a level playing field). Regulators should only be requiring charities to publicly lodge financial statements that are GPFSSs (which could suggest that the current two Tiers of GPFSSs currently contemplated in AASB 1053 [full GPFSSs and RDR GPFSSs] need to be expanded). Preparation of SPFSs implies there are no users who need the information that cannot command it for themselves, and therefore begs the question of why such financial statements are required to be publicly lodged.
35. The high degree of subjectivity involved when identifying dependent users means the reporting entity concept has been applied in a way that results in some entities that should prepare GPFSSs being treated as non-reporting entities and preparing only SPFSs, 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* (2014). Furthermore, more recent research has found that: "... more than 87% of the variation in charities' financial reporting choice [between GPFSSs and SPFSs] cannot be explained by the model containing the three indicative factors from SAC 1 [see paragraph 33 of this Report above]. Generally, the results show that the charities do not consistently apply the guiding rules in SAC when deciding on whether to prepare GPFSS or SPFS."¹⁶
36. It is evident that many regulators have seemingly 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 A1. 1 in Appendix A1)
 - b) large co-operative charities registered with NSW Fair Trading (see Table A2. 2 in Appendix A2).

Interaction between regulations and the application clauses of AASB accounting standards

37. 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) GPFSSs of each other reporting entity
 - c) financial statements that are, or are held out to be, GPFSSs.
- (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.

16 Page 14 of Yang Y, Simnett R and Carson E (2017) *Report Prepared for the AASB and AUASB on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Sized Charities in 2014-2015*, UNSW Australia Report. The report also notes that about 54.2% of large and 23.1% of medium charities produce GPFSSs; and about 42% of large and 63% of medium charities produce SPFSs (and some do not state clearly whether they produce GPFSSs or SPFSs).

38. 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. As noted earlier in this Report, 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*
 - e) AASB 1054 *Australian Additional Disclosures*.
39. Even though the application clauses of these AASB accounting standards only refer to Corporations Act reporting requirements, regulators of other legislation (ACNC, ORIC and 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. Notably these requirements do not include related party disclosures.
40. Most legislation/regulations applicable to charities specify financial statements must present a true and fair view. Paragraph 15 of AASB 101 *Presentation of Financial Statements* requires financial statements to 'present fairly' the financial position, financial performance and cash flows of an entity.

Paragraph 17 of AASB 101 states that:

"In virtually all circumstances, an entity achieves a fair presentation by compliance with Australian Accounting Standards."

Although paragraph 19 goes on to say:

"In the extremely rare circumstances in which management concludes that compliance with a requirement in an Australian Accounting Standard would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that requirement in the manner set out in paragraph 20 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure."

Paragraph Aus19.1 does not permit private sector NFP entities (which include charities within the scope of this Report) to depart from a requirement in an Australian Accounting Standard. Despite this, because of the application of the reporting entity concept as noted in paragraph 34 above, practice under the current financial reporting framework results in complex decision making and an uneven playing field.

Interaction between regulations and AASB Tiers of GPFs

41. It is evident that, in addition to seemingly leveraging off the AASB accounting standards approach to determining whether GPFs and SPFs need to be prepared and with which standards those financial statements should comply, regulators also have the opportunity to leverage off the AASB's differing types of GPFs – being full GPFs (Tier 1 under AASB 1053) or RDR GPFs (Tier 2 under AASB 1053). 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 GPFs 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).
42. 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.”

43. No Australian regulators studied for the purpose of this Report have exercised their power to prescribe that any of their charities apply Tier 1 (full GPFs) 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

44. A final layer of complexity in the interaction between legislation/regulations applicable to charities 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.
45. 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 members¹⁷ involved with the preparation, presentation, audit, review or compilation of GPFs or SPFs¹⁸ of entities in the private and public sectors. Specifically, it provides mandatory requirements (in bold-type below) and guidance (in normal type) instructing members to take all reasonable steps¹⁹ 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)

17 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 NZ, CPA Australia and the Institute of Public Accountants have adopted this Standard as mandatory for their memberships.

18 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 requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements.”

19 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.

- b) "... apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework"²⁰ (paragraph 5.1 of APES 205)
- c) "... ensure that the Special Purpose Financial Statements, and any associated audit report, review report or compilation report clearly identifies:
 - i.) that the Financial Statements are Special Purpose Financial Statements
 - ii.) the purpose for which the Special Purpose Financial Statements have been prepared
 - iii.) the significant accounting policies adopted in the preparation and presentation of the Special Purpose Financial Statements"²¹.

Concluding comments on accounting standards

46. The analysis of the interaction between regulations and accounting standards in paragraphs 25-45 above indicates there is further potential to simplify and clarify the financial reporting framework applicable to charities. This could be achieved by, for example, giving consideration to:
- a) reducing the level of subjectivity involved in applying the regulations and thereby simplifying requirements for preparers and improving consistency of information made available to users through the framework;
 - b) setting the criteria and thresholds for publicly lodging financial statements to ensure the requirement is a form of GPFs (which could be something other than the current choice between full GPFs and RDR GPFs – see (c) immediately below) and help ensure a level playing field for all charities (ie no SPFSs should be lodged as, by definition, there should be no users of SPFSs that are of economic significance);
 - c) introducing more, targeted/proportionate, GPFs Tiers – GPFs need not be limited only to Tier 1 and Tier 2, but should be whatever form of reporting is determined and specified by the AASB as being appropriate for the applicable criteria and thresholds; and
 - d) making professional requirements more consistent with regulations (or vice versa).
47. Options for harmonising requirements to achieve a simpler, less subjective, more consistent framework will be considered in the forthcoming separate Consultation Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Charities Registered with the ACNC*.

Auditing and assurance requirements

48. Although auditing and assurance issues are touched on earlier in this Report, the following summarises them under this single heading.

²⁰ 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."

²¹ 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).

Federal level: Indigenous corporations

49. There are different audit requirements for entities who report to ORIC instead of the ACNC, with ORIC requiring the use of a registered company auditor on large corporations only (consolidated revenue >\$5m).

Federal and state/territory level: incorporated associations

Table 5 Auditor requirements for charities that are incorporated at a state/territory level

Auditor requirements (where a financial report is required to be prepared)	WA	VIC	QLD	NSW	NT	ACT	TAS	SA
Registered company auditor/authorised audit firm	✓	☐	✓	✓		☐	✓	✓
Public practice certificate (CA ANZ, CPA or IPA)		✓		✓	✓			
Member (CA ANZ, CPA or IPA)	✓					✓		✓
Other person approved by commissioner/registrar	✓	✓	✓		△		✓	✓
Audit or review allowed based on size	✓	✓				○	○	○

☐ Required for entities with more than \$1m in revenue.

○ For the Australian Capital Territory (ACT) (from 1 July 2017), South Australia (SA) (1 January 2017) and Tasmania (1 October 2016), reviews can be conducted on entities with less than \$1m in revenue as a result of streamlined reporting arrangements with the ACNC.

△ Tier 1 entities can be audited by a non-associated lay person.

50. Auditors of ACNC entities that are incorporated associations are subject to a diverse range of qualifications depending on the state or territory the entity is registered in. This results in some states or territories mandating sign-off by a registered company auditor only (eg Victorian incorporated associations registered with more than \$1m in revenue), whereas some states or territories only require a member of a professional body with a practicing certificate to audit their largest entities.
51. The ACNC audit requirements are similar to those applying to incorporated associations registered in Victoria, including the use of a registered company auditor for entities with more than \$1m in revenue.
52. The ACNC and NSW are the only jurisdictions that do not allow the use of another type of auditor through Commissioner discretion.
53. There are also differences across the jurisdictions in relation to the ability for the assurance practitioner to perform a review instead of an audit, with only Victoria and Western Australia (WA) permitting this type of engagement in their legislation. This situation is changing for SA (from 1 January 2017), Tasmania (from 1 October 2016) and the ACT (1 July 2017) by virtue of changes to state-based legislation that allows charities that are incorporated associations in these jurisdictions to lodge with the ACNC.
54. Similar to the differential reporting requirements, which are based on size (usually based on revenue and assets), there are also differences (eg when a registered company auditor is required to perform the audit) across jurisdictions in relation to different sized entities – see Table A2. 1 for more detail in relation to these requirements.

State/territory level: co-operatives

55. In Queensland, an audit is required to be conducted by a registered company auditor. In other states and territories the requirement is based on the size of the entity, with those that are considered to be large requiring a registered company auditor.

Interaction between regulations and AUASB standards

56. The requirement to comply with Auditing and Assurance Standards Board (AUASB) standards varies across the states and territories. Victoria, NSW and WA require compliance with AUASB Standards, whilst Queensland and the NT do not specify which standards apply (eg the NT legislation refers to “in line with the law”). The ACNC Act also mandates compliance with AUASB standards.
57. When providing an opinion on GPFs, paragraphs 25-27 of ASA 700 *Forming an Opinion and Reporting on a Financial Report* require the auditor to determine whether the financial report has been prepared in accordance with an applicable framework before issuing an unmodified opinion.
58. When providing an opinion on SPFSs, paragraph 8 of ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* requires the auditor to determine the acceptability of the financial reporting framework in the preparation of a financial report before issuing an unmodified opinion.

Interaction between regulations and professional obligations of accountants

59. In addition to APES 205 *Conformity with Accounting Standards* referred to in paragraph 45 above, assurance practitioners must comply with APES 110 Code of Ethics for Professional Accountants and other ethical standards by virtue of ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

Implications of a requirement to appoint a registered company auditor

60. The requirement for large entities registered with the ACNC to have an audit conducted by a registered company auditor has raised a number of challenges for large ACNC entities. These challenges have been well documented in research conducted on behalf of CA ANZ by the University of Adelaide (Dr Max Bessell, Dr Lisa Powell and Professor Grant Richardson) and published in a report titled *The Demand for Registered Company Auditor Services in Australia*. These include:
- a) difficulties in the ability to find a local auditor, forcing entities to pay a premium
 - b) increasing the workload of existing registered company auditors with a potential impact on audit quality.

Concluding comments on assurance requirements

61. Similarly to the concluding comments on accounting standards in paragraph 46, the analysis of the assurance requirements set out above indicates there is further potential to simplify and clarify the financial reporting framework applicable to charities. This could be achieved by, for example, giving consideration to:

62. Similarly to the concluding comments on accounting standards in paragraph 46, the analysis of the assurance requirements set out above indicates there is further potential to simplify and clarify the reporting framework applicable to charities. This could be achieved by, for example, giving consideration to:
- a) Clarification of assurance requirements to align with the use of consistent criteria and thresholds when the assurance practitioner is providing an opinion or conclusion on a financial report;
 - b) The provision of targeted assurance procedures providing reasonable or limited assurance on a subject matter other than a financial report (e.g. assurance over service performance information, compliance with a regulatory requirement or assurance over specific financial information);
 - c) The use of Agreed-Upon Procedures that provides a report of factual findings (rather than independent assurance) upon which the intended users may draw their own conclusions with respect to the subject matter and
 - d) An engagement that covers a combination of different subject matters or level of assurance, each considered as a separate section of the engagement. This type of engagement is commonly known as a multi-scope engagement.
63. Options for harmonising requirements to achieve a simpler, less subjective, more consistent framework will be considered in the forthcoming separate Consultation Paper *Possible Options for Improving the Financial Reporting Framework Applicable to Charities Registered with the ACNC*.

Selected international financial reporting frameworks

64. The description of the current financial reporting frameworks applicable to charities/private sector NFP entities in the selected non-Australian jurisdictions in Appendix B shows significant disparity internationally. Table 6 below provides a comparative summary – Australia (ACNC) is shown for comparative purposes.
65. From the Table, it is evident that the financial reporting frameworks differ from that in Australia (which itself is disparate – as noted in paragraphs 14-47 above).
66. In contrast to some Australian regulators, it is evident that the regulators in comparable international jurisdictions determine the nature of the financial statements to be submitted on the public record by charities (ie generally only GPFs are permitted). Some jurisdictions have more possible types of financial statements (eg NZ and South Africa have four – compared with Australia’s two), allowing for more proportionate/targeted regulation having regard to features of particular cohorts of charities and their users’ needs.
67. Although the approaches adopted in other jurisdictions might help inform improvements in Australia, it is apparent that the magnitude of the thresholds themselves are jurisdiction specific and dependent on the demographics of the respective charities’ sectors.
68. The following Table highlights some approaches adopted by comparable overseas jurisdictions documented in this Report that could be considered for adoption in Australia as a way of improving the current financial reporting framework applicable to charities.

