



<b>Project:</b>	<b>Australian Financial Reporting Framework</b>	<b>Meeting</b>	AASB December 2017 (M161)
<b>Topic:</b>	<b>Summary of feedback received</b>	<b>Agenda Item:</b>	8.1
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		<b>Decision-Making:</b>	N/A
		<b>Project Status:</b>	In-progress

## Introduction and objective of this paper

- 1 The objective of this paper is to provide to the Board a collation of the discussions in each of the framework sessions and any other feedback received. Detailed feedback provided directly to the Staff has been included as part of the detailed collation, and has been provided in full within appendix A.4.
- 2 This paper is structured as follows:
  - (a) Table of feedback received (page 4);
  - (b) Detailed collation of Melbourne session (pages 5-7);
  - (c) Detailed collation of Adelaide session (pages 8-9);
  - (d) Detailed collation of Sydney session (pages 10-11);
  - (e) Detailed collation of Brisbane session (pages 12-13).

## Background

- 3 Four outreach sessions to discuss the Financial Reporting Framework for Charities were hosted by the AASB in Brisbane (14 Nov), Sydney (16 Nov), Adelaide (20 Nov) and Melbourne (21 Nov). The sessions were attended by a mixture of stakeholders, the ACNC and State regulators attended each session.
  - (a) The Brisbane session had a good representation of large and medium charities, professional service organisations, and the Queensland regulator attended as observers.
  - (b) The Sydney session was attended largely by professional service organisations, with the remaining attendees being academics, charities and the NSW Regulator.

- (c) The Adelaide session had good charity representation as well as academics. The SA regulator and professional service organisations made up the remaining participants.
  - (d) The Melbourne session was the best attended. There was good charity and professional service organisation representation. This session also had the highest attendance from the ACNC and academics.
- 4 The sessions were structured on generating discussion and obtaining feedback on four key topics:
- (a) what are the key issues for charities in the current framework;
  - (b) what should be the criteria for assessing a good framework;
  - (c) which charities should be reporting; and
  - (d) what is the appropriate number of tiers and what should each of those tiers report.

#### What are the issues for charities in the current framework

- 5 Based on the Research Report findings and other research undertaken, the AASB identified 8 key issues, participants were asked to rank the impact of each of the issues on their charity. Participants were also asked to provide any other issues which were not covered by the 8 identified.
- 6 The 8 issues identified were: inconsistency between financial reports; impacts on operations; alternative thresholds criteria; lack of clarity/requirements to exercise judgement; user needs are not understood; regulation is not fit-for-purpose; difficulties of self-assessment; and duplication and inconsistent regulatory requirements.

#### What should be the criteria for assessing a good framework

- 7 Participants were asked to comment on whether the criteria for a good framework were appropriate and whether other things should have been included. Based on the discussions in the outreach sessions the criteria have been adjusted.
- 8 The criteria are:
- (a) Consistent, clear and objective criteria and thresholds that support transparency and openness;
  - (b) Specified financial reporting requirements based on needs of users matched with the level of public interest and external users (proportionate and fair); and
  - (c) Appropriate level of assurance matched with the needs of users.

#### Which charities should be reporting

- 9 Participants were asked to discuss whether any of the principles within the Discussion Paper on their own or in combination represented the need for charities to report. Once

the principle or principles were determined, participants were asked to identify ways to operationalise them.

What is the appropriate number of tiers and what should each of those tiers report

- 10 Participants were asked to discuss how best to set thresholds to segment the population of charities and what each of those segments were required to prepare.

## Table of feedback by location

11 There was support for having objective thresholds, but no agreement on what that meant or where to draw the thresholds. Some were comfortable with using a percentage of the population to determine the thresholds, and some not. Some were comfortable with the current \$250,000 revenue and noted difficulty of moving away from this given state regulators have given up powers on the basis of that threshold.

	Melbourne	Adelaide	Sydney	Brisbane
<b>What are the key issues in the current reporting framework (top 3)</b>	<ul style="list-style-type: none"> <li>- Duplication</li> <li>- Not fit-for-purpose</li> <li>- User needs</li> </ul>	<ul style="list-style-type: none"> <li>- Duplication</li> <li>- Self-assessment</li> <li>- Alternative criteria</li> </ul>	<ul style="list-style-type: none"> <li>- Duplication</li> <li>- Self-assessment</li> <li>- Inconsistency</li> </ul>	<ul style="list-style-type: none"> <li>- Duplication</li> <li>- Not fit-for-purpose</li> <li>- User needs</li> </ul>
<b>What should be the criteria for assessing a good framework</b>	Agree with the criteria, include need to support corporate governance.	Agree with the criteria, assurance should meet the needs of users and not be matched with the type of report.	Agree with the criteria, include supporting transparency and openness.	Agree with the criteria
<b>Which charities should be reporting</b>	<p>All charities by their nature should report something.</p> <p><b>Principle:</b> Combination of:</p> <ul style="list-style-type: none"> <li>- Public Interest; and</li> <li>- DGR status; and/or</li> <li>- Public money</li> </ul> <p><b>Operationalisation:</b></p> <ul style="list-style-type: none"> <li>- Revenue</li> <li>- Expenses</li> <li>- Assets</li> </ul>	<p>All charities by their nature should report something.</p> <p><b>Principle:</b> Combination of:</p> <ul style="list-style-type: none"> <li>- Public Interest; and</li> <li>- Public money</li> </ul> <p><b>Operationalisation:</b></p> <ul style="list-style-type: none"> <li>- Revenue</li> <li>- Expenses</li> </ul>	<p>All charities by their nature should report something.</p> <p><b>Principle:</b> Combination of:</p> <ul style="list-style-type: none"> <li>- Public Interest; and</li> <li>- Government privilege</li> </ul> <p><b>Operationalisation:</b></p> <ul style="list-style-type: none"> <li>- Revenue</li> <li>- Expenses</li> <li>- Assets</li> </ul>	<p>All charities by their nature should report something.</p> <p><b>Principle:</b> Combination of:</p> <ul style="list-style-type: none"> <li>- Public Interest; and</li> <li>- Economic significance</li> </ul> <p><b>Operationalisation:</b></p> <ul style="list-style-type: none"> <li>- Revenue</li> <li>- Expenses</li> <li>- Assets</li> <li>- Employee numbers</li> </ul>
<b>What is the appropriate number of tiers and what should each of those tiers report</b>	<p><b>Number of tiers:</b> 3</p> <p>Lowest tier – Cash</p> <p>Middle tier – large majority</p> <p>Simplified</p> <p>Top tier – Full GPFS</p>	<p><b>Number of tiers:</b> 3</p> <p>Lowest tier – Cash</p> <p>Middle tier – mixed views</p> <p>Top tier – Full GPFS</p>	<p><b>Number of tiers:</b> 3</p> <p>Lowest tier – Cash</p> <p>Middle tier –mixed views</p> <p>Top tier – Full GPFS</p>	<p><b>Number of tiers:</b> 3</p> <p>Lowest tier – Cash</p> <p>Middle tier – small majority</p> <p>simplified</p> <p>Top tier – Full GPFS</p>
<b>Number of attendees</b>	<b>37</b>	<b>20</b>	<b>24</b>	<b>19</b>

## Melbourne – Tuesday 21 November 2017

### What are the issues for charities in the current framework

- 12 Participants ranked duplicative reporting requirements, inconsistency in financial reports and regulation not being fit-for-purpose as the issues which resulted in the greatest impact on them.

### What should be the criteria for assessing a good framework

- 13 Participants agree that the three elements identified are required to make up a good framework. One participant commented that any changes to the framework should work to improve corporate governance.