	International Approach	Comments
1	Alternative threshold criteria	New Zealand (NZ) adopts ‘annual expenses’ for some tiers, and ‘annual operating payments’ for smaller entities (see paragraph B11). Hong Kong only requires the filing of financial reports by companies limited by guarantee (see paragraph B33).
2	Public Interest Score	South Africa converts its various threshold criteria into a single score, which gives different weightings to: number of employees, amount of third party

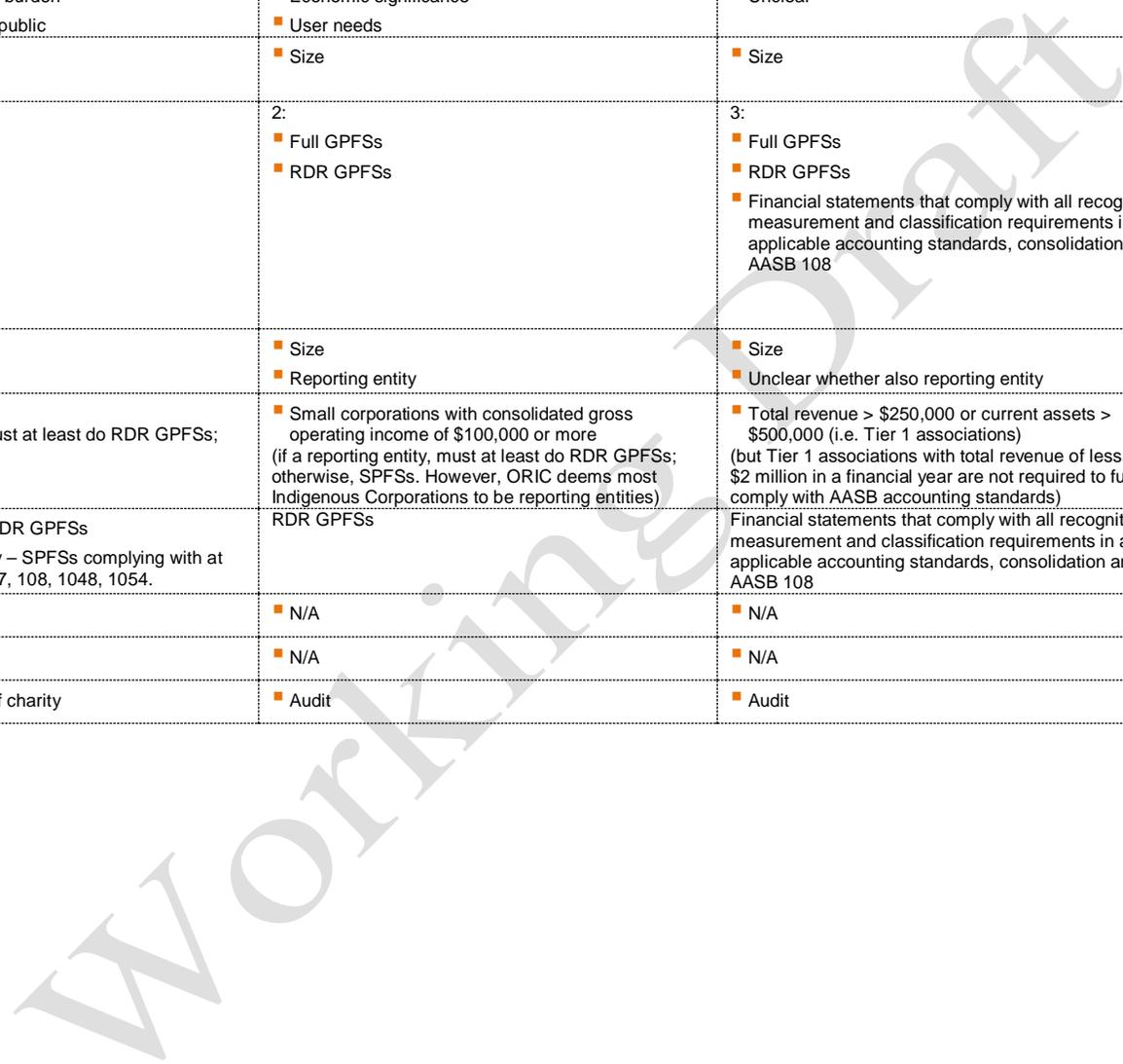


	International Approach	Comments
		liabilities (in Rand [R]), R in turnover, and number of members of the company/association.
3	Wide range of entities subject to financial reporting requirements (which presumably gives rise to approach 4 immediately below)	<p>In NZ: all charities are subject to some form of financial reporting (see paragraph B11).</p> <p>In Singapore: all Volunteer Welfare Organisations are required to submit financial statements (see paragraph B54).</p> <p>In South Africa: all charities are subject to some level of financial reporting requirements (see paragraph B63 and the accompanying Table).</p>
4	Multiple alternative levels of specified financial reporting (presumably as a result of approach 3 immediately above), which facilitates proportionate regulation	<p>NZ has four tiers ranging from entities with less than \$125,000 annual operating payments without 'public accountability' (as defined) through to entities with 'public accountability' or over \$30 million annual expenses. The former adopt simple format (cash) reporting, the latter adopt full accrual accounting standards. The in-between tiers are RDR GPFs and modified accruals (see paragraph B11).</p> <p>UK also specifies some level of financial reporting for all charities, the least onerous being receipts and payments without an audit through to accruals with a full audit (see Table B3 in paragraph B29).</p> <p>South Africa requires different types of reporting depending on an entity's 'public interest score' (see item 2 above), one of which is IFRS for SMEs (see the Table accompanying paragraph B63).</p>
5	Regulators prescribe what is to be reported on the public record (rather than entities self-assessing whether they are reporting entities and, if not, effectively choosing the content of SPFSs).	All jurisdictions within the scope of this Report, with the possible exception of South Africa for entities with a 'public interest score' of less than 100 (see approach 2 above).
6	Disclosure of information about service performance	NZ requires some charities to disclose a 'statement of service performance' (see paragraph B7).

69. The approaches adopted in other countries help inform a debate about alternative approaches that could be considered for adoption in Australia to help simplify and make the Australian financial reporting framework more consistent. The international approaches identified in this Research Report help inform the options that will be identified in the forthcoming AASB Consultation Paper Possible Options for Improving the Financial Reporting Framework Applicable to Charities Registered with ACNC.
70. For comparative purposes, the following table summarises the main features of each overseas jurisdiction's financial reporting framework. To provide a contrast, the main features of the financial reporting frameworks specified by ACNC, ORIC and the New South Wales and Victorian regulators of incorporated associations are also summarised in the table. As is evident from the information in this table, a number of overseas jurisdictions have developed modified accrual accounting requirements based on IFRS for SMEs to be complied with by certain cohorts of charities. A separate AASB Paper will analyse the differences between Australia's Tier 2 (RDR GPFs) and alternative modified accrual accounting approaches adopted in NZ ('simple format report accrual'), UK ('accrual SORP'), Hong Kong (HKFRS) and South Africa (IFRS for SMEs).



Feature of the financial reporting framework	ACNC	ORIC	NSW (incorporated associations)	Victoria (incorporated associations)
1. Apparent underlying principle	<ul style="list-style-type: none"> Minimise compliance burden Accountability to the public 	<ul style="list-style-type: none"> Economic significance User needs 	<ul style="list-style-type: none"> Unclear 	<ul style="list-style-type: none"> Unclear
2. Criteria used for who should lodge financial statements	<ul style="list-style-type: none"> Size 	<ul style="list-style-type: none"> Size 	<ul style="list-style-type: none"> Size 	<ul style="list-style-type: none"> Size
3. Number of financial reporting tiers	3: <ul style="list-style-type: none"> Full GPFSSs RDR GPFSSs SPFSSs 	2: <ul style="list-style-type: none"> Full GPFSSs RDR GPFSSs 	3: <ul style="list-style-type: none"> Full GPFSSs RDR GPFSSs Financial statements that comply with all recognition, measurement and classification requirements in all applicable accounting standards, consolidation and AASB 108 	3: <ul style="list-style-type: none"> Full GPFSSs RDR GPFSSs Financial statements that give a true and fair view of the financial position and performance of the association during and at the end of its last financial year
4. Criteria used for determining what should be reported	<ul style="list-style-type: none"> Size Reporting entity 	<ul style="list-style-type: none"> Size Reporting entity 	<ul style="list-style-type: none"> Size Unclear whether also reporting entity 	<ul style="list-style-type: none"> Size Reporting entity
5. Threshold for accrual reporting	<ul style="list-style-type: none"> Revenue >\$250,000 (if a reporting entity, must at least do RDR GPFSSs; otherwise, SPFSSs) 	<ul style="list-style-type: none"> Small corporations with consolidated gross operating income of \$100,000 or more (if a reporting entity, must at least do RDR GPFSSs; otherwise, SPFSSs. However, ORIC deems most Indigenous Corporations to be reporting entities) 	<ul style="list-style-type: none"> Total revenue > \$250,000 or current assets > \$500,000 (i.e. Tier 1 associations) (but Tier 1 associations with total revenue of less than \$2 million in a financial year are not required to fully comply with AASB accounting standards) 	<ul style="list-style-type: none"> Revenue >\$250,000 (if a reporting entity, must at least do RDR GPFSSs; otherwise, SPFSSs)
6. Minimum accrual to be reported / assured?	<ul style="list-style-type: none"> If reporting entity – RDR GPFSSs If non-reporting entity – SPFSSs complying with at least AASBs 101, 107, 108, 1048, 1054. 	RDR GPFSSs	Financial statements that comply with all recognition, measurement and classification requirements in all applicable accounting standards, consolidation and AASB 108	<ul style="list-style-type: none"> If reporting entity – RDR GPFSSs If non-reporting entity – SPFSSs complying with at least AASBs 101, 107, 108, 1048, 1054.
7. Minimum threshold for cash reporting	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A
8. Minimum cash to be reported / assured	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A
9. Assurance requirements (none, review, audit)	<ul style="list-style-type: none"> Dependent on size of charity 	<ul style="list-style-type: none"> Audit 	<ul style="list-style-type: none"> Audit 	<ul style="list-style-type: none"> Dependent on size of charity





Feature of the financial reporting framework	NZ	UK	Hong Kong	Singapore	South Africa	Canada
1) Apparent underlying principle	<ul style="list-style-type: none"> 'Public accountability' (as defined) & the broader principle of accountability to the public Cost-benefit 	<ul style="list-style-type: none"> Accountability 	<ul style="list-style-type: none"> Public interest Limited liability 	<ul style="list-style-type: none"> Accountability 	<ul style="list-style-type: none"> Public interest 	<ul style="list-style-type: none"> Accountability
2) Criteria used for who should lodge financial statements	<ul style="list-style-type: none"> All registered entities 	<ul style="list-style-type: none"> All registered charities (if annual income is less than £5,000, not required to register) 	<ul style="list-style-type: none"> Legal structure 	<ul style="list-style-type: none"> All registered Volunteer Welfare Organisations 	<ul style="list-style-type: none"> Degree of public interest 	<ul style="list-style-type: none"> Soliciting corporation (ie more than \$10,000 in income from public sources)
3) Number of financial reporting tiers	<p>4:</p> <ul style="list-style-type: none"> Full standards Reduced disclosure regime Simple format report accrual Simple format report cash (Notably, all tiers include some form of requirement for related party disclosures) 	<p>2:</p> <ul style="list-style-type: none"> Accrual Statement of Recommended Practice (SORP) – which is based on IFRS for SMEs-Cash 	<p>3:</p> <ul style="list-style-type: none"> Full HKFRS (equivalent to full IFRS) HKFRS for Private Entities (equivalent to IFRS for SMEs) Locally developed Reporting Standards 	<p>2:</p> <ul style="list-style-type: none"> Singapore national accounting standards for public companies Financial Reporting Standards (FRS) – based on IFRSs with some local amendments Charities Accounting Standards (CAS) – based on FRS taking into account the context and circumstances relevant and unique to charities 	<p>4:</p> <ul style="list-style-type: none"> Full IFRS IFRS for SMEs South African GAAP Financial Reporting Standards as determined by the company 	<p>2:</p> <ul style="list-style-type: none"> Accrual accounting Cash accounting
4) Criteria used for determining what should be reported	<ul style="list-style-type: none"> Size 'Public accountability' (as defined) 	<ul style="list-style-type: none"> Size Legal structure 	<ul style="list-style-type: none"> Company limited by guarantee 	<ul style="list-style-type: none"> All registered entities are subject to the same reporting requirements (except a charity holding significant investments in any subsidiary, associate or joint venture that is not a charity is required to use FRS [see item 3 above]) 	<ul style="list-style-type: none"> Public interest score 	<ul style="list-style-type: none"> All soliciting corporations are subject to the same reporting requirements
5) Threshold for accrual reporting	<ul style="list-style-type: none"> Expenses < \$2m (& operating payments > \$125,000) without 'public accountability' must at least comply with simple format report accrual Expenses < \$30m without 'public accountability' must at least comply with RDR Expenses > \$30m or has 'public accountability' must comply with full standards 	<ul style="list-style-type: none"> Unincorporated charity or charitable incorporated organisation with gross income > £250,000 or gross assets > £3.26m (and income > £250,000) All small charitable companies 	<ul style="list-style-type: none"> Company limited by guarantee 	<ul style="list-style-type: none"> Registered 	<ul style="list-style-type: none"> Public interest score less than 100, calculated as: <ul style="list-style-type: none"> Turnover (1 point per R 1 million) Third party liabilities (1 point per R 1 million) Number of employees (1 point per average employees) Number of members (1 point per member) 	<ul style="list-style-type: none"> Gross revenue > \$100,000 Property not used in charitable activities or administration > \$25,000 Permission to accumulate property.
6) Minimum accrual to be reported / assured?	<ul style="list-style-type: none"> Simple format report – accrual Does not permit SPFSs 	<ul style="list-style-type: none"> Financial statements in accordance with SORP, which is based on IFRS for SMEs – consolidate if gross income of group is > £500,000 Does not permit SPFSs 	<ul style="list-style-type: none"> Financial statements Does not permit SPFSs 	<ul style="list-style-type: none"> Financial statements Does not permit SPFSs 	<ul style="list-style-type: none"> Financial statement prepared with self-determined financial reporting standard 	<ul style="list-style-type: none"> Financial statements
7) Minimum threshold for cash reporting	<ul style="list-style-type: none"> Operating payments \$0 	<ul style="list-style-type: none"> Gross income £0 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A
8) Minimum cash to be reported / assured	<ul style="list-style-type: none"> Simple format report – cash 	<ul style="list-style-type: none"> Receipts & payments 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> N/A
9) Assurance requirements (none, review, audit)	<ul style="list-style-type: none"> Dependent on size of charity 	<ul style="list-style-type: none"> Dependent on size of charity 	<ul style="list-style-type: none"> Requires audit of all companies limited by guarantee 	<ul style="list-style-type: none"> Dependent on organisation's structure and size 	<ul style="list-style-type: none"> Dependent on 'public interest score' and whether accounts are internally compiled 	<ul style="list-style-type: none"> Dependent on whether a soliciting organisation and size



The ACNC and the definition of ‘charity’

71. The independent national regulator of charities is the Australian Charities and Not-for-profits Commission (ACNC), set up to achieve the following objects:
- maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency
 - support and sustain a robust, vibrant, independent and innovative NFP sector
 - promote the reduction of unnecessary regulatory obligations on the sector.¹
72. As part of its role, ACNC only registers ‘charitable entities’ (as defined – see paragraphs 73 and 74 below) – although registration is voluntary. If registered, charities are required to comply with the reporting requirements set by ACNC, as outlined in Table A1. 1 in Appendix A1 below. In some cases, there are reporting requirements in addition to ACNC requirements.
73. 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 NFP entity
 - have only charitable purposes that are for the public benefit, or incidental or ancillary to, and in furtherance or in aid of, such purpose
 - not have disqualifying purposes²
 - not be an individual, a political party or a government entity.
74. Under the *Charities Act 2013 (Cth) section 12* ‘charitable purpose’ has a special legal meaning, developed over the years by the courts and parliament. The courts have recognised many different charitable purposes, and as society changes new charitable purposes are accepted. *The Charities Act 2013* currently lists the following 12 charitable purposes:
- advancing health
 - advancing education
 - advancing social or public welfare
 - advancing religion
 - advancing culture
 - promoting reconciliation, mutual respect and tolerance between groups of individuals that are in Australia
 - promoting or protecting human rights
 - advancing the security or safety of Australia or the Australian public
 - preventing or relieving the suffering of animals

1 See the [ACNC website](#).

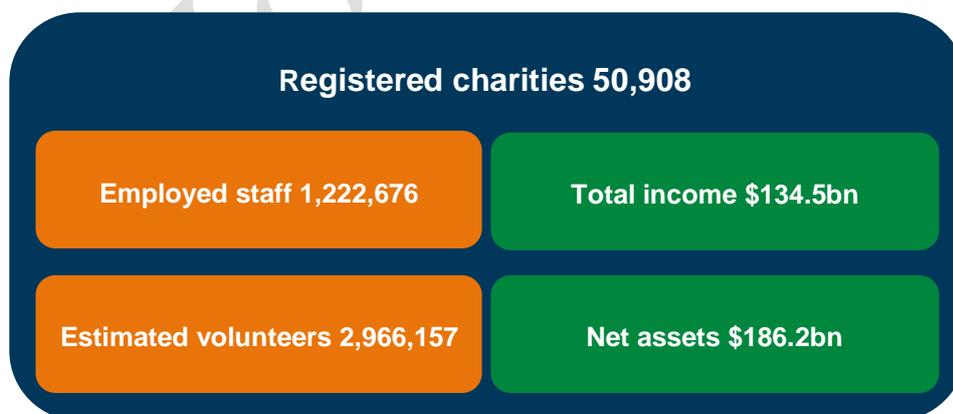
2 Some purposes are explicitly disqualified by ACNC from being charitable, such as the purposes of engaging in or promoting activities that are unlawful or against public policy, or promoting or opposing a political party or a candidate for political office. (ACNC 2017). Source of information: [ACNC website](#).

- j) advancing the natural environment
 - k) promoting or opposing a change to any matter established by law, policy or practice in the Commonwealth, a State, a territory or another country (where that change furthers or opposes one or more of the purposes above)
 - l) other similar purposes 'beneficial to the general public' (a general category).³
75. Examples of charities are religious groups, homeless shelters and animal welfare societies.
76. 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, if they do not meet the strict definition in the ACNC Act, they are not eligible to be registered with the ACNC as a charity.

Explanation of the scope of this Report

77. 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:
- a) incorporated structures: companies limited by guarantee, proprietary limited companies and incorporated associations (including trusts); and
 - b) unincorporated structures: unincorporated associations and co-operatives.
78. For a brief explanation of each, see paragraphs A1.2-A1.10 of Appendix A1 of this Report. The various legal entity structures able to be registered as a charity means that a review of the financial 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.
79. 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 three million volunteers (Figure 3).⁴

Figure 3 Australian charity sector statistics, 2015



³ See [the ACNC website](#).

⁴ Cortis N, et al. *Australian Charities Report 2015*. Centre for Social Impact and Social Policy Research Centre, UNSW Australia, 2016.



80. This Report is particularly focused on charities as defined by ACNC and registered with ACNC. There are incentives for charities to register with ACNC, including an ability to apply for tax concessions that are only available to ACNC registered entities (including GST concessions and FBT rebates⁵). It is expected that most charities would elect to register with ACNC in order to access the tax concessions.
81. The purpose of this Report is to document the financial reporting and assurance legislative and other regulatory requirements applicable to charities registered with ACNC. 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, which commences on 3 December 2017 (to be completed within six months), to be undertaken having regard to the objects of the ACNC noted in paragraph 80 above.
82. Reasons for the scope limitation are summarised below:
- a) given the scope of the broad project referred to in paragraph 2 above, more timely progress can be made by breaking the project down into discrete components, one component being 'charities registered with ACNC'
 - b) as noted in paragraph 79 above, charities registered with ACNC are an economically significant part of the NFP private sector in Australia (and indeed of the Australian economy as a whole)
 - c) often charities are volunteer-run organisations and therefore may lack the resources that a for-profit entity has available to satisfy financial reporting requirements – therefore an improved framework can help make the sector more efficient and effective in meeting its objectives whilst satisfying any accountability obligations
 - d) the charity reporting framework is complex, with some reporting requirements from both federal and state/territory regulators not being aligned, and subjective. Therefore, existing requirements are fertile ground for making significant improvement (eg in reducing duplicated and subjective requirements and improving consistency in financial reporting across the sector)
 - e) the review of the ACNC legislation by Treasury, which, as noted in paragraph 80 above, is commencing on 3 December 2017.
83. Because the main focus is on charities registered with 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 16 above, charities that are companies registered with ACNC are exempt from ASIC reporting requirements and are subject to ACNC reporting requirements instead. ASIC reporting thresholds for proprietary companies differ substantially from ACNC reporting thresholds (as does the guidance on SPFSs – see Tier 2 of Table A1. 1 in paragraph A1.12, compared with Tier 2 of Table A3.1 in paragraph A3.3) and therefore a full separate analysis of ASIC requirements is of limited relevance in the context of this Report.⁶ ASIC reporting thresholds for companies limited by guarantee are similar⁷ to ACNC reporting thresholds (although the guidance on

5 In contrast, designated gift recipient (DGR) status, which must also be applied for, is not limited to ACNC registered entities.

6 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 ASIC reporting requirements for proprietary companies that are not registered with ACNC will be the subject of future research work.

7 One difference is that the 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, this threshold is unnecessary. Another difference is the level of specificity regarding guidance on SPFSs. ASIC explicitly states in Regulatory Guide 85 *Reporting requirements for non-reporting entities* that the recognition and measurement requirements in all AASB accounting standards should be applied whereas ACNC does not make such an explicit statement (see Table 1 above and Table A1. 1 and paragraph A1.21 of Appendix A1 and paragraphs A3.23-A3.24 of Appendix A3 of this Report).



SPFSs is substantively different), and therefore a full separate analysis of ASIC requirements would be repetitive. However, the rationale given by ASIC for its reporting thresholds and its guidance on SPFSs for proprietary companies and companies limited by guarantee (that apply to charities that are not registered with ACNC) is useful to consider, particularly given other regulators use the same or similar thresholds. Accordingly, this Report documents those ASIC thresholds and guidance and their rationale in Appendix A3.

84. In addition to charities being registered with both ACNC and ASIC but only subject to ACNC reporting requirements, charities might also be registered with both ACNC and ORIC (the regulator for indigenous 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.
85. In addition to considering the reporting framework applicable to Australian charities registered with ACNC, Appendix B of this Report considers the charity reporting framework of each of the following other jurisdictions:
- a) NZ (NZ)
 - b) United Kingdom (UK)
 - c) Hong Kong
 - d) Singapore
 - e) South Africa
 - f) Canada.
86. Information about these jurisdictions might identify possible ways to help resolve the concerns with the Australian reporting framework referred to in paragraph 1 above.
87. The depth of research undertaken for the purpose of this Report is limited to the extent sufficient to identify (i) issues with (criticisms of) the current reporting framework in Australia for charities and (ii) possible ways to improve the reporting framework by reference to the frameworks adopted by selected overseas jurisdictions. Accordingly, not all applicable requirements have been documented in this Report. For example:
- a) in addition to ACNC requirements, there are additional federal reporting requirements applicable to registered charities such as non-government schools; and entities that fundraise often have reporting requirements irrespective of their legal structure. There might also be specific state financial reporting requirements, for example for an entity operating gaming activities. These requirements are not documented in detail in this Report; and
 - b) some ACNC requirements are subject to transitional arrangements (eg where charities no longer report to state regulators, such as the three year transitional arrangements for Tasmanian and South Australian incorporated associations). These transitional arrangements are also not documented in detail in this Report.
88. Consistent with the limited depth of research, unincorporated associations and trusts are also not considered in detail in this Report. Furthermore, this Report only documents rationales given for selected requirements where they were readily accessible and easy to find. In addition, in relation to international jurisdictions, regulations in the USA have been excluded – to do otherwise could swamp the Report, with 50 states all potentially having different regulations.
89. In describing and interpreting the regulations within the scope of this Report, the guidance provided by regulators on their websites has been used extensively as a resource.



APPENDIX A1: Federal financial reporting requirements

ACNC Registered Charities

- A1.1 As noted in paragraph 77 above, the range of legal structures available to a charity includes companies limited by guarantee, proprietary limited companies, incorporated associations (including trusts), unincorporated associations and co-operatives. Each is briefly explained in paragraphs A1.2-A1.10 below.

Incorporated structures

Companies limited by guarantee

- A1.2 This is a common structure used by Australian charities. A company limited by guarantee is a type of public company incorporated at the federal level under the *Corporations Act 2001* by ASIC.¹ Refer to Appendix A3 of this Report for specific ASIC reporting requirements, which align with ACNC requirements even in the absence of ACNC registration, and the rationale given for those requirements. This Appendix (A1) outlines the specific ACNC reporting requirements applicable to charities that are companies limited by guarantee that are registered with ACNC.