### Which charities should be reporting

#### *Principle*

- 14 All participants agree that the number of external users is not the sole driver of who should prepare and publicly lodge financial statements within this sector.
- 15 Participants were not clear on the principle for reporting, but broadly considered **public interest** as well as **donations and government grants** could be used as the reason why a charity should report. It was thought that being a recipient of government privilege in general was not sufficient enough to require reporting. Although a point was made that being a charity and having tax exempt status should be of interest to the public as it is lost tax collections.
- 16 **Deductible Gift Recipient** status was considered as a good principle as you are receiving money from the general public rather than through government grants or passive income.
- 17 However a large majority of participants agreed that by the very nature of being charities, a charity would have public interest and needs to be accountable to the public.
- 18 An interesting point made in the session was that charities embrace the need to report and the principles of why they need to report is not the issue, but rather what is required to be reported as the sector wants to be accountable.

#### *Operationalisation*

- 19 Participants weren't clear on how to operationalise the principles. However most, participants agreed that revenue alone is not a good proxy for public interest, and that revenue is open to more fluctuations than other possible measures, although certain segments within revenue such as public donations should be considered.
- 20 Participants were generally supportive that a combination of criteria should be used. There was some support for a combination of revenue, expenses and assets. Assets were included to capture charities which may have high level of assets such as property and earn passive income.

- 21 It was suggested that it would be useful to identify whether the same entities met each of the criteria, or whether they differ. If the same then might not need the different criteria.
- 22 Some participants acknowledged that all principles were of relevance to different charities and it may be difficult to capture a diverse range of charities under one model. The South African public interest points system was brought up as a way to cover the diversity in the charity sector.
- 23 It was agreed by all participants that assessment of thresholds based on a single year resulted in issues and that the assessment should be measured on an average across a number of years.

#### What is the appropriate number of tiers and what should each of those tiers report

- 24 There was discussion about whether 3 or 4 tiers would be the most appropriate, with most participants agreeing that 3 tiers would likely be the most appropriate.
- 25 In terms of what each of those tiers was to report there was clear support that the bottom tier should report cash and that there is a need for the top tier to prepare Full GPFS. A large majority of participants also agreed that a simplified accrual reporting should be provided and RDR should not be the 3<sup>rd</sup> Tier.
- 26 There was some discussion about the use of number of employees from the perspective that employees result in additional risks for charities in terms of short and long-term liabilities (annual and long service leave).
- 27 There was discussion that the nature and operations of certain types of charities may require them to report at a higher tier than size alone, and the framework would need to consider this. One trigger that was raised was having DGR status.
- 28 In terms of how best to split the population, majority agree that the current \$250,000(revenue) level should be kept for small charities, and somewhere between \$5-10 million would be the thresholds for the large classification. Some agreement that 75% of the population is the bottom tier, and perhaps the top 3% of charities as the top tier. Further analysis of the population of charities would need to be conducted to identify what types of charities make up the different bands.

#### Other comments

- 29 Some participants were concerned that charities may be seen as being targeted and for the framework to apply effectively, it needs to be brought across and apply to other sectors as well.
- 30 A point was raised to conduct further analysis to identify whether a particular type of charity falls in certain thresholds such as \$10 million charities are generally Universities.
- 31 ATO provides a small business tax concession for businesses under \$10 million, which may be a possible cut off for the large sector.

32 Moving up tiers only when you have the complexity to be able to handle the higher reporting.

## **Adelaide – Monday 20 November 2017**

### What are the issues for charities in the current framework

- 33 Participants ranked duplicative reporting requirements, issues with self-assessment and inconsistency in financial reports as the issues which resulted in the greatest impact on them.

### What should be the criteria for assessing a good framework

- 34 Participants agree that the three elements identified are required to make up a good framework. One participant made an observation in relation to audit criteria commenting that instead of matching the assurance engagements to the type of financial reports, the assurance engagement should align with what the users are interested in.