Proprietary companies (Pty Ltd)

- A1.3 A proprietary company is a private company incorporated at the federal level under the *Corporations Act 2001* by ASIC.² The liability of shareholders of a proprietary company is limited to outstanding amounts owing on any shares. Refer to Appendix A3 for specific ASIC reporting requirements that would apply in the absence of ACNC registration and the rationale given for those requirements. This Appendix outlines the specific ACNC reporting requirements applicable to charities that are proprietary companies that are registered with ACNC.

Indigenous corporations

- A1.4 An indigenous corporation is an incorporated legal structure only available for Aboriginal and Torres Strait Islander organisations. An indigenous corporation is incorporated at the federal level under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (Cth) (CATSI). An information sheet issued by ORIC explains that the CATSI Act is modelled on the Corporations Act. The CATSI Act differs from the Corporations Act by allowing greater cultural flexibility to Aboriginal and Torres Strait Islander corporations for cultural practices and individual needs. Indigenous corporations are regulated by the Office of the Registrar of

1 [Corporations Act 2001 sect 292](#)

2 [Corporations Act 2001 sect 292](#)

Indigenous Corporations (ORIC). Refer to paragraphs A1.31-A1.40 of this Appendix for specific reporting requirements and the rationale given for those requirements.

Incorporated associations

- A1.5 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 A2.1-A2.5 of Appendix A2 of this Report for specific reporting requirements and some of the rationales given for those requirements.

Co-operatives

- A1.6 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 level³. Refer to paragraphs A2.7 and A2.8 of Appendix A2 of this Report for specific reporting requirements and the rationale given for those requirements.

Unincorporated structures

Unincorporated associations

- A1.7 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.
- A1.8 There are no statutory financial reporting requirements imposed on unincorporated associations or other bodies by the states or territories.⁴ 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 A1.11 and Table A1. 1 below).

Trusts (including testamentary trusts created in a will)

- A1.9 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 ACNC⁵.
- A1.10 Similar to unincorporated associations, there are no statutory requirements for financial reporting imposed on charitable trusts by the states or territories.⁶ A corporate trustee is

3 [What is a co-operative. Consumer Affairs Victoria?](#)

4 [Council of Australian Governments 2013](#), page 90.

5 [Report Annually](#). ACNC.

6 [Council of Australian Governments 2013](#), page 90.

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 A1.11 and Table A1. 1 below).

Financial reporting requirements

- A1.11 Entities registered as a charity with ACNC are required to report annually to ACNC. They must submit an Annual Information Statement (AIS)⁷, unless they are registered by ORIC. A 'basic religious charity'⁸ does not need to answer the financial information questions in the AIS – nor do they need to submit annual financial reports. 'Non-government schools' are not required to provide financial information to ACNC directly. The ACNC website, under 'Non-government schools' section states "Non-government schools submit financial questionnaires to the Department of Education and Training (DET) as a requirement under the *Australian Education Act 2013* (Cth). The ACNC Commissioner has agreed to accept these financial questionnaires as meeting the financial reporting requirements under the ACNC Act for the 2014, 2015 and 2016 reporting periods (transitional reporting arrangement for non-government schools)."
- A1.12 Table A1. 1 shows ACNC thresholds of the reporting and assurance 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 A1. 1 ACNC reporting thresholds

Tier	Criteria	Reporting required	Minimum level of Assurance
1	Small charity – annual revenue ⁹ is less than \$250,000	AIS, and may use accrual or cash accounting (can choose to submit a financial statement)	N/A
2	Medium charity – annual revenue is \$250,000 or more, but less than \$1,000,000	<p>AIS and Annual financial report.</p> <p>If a reporting entity (as defined by the AASB, assessed by the charity):</p> <p>a) Full GPFSS;¹⁰ or</p> <p>b) RDR GPFSSs.</p> <p>If not a reporting entity: SPFSs, complying with at least¹¹ AASBs 101, 107, 108, 1048, 1054¹².</p>	<p>Review, which can be done by:</p> <ul style="list-style-type: none"> ■ a registered company auditor ■ an authorised audit company ■ a current member of a relevant professional body.

7 AIS 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](#)'.

8 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?](#)'

9 The ACNC website includes guidance for charities in determining 'revenue' – and provides a '[Charity size calculator](#)'.

10 Under AASB 1053 *Application of Tiers of Accounting Standards*, no charities would be required to prepare full GPFSSs. Refer to paragraphs 39-43 of this Report for a description of the application of AASB 1053.

11 Section 60.10(3) of ACNC Regulations requires financial statements and notes give a 'true and fair view', and the determination is required by the directors as well as the auditors in their audit report. Based on this, arguably it would be necessary to apply all recognition and measurement requirements in all applicable AASB accounting standards – but this is not a universally held view.

Tier	Criteria	Reporting required	Minimum level of Assurance
3	Large charity – annual revenue is \$1,000,000 or more	Same as for medium charities (see immediately above).	Audit, which can be done by: <ul style="list-style-type: none"> a registered company auditor an authorised audit company.

The boundary of the registered entity

- A1.13 ACNC’s primary regulatory focus is on the organisation that is registered as a charity (the ‘registered entity’¹³). ACNC’s website section ‘What will the ACNC ask for when I apply to register?’ notes that ACNC does not register charities according to their legal structure, but the organisation’s legal structure must be described in the application form. ACNC does not explicitly describe how the boundary of a registered entity is to be determined. The boundary is particularly pertinent to the question of how revenue thresholds are to be determined (see paragraphs A1.15-A1.18 below), and whether parent-only or consolidated financial reports are required or permitted to be lodged (see paragraphs A1.19-A1.21 below).
- A1.14 Although ACNC does not explicitly address the boundary of a registered entity, it does provide guidance on ‘group reporting’ in relation to a group of registered charities in the ‘Group reporting and bulk lodgement’ section of its website. In particular, ACNC will, in certain circumstances, grant permission for:
- joint reporting, which is when a charity, as part of a group of registered charities, submits one AIS and one financial report (if applicable)
 - collective reporting, which is when a charity, as part of a group of registered charities, submits one or more AISs or financial reports on another basis (eg according to types of activities).¹⁴

Consistent with paragraphs 6.81 and 6.82 of the explanatory memorandum associated with the ACNC Act, ACNC approves registered charities for group reporting based on affiliation and proximity – they are not a group necessarily based on control, but rather an amalgamated financial report is prepared for the group. In relation to group reporting, ACNC states:

“A consolidated group could include registered charities, non-registered not-for-profits and private businesses, each one having different ABNs.

If the registered charity is a reporting entity and the parent charity of the consolidated group, they need to prepare consolidated financial statements in order to comply with Australian Accounting Standards.”¹⁵

12 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: www.legislation.gov.au)

13 *Australian Charities and Not-for-profits Commission Act 2012 s300-5* “registered entity means an entity that is registered under this Act.”

14 The effect of section 60.25 of *Australian Charities and Not-for-profits Commission Regulation 2013* is that group reporting as described by ACNC could usurp accounting standards (in particular AASB 10).

15 See under question 5(b) of *Financial questions for medium and large charities* [ACNC website]. The acronym ABNs is Australian business numbers. Furthermore, Condition 3 of *New conditions for joint reporting – changes from 1 July 2017* states:

Consolidation and determining ACNC tiers

- A1.15 Table A1. 1 above shows the criteria/thresholds of the reporting requirements, which are based on revenue of the registered entity. As noted in paragraph A1.12 above, 'revenue' is to be calculated in accordance with accounting standards¹⁶ in force at the relevant time.
- A1.16 Whilst the Act is clear that revenue of the registered entity is to be determined in accordance with AASB accounting standards, ACNC does not explicitly state whether the amount of revenue is determined by reference to only the registered entity's revenue; or by reference to the consolidated revenue (where the registered entity controls other entities) as would be recognised under AASB 10 *Consolidated Financial Statements*.
- A1.17 However, in the context of 'group reporting', that is, joint or collective reporting (see paragraph A1.14 above), ACNC notes in the 'Charity size and group reporting' section of its website that the size of the reporting group is:
- large if one or more of the charities in the group is large
 - medium if one or more of the charities in the group is medium and none is large, or
 - small if none of the charities in the group are medium or large.
- A1.18 The approach to determining size in a group reporting context described in paragraph A1.17 immediately above suggests that ACNC takes a registered entity/parent entity focus (and not a consolidated group focus) for the purposes of determining whether thresholds are met.

Consolidation and financial reporting

- A1.19 For registered entities that are medium or large charities and therefore required to prepare financial statements based on the criteria/thresholds in Table A1. 1 above, the requirement to prepare consolidated or non-consolidated financial statements is apparently dependent on whether the registered entity prepares GPFSSs or SPFSs¹⁷.
- A1.20 An entity preparing GPFSSs is required to comply with AASB 1053 Tier 1: full GPFSSs or Tier 2: RDR GPFSSs. Therefore a registered entity preparing GPFSSs would be required to prepare consolidated financial statements in accordance with AASB 10 (if applicable), in order to comply with accounting standards.
- A1.21 Generally, a registered entity preparing SPFSs¹⁸ is explicitly required to comply with certain Australian accounting standards (see the list in Table A1. 1. The ACNC does not explicitly state the extent to which the standards that are not listed are required to be complied with. However, the law requires the financial statements present a true and fair view, which is interpreted by some as requiring compliance with at least all the recognition and

"For the ACNC to accept a consolidated financial report as the annual financial report for your group of joint reporters, it must clearly indicate the financial information that relates to ACNC-registered charities and the financial information that relates to entities not registered with the ACNC (if any).

If the consolidated financial report contains information for entities not registered with the ACNC, it must include a disclosure note that specifies the financial information of the ACNC-registered charities and the financial information of the entities not registered with the ACNC. ..." [ACNC website]

16 Australian Charities and Not-for-profits Commission Act 2012 s300-5 "accounting standards has the same meaning as in the Corporations Act 2001."

17 SPFSs are prepared by charities that are not a reporting entity in accordance with AASB 1053.

18 *Australian Charities and Not-for-profits Commission Regulations 2013* s60.30(2) requires an entity preparing SPFSs to comply with all of the following standards unless the commissioner allows the entity not to comply with part or all. AASB 101, AASB 107, AASB 108, AASB 1031, AASB 1048 and AASB 1054.



measurement requirements in all applicable AASB accounting standards (see footnote 5 to Table A1. 1 above).

- A1.22 If a parent entity is registered with ACNC, for registered charities submitting SPFSs, ACNC accepts either:
- a) consolidated financial statements (although the AIS figures must reflect only the parent entity figures), or
 - b) parent-only financial statements.¹⁹

Movement between ACNC tiers

- A1.23 As outlined in Table A1. 1 and paragraph A1.12, the assessment of a charity's size and related reporting requirements are based on a charity's annual revenue. For some charities, this annual assessment may result in movement between ACNC reporting tiers. For example a charity may receive a one-off bequest from a will that results in the charity moving from 'small' to 'medium'. As the bequest is one off, it is likely the charity will return to being 'small' in the subsequent year.
- A1.24 The movement between ACNC tiers may result in additional reporting requirements that are not expected to continue. To alleviate this burden, a charity may apply to the Commissioner to retain their current reporting requirements.
- A1.25 The *Australian Charities and Not-for-profits Commission Act 2012* s205-25(5) specifies that:
- “The Commissioner may continue to treat a registered entity as either a small, medium or large registered entity for a financial year if the Commissioner is of the opinion that:*
- a) *the entity was a registered entity of that size for the previous financial year;*
 - and*
 - b) *the entity, while not being of that size for the current financial year, is likely to return to that size during the financial year.”*
- A1.26 The operationalisation of s205-25 is through a form on the ACNC website, which requires the applying entity to report:
- a) revenue for the previous reporting period
 - b) revenue for the current reporting period
 - c) details of the one-off event that has caused the revenue increase
 - d) projected revenue for the next reporting period, for example a budget or forecast.

Rationale given for the requirements

- A1.27 The ACNC reporting thresholds are established in the *Australian Charities and Not-for-profits Commission Act 2012*²⁰ (the Act). As stated in paragraphs 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”.

¹⁹ See [Commissioner Policy Statement: Group reporting](#) in paragraph 3, fourth dot point (re parent entity being registered with ACNC needs to provide a consolidated report) and paragraphs 7 and 58 (re financial information within the AIS only relating to the parent entity figures).

²⁰ See www.legislation.gov.au.



- A1.28 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).
- A1.29 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 A1.28 above) – that is, accountability for receiving public monies and support.
- A1.30 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*²¹ 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 A3 of this Report for a discussion of the rationale given for those thresholds in the companies limited by guarantee context).

Indigenous Corporations

- A1.31 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)²².
- A1.32 All Indigenous Corporations must lodge reports with ORIC (which satisfies ACNC reporting requirements – see paragraph 17 above). What is to be reported is dependent on the criteria shown in Table A1. 2²³. Page 22 of ORIC’s *Corporation reporting guide* states:

“Under the accounting standards the directors of the entity self determine if they are a reporting entity. The determination rests on the self-assessment of whether users exist that are likely to use their financial statements. If it is decided that no interested users are likely to exist the corporation can prepare special purpose financial statements which are not prepared in accordance with all the standards. However, under the CATSI Regulations, most CATSI corporations are deemed to be reporting entities and are required to produce general purpose financial statements.”^{24,25}

21 See www.treasury.gov.au.

22 [Corporations \(Aboriginal and Torres Strait Islander\) Act 2006](#), although the ORIC website provides the following definitions in a fact sheet ‘Corporation size and reporting’:

“Consolidated gross assets = the total value of things owned by the corporation and any entities it controls.”

“Consolidated gross operating income = the total value of the money made by the corporation and any entities it controls.”

23 This table is adopted from the [ORIC website](#).

24 www.legislation.gov.au

Table A1. 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 ²⁶	N/A
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>1) General report 2) Financial report²⁷ and audit report or financial report based on reports to government funders (if eligible*)</p> <p>(Indigenous corporations required under the CATSI Act and Regulations to lodge financial reports are required to prepare and lodge GPFs. Therefore, the financial report could be full GPFs or RDR GPFs.)</p>	<p>Audit</p> <p>(the audit report can be done by:</p> <ul style="list-style-type: none"> ▪ a registered company auditor ▪ an audit firm that has at least one member who is a registered company auditor ▪ an authorised audit company, or ▪ a member of one of the professional accounting bodies).
3	<p>Large corporations.</p> <p>['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.] or ▪ Any other corporation (Small or Medium) with a consolidated gross operating income of \$5 million or more. 	<p>1) General report 2) Financial report 3) Audit report 4) Directors' report</p> <p>(Indigenous corporations required under the CATSI Act and Regulations to lodge financial reports are required to prepare and lodge GPFs. Therefore, the financial report could be full GPFs or RDR GPFs.)</p>	<p>Audit</p> <p>(the audit report can be done by:</p> <ul style="list-style-type: none"> ▪ a registered company auditor ▪ an audit firm that has at least one member who is a registered company auditor ▪ an authorised audit company).

* 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.

25 The glossary of terms on page 24 of *Corporation reporting guide* defines 'special purpose financial statements' as being "financial statements that adhere to a few basic standards but often they do not comply fully. They are typically unreliable and are often referred to as management accounts."

26 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.

27 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.

The boundary of the registered entity

A1.33 Page 7 of ORIC's Corporations reporting guide states that:

"Corporations must report on a consolidated basis if required by the accounting standards."

Movement between ORIC tiers

A1.34 As described in Table A1. 2, the assessment of an Indigenous Corporation's size, and related reporting requirements is determined based on the entity meeting two of the three criteria in a financial year.

A1.35 As previously outlined in paragraph A1.24 of the discussion about movement between reporting tiers for an entity registered with ACNC, an assessment of size in one financial year, may result in additional reporting requirements for an Indigenous Corporation.

A1.36 A registered Indigenous corporation may apply for an exemption from provisions of Part 7-2 *Record Keeping Requirements* or 7-3 *Reporting Requirements*, or of regulations made for the purposes of Part 7-2 or 7-3 under s353-3 of the *Corporations (Aboriginal and Torres Strait Islanders) Act 2006* (CATSI Act) and Regulations.

A1.37 The operationalisation of s353-3 is through a form on the ORIC website. The application must:

- a) specify the provisions in relation to which the exemption is being sought
- b) be authorised by a resolution of the directors
- c) be in writing and signed by a director
- d) be lodged with the Registrar.

A1.38 In considering whether to exempt an entity from reporting requirements, the ORIC Act sets out criteria that the Registrar must have regard to²⁸:

- a) whether the current reporting obligations make a financial report or other report misleading
- b) whether the current reporting obligations are, or the proposed reporting obligations would be, appropriate in the circumstances²⁹
- c) whether the current reporting obligations impose, or the proposed reporting obligations would impose, unreasonable burdens³⁰.

²⁸ s358-5(1) Corporations (Aboriginal and Torres Strait Islander) Act 2006

²⁹ s358-5(2) Corporations (Aboriginal and Torres Strait Islander) Act 2006

"In deciding for the purposes of subsection (1) whether the current reporting obligations are, or the proposed reporting requirements would be, appropriate in the circumstances, the Registrar is to have regard to:

- 1) *the services (if any) provided by the corporation or corporations; and*
- 2) *the consequences if the corporation or corporations stopped providing those services; and*
- 3) *whether the corporation or corporations regarded by the Registrar of being of a high risk of becoming insolvent or of failing to comply with the reporting requirements under the Act (because of the corporation's or corporations' purposes, structures or compliance histories); and*
- 4) *any other matter the Registrar considers relevant."*

³⁰ s358-5(3) Corporations (Aboriginal and Torres Strait Islander) Act 2006

Rationale given for the requirements

- A1.39 The thresholds are broadly based on the *Corporations Act 2001* provisions relating to how small and large proprietary companies are determined (see Appendix A3 of this Report, paragraph A3.13). 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 change³¹.
- A1.40 An article by Kathleen Clothier titled *Corporations (Aboriginal and Torres Strait Islander) Act 2006 Positive or Negative Discrimination* published in August 2006³² (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.”

“In deciding for the purposes of subsection (1) whether the current reporting obligations are, or the proposed reporting obligations would impose, an unreasonable burden on the corporation or corporations, the Registrar is to have regard to:

- 1) the expected costs of complying with the obligations; and*
- 2) the expected benefits of having the corporation or corporations comply with the obligations; and*
- 3) any practical difficulties that the corporation or corporations face in complying effectively with the obligations; and*
- 4) any unusual aspects of the operation of the corporation or corporations during the financial year concerned; and*
- 5) any other matters that the Registrar considers relevant.”*

s358-5(4) Corporations (Aboriginal and Torres Strait Islander) Act 2006

“In assessing expected benefits under paragraph (3)(b), the Registrar is to take account of:

- 1) the number of creditors and potential creditors; and*
- 2) the position of creditors and potential creditors (in particular, their ability to independently obtain financial information about the corporation or corporations); and*
- 3) the nature and extent of the liabilities of the corporation or corporations.”*

31 [CATSI Explanatory memorandum](#)

32 www.clta.edu.au



APPENDIX A2: State and territory financial reporting requirements

Incorporated associations

- A2.1 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 A2. 1 for details.
- A2.1 These requirements do not apply to charities incorporated under state/territory legislation and registered with ACNC in the ACT, Tasmania and SA. 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 A2. 1 – Table A1. 1 in Appendix A1 is more relevant to their circumstances).
- A2.2 According to ACNC¹, in relation to the other states/territory:
- a) ACNC approached the NSW 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) ACNC is currently in discussion with the NT Government in regards to exempting charities from association reports. There is currently no fundraising reporting or regulation in the NT.
 - c) 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. ACNC is continuing to work with Consumer Affairs Victoria to streamline reporting requirements.
 - e) ACNC is continuing to work with WA to implement streamlined reporting.
- A2.3 In these states/territory, charities incorporated under state/territory legislation still need to comply with reporting requirements dictated by those states/territories, as summarised in Table A2. 1 below.

1 See www.acnc.gov.au.

Table A2. 1 Incorporated associations: financial reporting requirements that are not satisfied through ACNC reporting

Tier determination	Threshold	Reporting requirements	Assurance
New South Wales			
Total revenue and/or current assets (As described by New South Wales Fair Trading: - total revenue is as recorded in the income and expenditure statement (ie gross receipts) for a financial year; -current assets refers to assets (other than real property or assets that are capable of depreciation) held by the association as at the end of the association's last financial year. It includes amounts held in financial institutions, stocks and debentures	Tier 1 (Larger Association): >\$250,000 total revenue or >\$500,000 current assets	Tier 1 associations must prepare and lodge on the public record financial statements in accordance with Australian Accounting Standards. ² Note: Tier 1 associations with total revenue of less than \$2 million in a financial year are not required to fully comply with AASB accounting standards. However, they must satisfy a particular set of requirements set out in Class Order 11/01 , which includes a requirement to comply with all recognition, measurement and classification requirements in all applicable accounting standards, consolidation and AASB 108. Other tier 1 associations must prepare full financial statements.	Audit ³ (the auditor does not need to be a registered company auditor. However, they must be a member of a professional body and hold a public practice certificate)
	Tier 2 (Smaller Association): < \$250,000 total revenue and <\$500,000 current assets	Tier 2 associations must prepare financial statements that give a true and fair view of the association's affairs ⁴ but are only required to submit a summary of financial affairs (which merely indicates whether total revenue and current assets are below the thresholds).	N/A
Northern Territory⁵			
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 as shown in the ' financial return template ' – which is a template for SPFSs.	Audit ⁷
	Tier 2: \$25,000-\$250,000 annual gross receipts or \$50,000 to \$500,000 gross assets or operating	Section 43 of the Act states that “the auditor must state in the report: (a) whether the accounts are in the auditor's opinion properly drawn up: (i) so as to give a true and fair view of matters required by section 42(2) to be dealt with in the accounts; (ii) in accordance with this Act; and (iii) in accordance with applicable Australian	Audit (by someone who is either of the following: ■ a member of an accountants'

2 As stated in the [Associations Incorporation Act 2009](#), “the financial statements must be prepared in accordance with the Australian Accounting Standards and must deal with such matters as are prescribed by the regulations”.

3 As stated in the *Associations Incorporation Act 2009*, “the auditor's report: (a) must be prepared in accordance with the Australian Auditing Standards, and (b) must state whether the association has kept such financial records as are necessary to enable financial statements to be prepared in accordance with the Australian Accounting Standards”. There are exemptions that apply to the qualifications of auditors and reporting required of Tier 1 association. See www.fairtrading.nsw.gov.au/ftw.

4 As stated in the *Associations Incorporation Act 2009*, “... a Tier 2 association must cause financial statements for that year to be prepared, in accordance with this section, in relation to the association's financial affairs (including its affairs as trustee of any trust), and the financial statements must give a true and fair view of the association's affairs and must deal with such matters as are prescribed by the regulations”.

5 See: nt.gov.au.

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



Tier determination	Threshold	Reporting requirements	Assurance
	with gaming machine license	accounting standards ⁶	<ul style="list-style-type: none"> body <ul style="list-style-type: none"> ▪ a person approved by the Commissioner of Consumer Affairs.)
	Tier 3: >\$250,000 annual gross receipts or \$500,000 gross assets or performing local government functions		Audit (by anyone who is either of the following: <ul style="list-style-type: none"> ▪ certified for public practice by an accountants' body ▪ approved by the Commissioner)
Queensland			
Current assets or total revenue (current assets are only those assets that easily convert into cash)	Level 1: > \$100,000 current assets or total revenue	- No tiers for financial reporting requirements - All incorporated associations must prepare a financial statement ⁸ . The <i>Associations Incorporation Act 1981</i> prescribes what needs to be included in a financial statement but does not explicitly state what type of financial statement an association needs to prepare.	Audit (by a certified accountant or a qualified auditor)
	Level 2: \$20,000-\$100,000 current assets or total revenue		Audit or verify (by a certified accountant, a qualified auditor or an approved person)
	Level 3: <\$20,000 current assets and total revenue		Not required (unless required under another law, such as <i>Collections Act 1966</i> [fundraiser] or <i>Gaming Machine Act 1991</i>)
Victoria⁹			

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

6 See www.austlii.edu.au and legislation.nt.gov.au.

8 As defined in *Associations Incorporation Act 1981*, "financial statement, for an incorporated association, means a statement containing the following particulars:
 (a) the association's income and expenditure during the financial year to which the statement relates;
 (b) the association's assets and liabilities as at the end date of the financial year to which the statement relates;
 (c) the mortgages, charges and securities affecting the association's property as at the end date of the financial year to which the statement relates."