### Which charities should be reporting

#### *Principle*

- 35 The majority of participants agreed that all charities, by their very nature should report publicly as there is some form of **public interest** in them. This interest may be the result of having **funds from government or the general public**.
- 36 Participants agreed that if there are a large number of users, such as members, then the **user needs** principle makes sense and drives the need to prepare GPFS, however this is not the case for all charities. One participant commented that some extremely small charities may not be aware they are registered as a charity and those small entities may not have public interest/accountability. However the overwhelming majority agreed that this sector has an obligation to report.

#### *Operationalisation*

- 37 Participants weren't clear how to operationalise the principles. However there was some support that a combination of criteria should be used, with a combination of revenue and expenses a good approach.
- 38 No participants advocated for assets however there was agreement that if a third criteria is required, then assets should be the criteria as some charities may be given government assets to manage or are bestowed with large bequests which are invested.
- 39 Participants considered that assets and liabilities can be problematic as criteria e.g. aged care charities have large assets, and many charities have no borrowings.
- 40 Expenses were considered to possibly be a better measure than revenue, as charities generally spend their budget on meeting their charitable purposes. Participants did not believe that number of beneficiaries is objective enough to operationalise as different charities will have different beneficiaries and will be a difficult concept to apply.
- 41 Participants mentioned that the South African public interest score model may resolve some of the issues of setting a framework for a diverse sector. They also agreed that



the nature of a charity such as whether in education or health sectors should not influence who should report and merely adds to the complexity of the model.

What is the appropriate number of tiers and what should each of those tiers report

- 42 Participants discussed whether 3 or 4 tiers were appropriate. The participants came to the conclusion that 4 tiers could not be justified if the thresholds for the smallest segment of charities were to remain at \$250,000.
- 43 The majority agreed there is a need for a cash reporting Tier especially where there are no employees. A small number thought all charities should do some form of accrual accounting. There was also support that the largest charities, being possibly the top 5% should do Full GPFS reporting.
- 44 Some thought financial reports need to be revamped to provide useful information, some noted that there may be a need for a specific disclosure standard for charities to address fundraising and administrative costs.
- 45 There was discussion about what the middle tier should be doing with the room split between the need for a simplified accrual tier and current GPFS RDR or raising the level of current SFPS through clear R&M requirements and mandated disclosures. Some participants considered that \$50,000 could be a cut off for the lowest Tier based on the ACNC 2015 AIS data indicating the largest spike of charities are in that range.

## Sydney – Thursday 16 November 2017

### What are the issues for charities in the current framework

- 46 Participants ranked duplicative reporting requirements, issues with the application of self-assessment and inconsistency in financial reports as the issues which resulted in the greatest impact on them.

### What should be the criteria for assessing a good framework

- 47 Participants agree that these elements/principles are required to make up a good framework. However comments were provided that an important element would also include transparency/openness to the three foundational criteria and is critical in charities especially as public trust and confidence is paramount.
- 48 Matching the type of assurance engagements with the appropriate level of assurer based on the type of specified financial statements collected was also mentioned.

### Which charities should be reporting

#### *Principle*

- 49 Whilst there was general agreement that the number of external users may not be the best criteria, participants had mixed views on the principle or principles which could underpin the need for a charity to report as all of the principles could be relevant to a particular charity.
- 50 A large majority of participants agreed that there is public interest in charities through the nature of being a charity. This public interest can come from many different sources such as receiving donations, government grants, tax exempt status, social significance and public expectations of the sector. Public Interest covers a number of the other principles and is fundamentally the principle.

#### *Operationalisation*

- 51 Participants generally supported that no criteria should be used in isolation and a combination of revenue, expenses and assets could be appropriate as proxies for the principles. It was suggested that similarly to the *Corporations Act 2001* Small/Large test the measures could meet any two of three.
- 52 Fundraising was identified as an important source of income and whether this better represented public interest/accountability. The nature of a charity as a criterion was considered, however participants agreed the nature of a charity should not be a differentiating criteria.
- 53 Some participants did think about operationalising social significance through percentage of donations as a percentage of revenue but concluded that this was likely too subjective.
- 54 Sydney participants did not identify that employee numbers/expenses was an appropriate criterion as some charities may have little to no employees but have high levels of revenue and/or expenses.