9 See: www.consumer.vic.gov.au.



Tier determination	Threshold	Reporting requirements	Assurance
Revenue (or declaration by Registrar)	Tier 1: <\$250,000 revenue	“The financial statements must (a) give a true and fair view of the financial position and performance of the association during and at the end of its last financial year; and (b) deal with any matters prescribed by the regulations.” section 92 ¹⁰ Lodged, but not placed on the public record.	Not required
	Tier 2: \$250,000- \$1,000,000 revenue	“The financial statements must (a) be prepared in accordance with the Australian Accounting Standards; and (b) deal with any matters prescribed by the regulations.” section 95 ¹¹ Lodged and placed on the public record.	Review (by an independent accountant that is a member of a professional body and holds a current practising certificate, or another suitably qualified person approved by the Registrar)
	Tier 3: >\$1,000,000 revenue	“The financial statements must (a) be prepared in accordance with the Australian Accounting Standards; and (b) deal with any matters prescribed by the regulations.” section 98 ¹² Lodged and placed on the public record.	Audit (by an independent auditor who is a registered company auditor or firm, or a member of a professional body that holds a current practising certificate, or any other suitable person approved by the Registrar)
Western Australia¹³			
Revenue	Tier 1: <\$250,000 revenue ¹⁴	“An association operating on a cash basis must prepare a financial statement that includes a: <ul style="list-style-type: none"> ▪ statement of all the monies received and paid during the financial year ▪ reconciled statement of all bank account balances as at the end of the financial year ▪ statement detailing the association’s total assets and liabilities as at the end of the financial year.” 	Not required
		“An association operating on an accrual basis must prepare a financial statement that	

10 [Associations Incorporation Reform Act 2012 Section 92](#)

11 [Associations Incorporation Reform Act 2012 Section 95](#)

12 [Associations Incorporation Reform Act 2012 Section 98](#)

13 All requirements are cited from www.commerce.wa.gov.au.

14 Revenue is calculated in accordance with the Australian Accounting Standards and is the income that arises in the course of the ordinary activities of an incorporated association before any allowance is made for any relevant tax liabilities. (*A Guide for Incorporated Associations in Western Australia*).



Tier determination	Threshold	Reporting requirements	Assurance
		includes a: <ul style="list-style-type: none"> statement of the income and expenditure for the financial year balance sheet". 	
	Tier 2: \$250,000- \$1,000,000 revenue	"A Tier 2 association is required to prepare an annual report that complies with Australian Accounting Standards and contains all of the following: <ul style="list-style-type: none"> the financial statements for the year the notes to the financial statements including all disclosures required by the accounting standards and information required" to give a true and fair view of the financial position the management committee's declaration. 	Review (by: <ul style="list-style-type: none"> a registered company auditor an audit firm, or a current member of a relevant professional body)
	Tier 3: >\$1,000,000 revenue	Tier 3 associations must prepare an annual financial report that complies with Australian Accounting Standards and includes the: <ul style="list-style-type: none"> financial statements for the year notes to the financial statements management committee's declaration. 	Audit (the qualifications of an auditor are not explicitly stated on the website)

Rationale given for the requirements (selected states only)

Queensland

A2.4 As stated in clause 64 of the EM15 of Queensland’s Associations Incorporation Bill 2014, the rationale given for the need for reporting and the prescribed tiers is “balancing the reporting burden on associations commensurate with their size and the need to be accountable to members”.

Western Australia

A2.5 As stated in A Guide for Incorporated Associations in Western Australia (The Guide)¹⁶:
“the tiered reporting system is intended to minimise the reporting burden for small associations while ensuring that larger associations are accountable for the significant resources they control”.

A2.6 The Guide also explains the reason for auditing requirements:
“Although it may seem like additional time, effort and expense to have an annual audit, there are a number of reasons why an association (or a funding body) would require records to be audited:

- An audit of the financial records of the association ensures greater accountability to the members (and for some associations, the public).*
- The audit gives assurance that all funds received by the organisation have been correctly collected, documented and banked. It shows all monies spent by the organisation were for the purpose of the association, approved by the*

15 See www.parliament.wa.gov.au.

16 See www.commerce.wa.gov.au.



management committee, and documented. This also helps to protect management committee members against unfounded allegations of misconduct.

- The audit provides an account of the assets of the association and verifies that records and registers are properly maintained.
- The audit functions as a check and balance. It requires that the financial statements of the association be kept to a standard in order for the audit to occur and will indicate areas that may require improvement.
- Audited financial statements are required if the association has charitable status.
- Funding bodies often require audited financial statements.”

Co-operatives

A2.7 The NSW Fair Trading website states:

“A uniform set of national laws for co-operatives is being progressively introduced by the states and territories. This will be achieved by each state and territory either adopting the template Co-operatives National Law (CNL) or passing alternative legislation consistent with the CNL, in line with their jurisdiction’s Government and Parliamentary processes.

“The CNL aims to reduce red tape and associated business costs for co-operatives on a number of levels. Co-operatives wishing to carry on business across a state or territory border no longer have to incur costs to register in each jurisdiction. Smaller co-operatives will benefit from the introduction of simplified financial reporting to members and no longer have to lodge publicly available accounts.

The CNL continues the distinguishing co-operative principles developed by the International Co-operative Alliance and implements modern principles of corporate governance similar to requirements for other corporate entities, assisting co-operatives to compete on a more ‘level playing field’ with these entities.”¹⁷

A2.8 Accordingly, 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 as shown in Table A2. 2 below.

Table A2. 2 Co-operatives: financial reporting requirements

Tier determination	Threshold	Reporting requirements	Assurance
Queensland			
As per <i>Corporations Act</i>	Reporting requirements have been aligned with a public company as required by the <i>Corporations Act 2001</i> . s 232(1)	As per <i>Corporations Act</i>	As per <i>Corporations Act</i> (the auditor must be registered with ASIC and approved by the Regulator)

¹⁷ www.fairtrading.nsw.gov.au

Tier determination	Threshold	Reporting requirements	Assurance
All other states			
Consolidated revenue/gross assets ¹⁸ / employees	Distributing co-operatives with at least two of the following criteria for the previous financial year: <ul style="list-style-type: none"> ▪ consolidated revenue equal to or greater than \$8m p.a. for the previous financial year ▪ consolidated gross assets equal to or greater than \$4m at the end of the previous financial year ▪ 30 or more full time employees at the end of the previous financial year. <p><i>(Although co-operatives that have:</i></p> <ul style="list-style-type: none"> ▪ <i>securities on issue to non-members during the previous financial year other than securities issued to former members on the cancellation of their membership, or</i> ▪ <i>issued shares to more than 20 members in a financial year; or, if it has done this, the amount raised by issuing those shares equals or exceeds \$2 million</i> <p><i>also meet the reporting threshold.)</i></p>	If below threshold (ie 'small'): <p>a report for members containing the:</p> <ul style="list-style-type: none"> ▪ income and expenditure statement setting out the appropriately classified individual sources of income and individual expenses incurred in the operation of the co-operative ▪ balance sheet (including appropriately classified individual assets and liabilities of the co-operative) ▪ statement of changes in equity ▪ cash flows statement (if consolidated revenue of the co-operative and any of its controlled entities is \$750,000 or greater, or the value of consolidated gross assets is \$250,000 or greater). <p>The financial statements must present a true and fair view of the co-operative's financial position, performance and cash flows. They must also include:</p> <ul style="list-style-type: none"> ▪ comparative figures for the previous financial year; and ▪ a statement of significant accounting policies. 	An audit or review of a small co-operative's financial statements and/or additional financial reports, may be required if it is: <ul style="list-style-type: none"> ▪ specified in the co-operative's rules ▪ requested by its members or the Registrar.
		If meets threshold (ie 'large'): <p>Each financial year, a large co-operative must prepare and present to its members:</p> <ul style="list-style-type: none"> ▪ the financial report for the year 	A large co-operative must have its financial report for the financial year audited in accordance with the <i>Corporations Act 2001</i> , and obtain an auditor's report by a registered company auditor.

18 The regulations state that consolidated revenue and the value of consolidated gross assets 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 entities concerned). However, accounting standards do not define 'gross' assets, therefore it is unclear whether it is intended to be net of depreciation.



Tier determination	Threshold	Reporting requirements	Assurance
		<ul style="list-style-type: none">the directors' report for the year. <p>The financial report must be prepared in accordance with the Australian accounting standards, additional disclosures required by the national regulations and any other information necessary to give a true and fair view.</p>	

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APPENDIX A3: ASIC financial reporting requirements

A3.1 This Appendix is provided for completeness. Although ASIC accepts that its financial reporting requirements are satisfied by charities registered with ACNC meeting ACNC requirements, it is informative to consider how the ASIC requirements compare with ACNC requirements, and the rationales given for those respective requirements.

Company limited by guarantee

A3.2 A company limited by guarantee has obligations under the *Corporations Act* to report to ASIC unless it is registered with ACNC. ASIC Reporting requirements are based on meeting thresholds, which classify the company as small, medium or large as shown in Table A3.1.

A3.3 When deciding tiers, it is required under section 285A of the *Corporations Amendment (Corporate Reporting Reform) Act 2010*¹⁹:

“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)”.

Table A3.1. Company Limited by Guarantee financial reporting requirements.

Tier	Criteria	Reporting required	Minimum level of Assurance
1	Small company: companies with annual consolidated revenue of less than \$250,000 that are not a deductible gift recipient ²⁰	N/A unless directed by ASIC or a member of the Company	N/A
2	Medium company: <ul style="list-style-type: none"> ■ annual consolidated revenue of less than \$250,000 that are a deductible gift recipient, or ■ companies with annual consolidated revenue of less than \$1million irrespective of whether the company is a deductible gift recipient 	<p>Annual financial report prepared in accordance with Part 2M (and in accordance with AASB accounting standards).</p> <p>The nature of the report depends on whether the charity is a reporting entity.</p> <p>If not a reporting entity, SPFSs must comply with at least:</p> <ul style="list-style-type: none"> ■ 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> ■ AASB 1054 <i>Australian Additional Disclosures</i> <p>Through Regulatory Guide 85 Reporting</p>	Audit (by a registered company auditor) or Review (by a member of a professional body with a practising certificate)

¹⁹ www.legislation.gov.au

²⁰ *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](#)).



Tier	Criteria	Reporting required	Minimum level of Assurance
		<i>requirements for non-reporting entities</i> (July 2005) ASIC expresses a view that SPFSs should also comply with all recognition and measurement requirements in all applicable accounting standards; and, if the group is a reporting entity, consolidated financial statements should be prepared.	
3	Large company: <ul style="list-style-type: none"> ■ companies with annual consolidated 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 AASB accounting standards) – see tier 2 requirements immediately above.	Audit (by a registered company auditor)

Rationale given for the requirements

- A3.4 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. 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).
- A3.5 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” (paragraph 1.2 of the EM) and “the vast majority of them are relatively small” (paragraph 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. (paragraph 1.3 of the EM).
- A3.6 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”. (paragraph 1.3 of the EM).
- A3.7 Consistent with the observations above, paragraphs 1.3 and 1.6 of *Corporations Amendment (Corporate Reporting Reform) Act 2010* EM²¹ 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
 - 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.
- A3.8 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.

21 www.legislation.gov.au

In contrast, member focused companies limited by guarantee (for example, sporting clubs) may have a significantly lower level of public interest.”

A3.9 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)

A3.10 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. It appears that \$250,000 revenue is approximately the smallest two quartiles in the population. The Table below was provided as a part of the EM to show the relative size of companies limited by guarantee in Australia.

Table A3.2. Relative size of companies limited by guarantee in Australia.

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

A3.11 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 A3.7 above suggests it might be a proxy for cost-benefit.

A3.12 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

A3.13 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 A3.3 shows reporting requirements are based on meeting criteria, which classify the company as either small or large.

Table A3.3. Australian Proprietary company financial reporting requirements (unless registered with ACNC).

Tier	Criteria Meet 2 of 3 criteria for the year	Reporting required	Minimum level of Assurance
1	Small company: <ul style="list-style-type: none"> 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
2	Large company that is a reporting entity: <ul style="list-style-type: none"> 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 (by a registered company auditor)
	Large company that is not a reporting entity: <ul style="list-style-type: none"> revenue greater than \$25million gross assets greater than \$12.5million fewer than 50 employees. 	SPFSs must comply with: ²² <ul style="list-style-type: none"> 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> AASB 1054 <i>Australian Additional Disclosures</i>. Regulatory Guide 85 provides further guidance.	Audit (by a registered company auditor)

Rationale given for the requirements

A3.14 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*²³ (the Act), which amended the Corporations Law. The Act replaced the previous distinction between exempt and non-exempt proprietary companies.

A3.15 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

²² [Regulatory Guide 85 Reporting requirements for non-reporting entities](#)

²³ [EM for the Bill](#)

the current thresholds (discussed below), the rationale given in this EM²⁴ 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 that the current reporting requirement is to ensure users receive the financial information of economically significant proprietary companies.

- A3.16 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:
- a) assets less than \$5 million
 - b) revenue less than \$10 million
 - c) fewer than 50 employees.
- A3.17 It is not clear from the EM related to the Bill 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)²⁵. 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” (Paragraph 1.4). The PJSC also concluded that “the three-part test was to a degree arbitrary” (Paragraph 1.5).
- A3.18 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.
- 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

24 [EM for the Bill](#)

25 See www.aph.gov.au.

significance, and accordingly a less appropriate touchstone for the application of corporate financial reporting requirements.”

- A3.19 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 33-37 of this Report.
- A3.20 The *Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007* adjusted the thresholds referred to in paragraph A3.16 above upward in 2007. The reason given in the EM²⁶ 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).
- A3.21 It is apparent from the EM (paragraphs 2.4 and 2.5) that these increased thresholds resulted from the Government weighing up:
- the need for accurate and prompt and relevant information, which is fundamental to the operation of an efficient market; and
 - the need for requirements that do not unnecessarily, or excessively, interfere with companies devoting resources to productive outputs.
- A3.22 The Act increased thresholds by increasing the monetary thresholds by 150 per cent and maintain the employee thresholds at 50 employees.

The rationale given for Regulatory Guide 85

- A3.23 Section 1 of Regulatory Guide 85 states:

“ASIC’s reviews of financial reports have shown that some companies that claimed to be non-reporting entities should have been classified as reporting entities.

Those reviews have also revealed that recognition and measurement requirements of the accounting standards have not been complied with by a number of companies. These requirements include those relating to depreciation of non-current assets, tax effect accounting, lease accounting, measurement of inventories, and recognition and measurement of liabilities relating to employee entitlements.

ASIC believes that there needs to be assurance for all companies whose financial reports are prepared in accordance with the requirements of the Act that the balance sheet reflects all, and only all, assets and liabilities, and that the profit and loss statement (income statement) reflects all, and only all, revenues and expenses.

Key representatives of the accounting profession with whom ASIC has consulted in preparing this release share ASIC’s concerns over the quality of financial reports.

The purpose of this guide is to provide guidance on the application of accounting standards to entities which are required to prepare a financial report in accordance with the Act.”

- A3.24 Section 2 of Regulatory Guide 85 goes on to say in section 2:

“The accounting standards provide a framework for determining a consistent meaning of ‘financial position’ and ‘profit or loss’ in financial reporting across entities.

In the absence of any such framework, the figures disclosed in financial statements would lose their meaning and could be determined completely at the whim of the directors of individual entities. The profit or loss reported by an individual entity would

26 www.legislation.gov.au



vary greatly depending upon which individuals were responsible for the preparation of its financial statements.

This would not be consistent with the requirements of the Act for financial reports to give a true and fair view (s297), prohibiting the giving of false and misleading information (s1308), and only permitting dividends to be paid out of profits (s254T).”

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APPENDIX B: Selected international financial reporting requirements

- B1. This section describes reporting and assurance requirements in other countries. The purpose is to gain an understanding of the financial reporting framework applicable to charities of other countries.
- B2. As noted in paragraph 85 above, the scope of the international comparison in this Report is limited to NZ, United Kingdom (UK), Hong Kong, Singapore, South Africa and Canada. These countries are selected for comparisons because they are relatively comparable in terms of regulatory rigour or are jurisdictions that are often compared with Australia in terms of financial reporting issues.

New Zealand

- B3. In comparing NZ with Australia, it is relevant to note that NZ does not have the state/territory issues that Australia has, that was evident in Appendix A2.
- B4. Charities are referred to as Public Benefit Entities (PBEs) in the NZ Reporting Framework. PBEs in NZ are defined in paragraph 6 of External Reporting Board Standard A1 (XRB A1) *Application of the Accounting Standards Framework* as “reporting entities 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”.
- B5. NZ charities can be structured as follows:
- a) charitable trusts (with the trustees either incorporated or unincorporated)
 - b) charitable society (incorporated or unincorporated)
 - c) charitable organisation (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.
- B6. The lodgement requirements in NZ appear to be relatively clear and easy to follow, as evident from the description below. The ‘public accountability’ concept (as defined in paragraph B8 below) overlaid with cost/benefit considerations is adopted in deciding what type of financial report is to be submitted. The main difference with Australia is that NZ requires a broader range of charities to submit financial statements on the public record but has extra, less onerous, tiers for smaller entities.
- B7. Registered charities are required to report annually to Charities Services. Registration is a choice, but once registered the charity is required to lodge. This includes completing an Annual Return, which includes general information about the charity and its purpose and structure. It also includes financial and non-financial information from the performance report¹/financial statements² that comply with [reporting standards](#) (Charity Services 2017).³

1 Performance reports refer to reports that Tier 3 and 4 charities are required to attach to their annual return. They contain financial and non-financial information such as mission or purpose and what the charity does (including a ‘statement of service performance’). According to XRB, it is likely that Tier 1 and 2 charities will also have to produce performance reports in the future (XRB 2017). www.xrb.govt.nz

Paragraph B11 below identifies the ‘levels’ of financial statements and the thresholds that trigger them.

- B8. NZ has adopted its definition for public accountability from IFRS for SMEs. As defined on the XRB website⁴ regarding the NZ reporting framework, an entity has public accountability if:
- “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*
 - 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.”*
- B9. The XRB website also makes the following comments:
- “Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity.*
- However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.”*
- B10. In addition to using the IASB definition of ‘public accountability’, there are also deeming provisions and XRB A1 provides guidance on the types of entities that have or do not have public accountability (see paragraphs 7-13 of XRB A1).
- B11. There are four tiers of reporting requirements applying to PBEs in NZ. 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 following Table provides a summary of reporting requirements of PBEs that are registered with the Charity Service in NZ.

Table B1 Summary of reporting requirements of PBEs in NZ (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) ■ Has total expenses (including grants) ≤ \$30 million <p><i>and elects to be in Tier 2 rather than Tier 1.</i></p>	PBE Standards (RDR)
Tier 3	<ul style="list-style-type: none"> ■ Has no public accountability (as defined) ■ Has expenses ≤ \$2 million <p><i>and elects to be in Tier 3 rather than Tiers 1 or 2.</i></p>	PBE Simple Format Reporting Standard – Accrual (PSFR-A)

2 Financial statements provide information about the entities activities, transactions and balances. They include a statement of financial performance (profit or loss), which shows revenue and expenses, and a statement of financial position (balance sheet), which lists all the assets and liabilities. Tier 1 and 2 charities attach their financial statements to their annual return (XRB 2017) www.xrb.govt.nz.

3 Source: charities.govt.nz.

4 www.xrb.govt.nz.



Tiers	Entity attributes	Reporting requirements and standards
Tier 4	<ul style="list-style-type: none"> ■ Has no public accountability (as defined) ■ Has total operating payments of less than \$125,000 in each of the previous two reporting periods (ie not a 'specified not-for-profit entity') ■ Is permitted by an enactment to comply with a 'non-GAAP Standard' <p><i>and elects to be in Tier 4 rather than Tiers 1, 2 or 3.</i></p>	PBE Simple Format Reporting Standard – Cash (PSFR-C)

B12. 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.

Notably, all tiers include some form of related party disclosure requirements.

B13. For assurance, new requirements became effective from 1 April 2015 due to recent changes to the *Charities Act 2005* in NZ. This change created statutory audit and review requirements for medium and large Registered Charities. Table B2 summarises the auditing requirements applicable to medium and large PBEs in NZ.

Table B2 Summary of auditing requirements of PBEs in NZ.

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

B14. In the proposal for the NZ Accounting Standards Framework (2012)⁵, XRB listed the reasons for the current reporting thresholds relating to what should be reported. 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.

B15. 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

5 xrb.govt.nz



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 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 financial reports but that can do so on a cash accounting basis.

- B16. 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).
- B17. 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.
- B18. 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* 1993, companies with revenue over \$30m (or assets over \$60m) are considered 'large' and are required to prepare GPFR (assuming that they are NZ-owned/controlled, as there are lower thresholds for companies that are subsidiaries of overseas companies or with more than 25% overseas ownership).
- B19. 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 (paragraph 66 of the MED consultation paper *The Statutory Framework for Financial Reporting*⁶). There was some discussion of how this threshold compared with the situation in Australia at the time for large proprietary companies (see paragraphs 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, some respondents to the consultation paper disagreed. For example, a letter from the NZ Business Roundtable argued that NZ should use \$25m to be consistent 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.⁷ The ultimate selection of \$30m rather than \$25m was presumably related to the foreign exchange rates at the time, so AUD25m was roughly NZD30m.
- B20. 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. Again, some respondents considered this threshold to be 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.
- B21. 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 threshold for public sector PBEs, with a lower \$1m threshold for private

6 media.nzherald.co.nz

7 See www.iasplus.com.



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*⁸). There was some disagreement about setting a lower threshold for the private NFP sector, which presumably resulted in using \$2m for both public sector and private sector PBEs.

- B22. The above rationale relates to the question of what charities are required to report. On the question of which entities should report, there are no cost/benefit exclusions for charities from having to report. In arriving at this conclusion, compared with the IASB notion, a broader notion of 'public accountability' was adopted. As noted in paragraph 49 of the NZ Ministry of Economic Development *The Statutory Framework for Financial Reporting* Discussion Document (September 2009) states: "Public accountability arises when an entity receives money directly from the public".

United Kingdom

- B23. In the UK, charities can generally be categorised into two groups:
- a) non-company charities:
 - Unincorporated associations
 - Charitable trusts
 - Charitable incorporate organisations (CIO)
 - b) company charities (previously known as charitable companies).
- B24. Every charity with an annual income above £5,000 is required by law to register with the Charity Commission.
- B25. All charities shall prepare financial statements either:
- a) on an accrual basis, or
 - b) receipts and payments accounts (cash accounting).
- B26. A charity preparing financial reports based on accrual accounting must follow *the Statement of Recommended Practice: Accounting and Reporting for Charities (SORP)* (effective 1 January 2015). The *SORP* provides guidance for charities on how to apply Financial Reporting Standard FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which is based on IFRS for SMEs. Financial statements prepared in accordance with the *SORP* normally include:
- a) a statement of financial activities (SOFA), which shows the results of operations and activities for the year
 - b) summary of income and expenditure account (or this may be incorporated within the SOFA)
 - c) a balance sheet, which shows assets, liabilities and funds held at year end
 - d) a cash flow statement (not required for small charities), which provides an analysis of cash movements
 - e) notes to financial statements, which are an integral part of financial statements, providing additional explanations and details on financial statement items.
- B27. 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. However, if:
- a) the charity's constitution says it should prepare accrued accounts

8 See: www.xrb.govt.nz

- b) the charity trustees have taken a decision to prepare accrued accounts
 - c) 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.

- B28. Paragraphs A11 and A12 of SORP note that: In England and Wales, any parent charity where the aggregate gross income of the group, the parent charity and its subsidiaries, exceeds £500,000 after consolidation adjustments must prepare consolidated accounts. These consolidated accounts are prepared in accordance with the Charities Act 2011 and applicable regulations. However, where a company charity is required by section 399 of the Companies Act 2006 to prepare consolidated (group) accounts, its group accounts are prepared under the Companies Act 2006.
- B29. Table B3 provides a summary of reporting and audit requirements of charities in the UK. It shows that the UK allows an entity to elect to submit a statement of receipts and payments in some instances, and threshold for financial report do not necessarily coincide with the thresholds for the level of assurance.

Table B3 Summary of UK reporting requirements

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 (and gross assets under £3.26m)	Gross income above £1 million (or gross assets above £3.26 (and income above £250,000))
Unincorporated charities						
Type of accounts	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	X	X	Only if requested by Charity Commission	√	√	√
Charitable Incorporated Organisations (CIOs)						
Type of accounts	Receipts and Payments or Accruals	Accruals	Accruals			



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 (and gross assets under £3.26m)	Gross income above £1 million (or gross assets above £3.26 (and income above £250,000))
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 companies⁹						
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 Charity Commission	Only if requested	Only if requested	Only if requested.	✓	✓	✓

Hong Kong

- B30. 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.
- B31. Charitable organisations in Hong Kong are commonly established through the use of a:

⁹ 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.

- a) trust
 - b) society (established under the Societies Ordinance)
 - c) company limited by guarantee (incorporated under the Companies Ordinance).
- B32. Under Hong Kong law a charity must be established exclusively for charitable purposes and must fall into the following categories:
- a) relief of poverty
 - b) advancement of education
 - c) advancement of religion
 - d) other purposes of a charitable nature beneficial to the community not falling under any of above categories.
- B33. 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 accounts with the Companies Registry annually.
- B34. The reporting requirements for charities using the form of a company are the same as other type of companies. 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.
- B35. For charitable societies and charitable trusts, there are no specific regulatory requirements that require them to fulfil any continuing reporting obligations.
- B36. Table B4 provides a summary of reporting and audit requirements for charities in Hong Kong.