- 55 All participants agree that meeting a threshold should not be based on a single year and should be assessed across two or even three years.

What is the appropriate number of tiers and what should each of those tiers report

- 56 There were mixed view around whether 3 or 4 tiers would be appropriate and how the segmenting of the tiers could be done. The view was that if there was a clean slate, then 4 tiers may potentially be more appropriate however, if it is hard to move below the current \$250,000 threshold, then 3 tiers would be more appropriate. It was commented that using the politics related to moving away from the current threshold is not a strong argument for not moving.
- 57 There was large majority support that there is a need to have a tier that does not 'need' to do accrual accounting but has the option to do accrual accounting if they wished. There was discussion amongst participants about where to set the bottom tier threshold and whether the current level for a small charity of \$250,000 revenue was too high or too low as some participants felt uncomfortable that 75% of the population (based on 2015 data) was only doing cash reporting. A comment was made that the space of \$250,000-\$1,000,000 was a wide span of charities with varying levels of complexity. A small number thought all charities should do accrual accounting. Some thought the \$250,000 threshold was too high and some too low.
- 58 It was considered whether the tiers should be based on the complexity of the charity but there would be difficulty in operationalising this. For the tier that was required to do cash accounting, cash flow templates and guidance which would assist a charity in preparing their AIS would be beneficial.
- 59 Some suggested that rather than looking at percentiles of the population for thresholds, it might be better to look at what it would cost an entity to comply. For example if needed to employ an accountant to prepare accrual accounts then how much revenue/expenses is needed to support that.
- 60 There was general support that charities with the highest level of user interest should be preparing a full GPFS. The discussion about what the middle tier could do was split between GPFS RDR and simplified accrual, with more in favour of RDR. It was suggested that on request, the ACNC or members could require a higher tier of reporting by a charity.
- 61 Participants would like more information regarding what a simplified accrual tier would look like before deciding.

## **Brisbane – Tuesday 14 November 2017**

### What are the issues for charities in the current framework

- 62 Participants ranked duplicative reporting requirements, inconsistency in financial reports and regulation not being fit-for-purpose as the issues which resulted in the greatest impact on them. A comment was made that the charity sector is so diverse that charities can perceive issues differently and depending on where you sit within the organisation, for example accounting/finance or service delivery.

### What should be the criteria for assessing a good framework

- 63 Participants agree that the three elements identified are required to make up a good framework.

### Which charities should be reporting

#### *Principle*

- 64 Participants were not clear on what principle to apply, but all agree that charities should report some financial information publicly. There was some support that the principle underpinning the need to report publicly could involve a combination of economic significance and public interest. Public accountability was brought up but may not be appropriate as the definition is quite narrow when applied in the not-for-profit sector as it was drafted by the IASB with a for-profit focus.

#### *Operationalisation*

- 65 Participants were not clear on how to operationalise the criteria. There was some support that the operationalisation of principle can be a combination of expenses and assets with employee numbers to differentiate what you are reporting. The inclusion of assets would be necessary to capture some of the older charities which have high asset bases and passive income.

### What is the appropriate number of tiers and what should each of those tiers report

- 66 Participants did not believe that there was a need for four tiers and thought that three tiers was appropriate and that all charities should report something. If the bottom tier was to report on a cash basis it was agreed that there is a need to provide guidance for small charities when preparing information such as a cash flow template that aligns with the National Standards Chart of Accounts.
- 67 It was also generally supported that there is a need for a top tier of reporting by some charities to prepare full general purpose financials statement.
- 68 There was discussion about whether having employees was a good trigger to move from cash to accrual as employees (including casuals) will need provisions to be recognised for appropriate leave balances.
- 69 Majority of participants agreed that a simplified recognition and measurement tier might be needed, however there was no clear consensus of how to segment the population.

- 70 There was interest from participants who wanted to see what types of charities are in the group below the top 10% to determine whether there would be a need to set Full GPFS below top 10%.