Table B4 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	Audited accounts are required to be filed with the Companies Registry annually

Singapore

- B37. To establish a charity in Singapore, entities must follow several steps to apply for charity status.
- B38. First, an entity needs to register as a Volunteer Welfare Organisation (VWO). VWOs are NFP entities where their surpluses from operation are retained for future activities rather than distribution to its members.
- B39. VWOs can take many forms including a:
- a) trust
 - b) society
 - c) company limited by guarantee.
- B40. 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:
- a) submits financial statements and an annual report detailing activities conducted and proposed future plans
 - b) ensures that accounting and donations records are maintained properly
 - c) submits annual returns for tax purpose

d) holds annual general meeting.

- B41. According to [Charities \(Accounts and Annual Report\) Regulations](#)¹⁰, 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.
- B42. 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 a compelling reason to do so. This is to ensure the comparability of the charity's financial statements across periods.
- B43. The charity can obtain another status called Institutions of a Public Character (IPC). An approved IPC is a NFP organisation with a charity status with activities beneficial to the community in Singapore as a whole, and not merely limited to group interests based on ethnicity, beliefs or religion/faith. The Commissioner of Charities approves IPCs, which allows them to receive tax-deductible donations.
- B44. The audit requirements are shown in Table B5:

Table B5 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.

Canada

- B45. In Canada there are four major legal structures that a NFP or charitable organisation may take:
- a) trusts
 - b) associations
 - c) corporations without share capital
 - d) co-operatives without share capital.

10 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)



- B46. 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
 - c) Private foundation – the entity may carry on its own charitable activities and gives some of its income to qualified donees.
- B47. Charities may choose to incorporate their entity federally under the *Canada Not-for-profit Corporations Act*.
- B48. 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.
- B49. Financial statements must be attached to the annual information return even if the charity was not active during the fiscal period or had a zero balance. Financial statements are available to the public upon request.
- B50. The [canada.ca website](http://canada.ca) states that:
- Financial statements should include at least:*
- a) a [statement of assets and liabilities](#) (balance sheet)
 - b) a [statement of revenue and expenditures](#) (income statement)
 - c) *any prepared notes, such as:*
 - i.) *accounting policies (for example, depreciation rates)*
 - ii.) *details of investments (for example, maturity dates and interest rates)*
 - iii.) *sources of revenue (for example, type of government grant)*
 - iv.) *transactions with non-arm's length parties*
 - v.) *information about funds that a donor has directed you to hold for 10 years or more*
 - vi.) *future obligations.*
- B51. The statements should accurately show the charity's different sources of revenue and expenditures for the fiscal period being reported. Financial reporting can be done using either the:
- a) Cash basis method, which shows revenue or expenditures actually received or spent during the fiscal period
 - b) Accrual basis method, which shows:
 - i.) revenue earned in the fiscal period, even if received after the end of the fiscal period
 - ii.) expenditures incurred in the fiscal period, even if paid after the end of the fiscal period
- The option used (cash or accrual) must be clearly shown on the financial statements.
- B52. A charity must provide relatively detailed financial information in a [Registered Charity Information Return](#) to the regulator if any of the following apply:
- 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.
- B53. The level of assurance to be provided is dependent on whether an entity is considered a soliciting corporation. Only a soliciting corporation is required to lodge financial statements.
- B54. A corporation is considered a soliciting corporation 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.
- B55. If a charity has income over \$250,000, the Charities Directorate recommends the financial statements are professionally audited; otherwise, the treasurer for the charity should sign them. The auditing requirements for charities in Canada are shown in Table B6.

Table B6 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

South Africa

- B56. There are three forms of non-governmental organisations (NPOs) that can be established under statutory and common law:
- Voluntary associations, which are established under common law and can be formed where three or more people agree to achieve a primary common NFP objective. The association's constitution governs matters relating to the management of the association;
 - Non-profit trusts, which can be established for a charitable purpose, are governed under the *Trust Properties Control Act 57 of 1988* and common law; and
 - Non-profit companies (NPCs), which are established under statutory law, specifically *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)*. They are incorporated for a public benefit objective or an objective relating to one or more cultural or social activities, or communal or group interests.
- B57. All of the above NPOs can voluntarily register under the *Non-Profit Organisations Act 71 of 1997 (as amended)* (NPO Act). Registered NPOs must meet certain governance criteria and cannot distribute profits. Registered NPOs must:
- Complete financial statements annually (in accordance with generally accepted accounting principles); and
 - Report to the Directorate for Non-profit Organisations.
- B58. NPOs can also apply for the status of 'Public Benefit Organisation' (PBO). One of the requirements of a PBO is that the NPO's sole purpose must be to undertake one or more public benefit activities, carried out in a NFP manner and with an altruistic or philanthropic

intent. They are also prohibited from supporting, advancing or opposing any political party, but are not restricted from lobbying. PBOs benefit from a partial income tax exemption, an exemption on donations tax, and some NPOs can also gain an exemption on transfer duty on immovable property. A PBO must submit an income tax return even if its approval or exemption results in no tax liability. A PBO NPC must comply with the requirements of the Co Act.

- B59. PBOs can apply for the right to receive tax-deductible donations. PBOs with donor deductible status must carry out at least one of their public benefit activities in South Africa. Like PBOs with partial tax exemption, PBOs with donor deductible status must submit an income tax return; and if they are a PBO NPC, must comply with the requirements of the Co Act.
- B60. Paragraphs B61 to B64 describe the financial reporting framework applicable to NPCs.

Financial reporting framework for NPCs

- B61. In South Africa, legislative requirements state that every company, including a NPC, must calculate its 'public interest score' (PI Score) for each financial year. The PI Score is calculated at the end of the year as the sum of the following:
- a) a number of points equal to the average number of employees of the company during the financial year
 - 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 turnover¹¹ during the financial year
 - 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 NPC, to be a member of the company, or a member of an association that is a member of the company.
- B62. The PI Score is used to determine the following for NPCs:
- a) which financial reporting standards (FRSs) apply – IFRS, IFRS for SMEs and South African Statements of Generally Accepted Accounting Practice (SA GAAP¹²)
 - b) whether in the public interest, it needs to be audited or independently reviewed (IR)

11 "Turnover" is not defined in the context of the PI Score, 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."

12 South Africa's Accounting Practices Board ("APB") formed in 1973, considered what was generally accepted accounting practice and issued SA GAAP. In 2003, the APB decided to harmonise SA GAAP with IFRS. Subsequent to this, and after due process, the APB issued IFRS standards as SA GAAP without amendment. The Co Regulations permit the use of either IFRS, IFRS for SMEs or SA GAAP in specific instances. However, in order to reduce the burden of issuing each IFRS standard as SA GAAP, a decision was made to withdraw SA GAAP, such that it is no longer applicable (with respect of financial years commencing on or after 1 December 2012).

- c) whether it must file a copy of its annual financial statements with the Companies and Intellectual Property Commission
- d) whether it requires a Social and Ethics Committee
- e) its size for the purpose of appointing a Business Rescue Practitioner (to facilitate the efficient rescue and recovery in the event the NPC is financially distressed).

Financial reporting and audit requirements for NPCs

B63. The South African Institute of Chartered Accountants (SAICA) published *The SAICA Guide to the Companies Act*, which contains the following Table in Annexure D to show the interrelationship between financial reporting, audit and IR requirements, which are dependent on whether the NPC is ‘owner managed’¹³ or ‘non-owner managed’ and whether the financial statements of the NPC are internally or independently prepared:

Table B7 Financial reporting standards applicable to non-profit companies

Financial statements compiled:		Non-owner Managed		Owner Managed**	
		Internally	Independently	Internally	Independently
PI Score 350+	Audit/IR	Audit	Audit	Audit	Audit
	FRSs	IFRS or IFRS for SMEs*			
PI Score 100-349	Audit/IR	Audit	IR	Audit	IR
	FRSs	IFRS or IFRS for SMEs* or SA GAAP	IFRS or IFRS for SMEs* or SA GAAP	IFRS or IFRS for SMEs* or SA GAAP	IFRS or IFRS for SMEs* or SA GAAP
PI Score <100	Audit/IR	IR	IR	No Audit or IR	No Audit or IR
	FRSs	FRS as determined by the company	IFRS or IFRS for SMEs* or SA GAAP	FRS as determined by the company	IFRS or IFRS for SMEs* or SA GAAP

* Subject to meeting the scoping restrictions of the standard.

** The term 'owner-managed' refers to those companies which qualify for the exemption from independent review in terms of S30(2A) of the Act.

B64. Co Regulation 26 defines ‘independently compiled and reported’ and includes a requirement that the annual financial statements be prepared by an ‘independent accounting professional’¹⁴. Co Regulation 28 stipulates that the audit must be conducted by a registered auditor; and Co Regulation 29 covers an IR, stating that the IR may not be performed by the independent accounting professional who was responsible for the preparation of the annual financial statements.

13 ‘Owner managed’ refers to companies which section 30(2A) of the Co Act applies. Section 30(2A) provides an exemption to companies from having their annual financial statements audited or independently reviewed, in certain circumstances, where every holder of beneficial interest or security is also a director of the company.

14 Section 26(d) of the Co Regulations defines independent accounting professional as a registered auditor in terms of the *Auditing Profession Act*, or a member in good standing of a professional body that has been accredited in terms of the *Auditing Profession Act*, or who is qualified to be appointed as an accounting officer of a close corporation in terms of the *Close Corporations Act, 1984 (Act No. 69 of 1984)*. The regulations also prescribe independence requirements, such as the accounting professional cannot have a personal financial interest in the company or a related or inter-related company; or be involved in the day to day management of the company’s business (any time during the previous three financial years) etc.

Rationale given for the requirements

- B65. In 2003, the Government performed a review of the implementation of government programmes, *Towards a Ten Year Review*¹⁵. It concluded that there appeared to be “two economies” in South Africa. One that was advanced, sophisticated, based on skilled labour and becoming globally competitive. The other was mainly informal, marginalised, unskilled, and contained those that were unemployed and/or unemployable. Without government intervention, there was concern the second economy would fall behind. It was concluded that it should be possible for small businesses and their advisors to understand the administrative requirements, without having to resort to expert advice.
- B66. One of the major difficulties with the previous South African company law regime was that it was highly formalistic. This made forming and managing an entity burdensome and costly.
- B67. Furthermore, a number of the statutory requirements added unnecessary formalities to relatively simple processes, which appeared to be of questionable value, because they did not result in greater protection for shareholders, transparency in the market or enhanced efficiency of enterprises. They may have even contributed to sham compliance with provisions. Accordingly, the new company law needed to be simple, comprehensive and accessible to business people and their advisors. A core principle was the facilitation of electronic lodgement and communication as far as possible. The Act and its regulations, as far as possible, combine all legislation relevant to the formation and management of companies, so that one reference is provided to business people.
- B68. The previous legislation included provisions for non-profit and other organisations, commonly described as a section 21 companies. In 2004, it was estimated that there were approximately 11,000 section 21 companies registered in South Africa, and even though those companies were not established with share capital, given the nature of their objectives, they faced the same administrative and financial burden as companies with share capital. The new legislation includes specific provisions for non-profit companies to ensure they do not face the same requirements as for-profit companies with share capital, whilst still requiring sound governance, accountability and the protection of creditors. In addition, provisions in the new legislation around cooperatives were designed to be consistent with the Non-profit Organisations Act and any Cooperatives legislation
- B69. Revised South African law takes into account the unique South African context, including the best interests of South Africa and its citizens and the mandates of the Constitution. In addition to shareholders, it takes into account stakeholders such as the community in which the company operates, its customers, its employees, its suppliers and the environment in certain situations mandated by the Constitution and related legislation.
- B70. Companies vary in size, turnover and in the number of shareholders. The number of shareholders does not provide an adequate basis for differentiation, as some very large companies may have a small number of shareholders. Arguably, the most important distinction is between a listed and an unlisted company. Listed companies generally have additional rules imposed them (e.g. to meet stock exchange requirements) and to protect against the separation of ownership and management.
- B71. A further distinction is necessary for unlisted companies on the basis of turnover, as the ability to contract and the relationship with other stakeholders, such as creditors, become more important and complex as the size and turnover of the company increases. Company law ensures maximum possible transparency in regard to the administration of companies and the maximum possible disclosure of information concerning their affairs.

¹⁵ Towards a Ten Year Review: Complete Report, Synthesis report on implementation of government programmes: Discussion document, October 2003. Available at: <http://www.gov.za/reprts/2003/10vrbook.udfln>



- B72. Disclosure extends not only to financial information, but also includes statements on compliance with public interest legislation, including the Black Economic Empowerment Act, environmental regulation and labour regulation (Triple Bottom Line Accounting). Annual financial statements contain addition to financial information, information about the remuneration of directors and senior managers and all bonuses and distributions. In order to ensure the accuracy of this information, statutory accounting (and auditing) standards are set out in company law by of regulation.

Working Draft



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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).

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