



Australian Government
**Australian Accounting
Standards Board**

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28 February 2018

Mr Murray Crowe
Individuals and Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

[Email: ACNCReview@treasury.gov.au]

Dear Mr Crowe

The Australian Accounting Standards Board (AASB) welcomes the opportunity to make comments to the Australian Charities and Not-for-profits Commission Legislative Review.

The AASB is an Australian Government body under the *Australian Securities and Investments Commission Act 2001*. Under that Act, the statutory functions of the AASB are to:

- develop a conceptual framework for the purpose of evaluating proposed standards;
- make accounting standards under section 334 of the *Corporations Act 2001*;
- formulate accounting standards for other purposes;
- participate in and contribute to the development of a single set of accounting standards for worldwide use; and
- advance and promote the main objects of Part 12 of the *Australian Securities and Investment Commission Act*, which include reducing the cost of capital, enabling Australian entities to compete effectively overseas and maintaining investor confidence in the Australian economy.

The AASB's vision is to contribute to stakeholder confidence in the Australian economy, including its capital markets, and in external reporting. The AASB's mission is to develop, issue and maintain principle-based Australian accounting and external reporting standards and develop guidance that meet user needs and enhance external reporting consistency and quality; and contribute to the development of a single set of accounting and external reporting standards for world-wide use.



AASB Recommendations to the Review Panel for improving financial reporting requirements for charities:

1. Extend the tiers of financial reporting to three, enabling differential reporting requirements between small, medium and large charities.
2. Further work to be undertaken by the ACNC, AASB and Australian Auditing Standards Board (AUASB), in consultation with the sector, to develop a suitable reporting framework for registered charities. The framework should set transparent, clear and objective criteria and thresholds for public lodgement, with specified financial reporting and assurance requirements for each tier that are proportionate and fair, meeting the needs of users.
3. Further investigate the need for charity specific matters, such as fundraising and administration costs and service performance reporting, to be addressed in financial reports or supplemental reports.
4. Move financial reporting thresholds to the Regulation from the Act.
5. Amend criteria for movement between financial reporting tiers to two consecutive years of meeting requirements and remove regulator pre-approval.
6. ACNC continues its initiative in reducing red tape in charities' financial reporting.

Consistent with the ACNC's recommendation 21, the AASB will continue to work closely with the ACNC and the Auditing and Assurance Standards Board (AUASB), in consultation with stakeholders in the charity sector, to progress points 1-3 above.

Please see Appendix A for the reasons supporting the AASB's recommendations and Appendix B for a summary of the feedback received from 234 participants who attended AASB's six outreach sessions on the Financial Reporting Framework project for charities.

If you have queries regarding any matters in this submission, please contact me or Kala Kandiah (kkandiah@asb.gov.au).

Kind regards,

Kris Peach
Chair, the Australian Accounting Standards Board



Appendix A – Reasons for the AASB’s recommendations

1. Extend the tiers of financial reporting to three, enabling differential reporting requirements between small, medium and large charities.

The AASB and AUASB have been working closely with regulators and government policy-makers, to improve the financial reporting and assurance requirements for charities, amongst other entities. Research¹ and consultation papers² for the not-for-profit sector have been developed to drive changes to the legislation and regulations to stipulate ‘who’ (i.e. which entities) should publicly lodge their financial reports, ‘what’ they should report and what level of assurance is required. During its outreach sessions, the AASB received consistent feedback from constituents supporting three tiers of reporting for General Purpose Financial Statements (GPFS) for charities. This feedback confirms the view that the current reporting framework does not enable proportionate and fair reporting where there is no distinction between the financial reporting requirements for medium and large sized charities³. Accounting standards currently provide 2⁴ tiers of general purpose financial reporting and feedback indicates that the current Reduced Disclosure Requirements (Tier 2) is possibly still too onerous for medium charities. In comparison, the audit and review requirements of annual financial reports⁵ do differentiate between the 3 tiers, with large entities required to have an audit, medium-sized charities able to have a review or an audit, and small entities need not have a review nor audit.

The current use of special purpose financial statements (SPFS) by medium and large charities is also contributing to the issue of disproportionate and less transparent reporting. Charities, who self-assess themselves as ‘non-reporting entities⁶’, and therefore prepare SPFS are required to provide less disclosure and potentially measure their revenues,

1 [AASB Research Paper No.5 – Financial Reporting Requirements Applicable to Charities](#)

2 [AASB Discussion Paper: Improving Financial Reporting for Australian Charities](#)

3 Section 205-25 of the ACNC Act defines small, medium and large sized charities.

4 AASB 1053 *Application of Tiers of Australian Accounting Standards* currently provides two Tiers of reporting, full GPFS (Tier 1) or Reduced Disclosure Requirements GPFS (RDR). Full GPFS is required for for-profit private sector publicly accountable entities. All charities are able to apply Tier 2 Reduced Disclosure Requirements and only voluntarily apply Tier 1.

5 Sections 60-20 of the ACNC Act allows medium registered charities to have their annual financial reports audited or reviewed and section 60-30 of the ACNC Act requires large registered charities to have their annual financial reports audited.

6 Reporting entity is defined in 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 depend on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources”. Paragraphs 19-22 of SAC 1 provide guidance for identifying the likely existence of dependent users, including consideration of:

- a) separation of managements from economic interest
- 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.



expenses, assets and liabilities on a different basis to similar charities that self-assess as 'reporting entities' and prepare GPFS in accordance with accounting standards. Research has indicated the 'reporting entity' concept is not well understood, is not applied consistently in practice, is too subjective for regulators to enforce effectively and accordingly does not create a level playing field. Australia is the only country to permit charities to self-assess what type of financial reporting is required when a regulator requires preparation of financial reports. Research⁷ has also indicated that some Australian charities are reporting prescriptively and comprehensively in accordance with accounting standards (GPFS) while other similar charities are preparing SPFS in accordance with the preparer's selected accounting standards and in some cases⁸, regulator's limited requirements⁹. This reduces comparability for charities of similar economic circumstances and contradicts the fundamentals of trust and transparency as required by Object 1 of the ACNC Act.

The AASB would welcome the opportunity to develop new tiers of reporting that promote proportionate and fair reporting for charities that meet the needs of users. The AASB will continue to work closely with the ACNC, in consultation with stakeholders in the charity sector, to do this. The AASB acknowledges the ongoing support from the ACNC for a better financial reporting framework for charities, to drive for greater consistency and comparability in financial reporting, which is the cornerstone of public trust and confidence in supporting the first object of the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act).

7 AASB Research Report No 1 *Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements* (2014)

8 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 found that more than 87% of the variations in charities' financial reporting choice [between GPFSs and SPFSs] cannot be explained by the model containing the three indicative factors from SAC 1. Generally, the results show that the charities do not consistently apply the guiding rules in SAC 1 when deciding on whether to prepare GPFSs or SPFSs. The report also notes that about 54.2% of large and 23.1% of medium charities produce GPFSs; and about 42% of large and 63% of medium charities produce SPFSs.

9 AASB Discussion Paper: *Improving Financial Reporting for Australian Charities* highlights the difficulty with self-assessment stems from significant judgment required and the high degree of variability in the quality of the reports prepared. As a result of the high level of judgement involved, enforcement of the requirements is difficult and in reality, many charities are likely to choose not to comply with full requirements of Australian Accounting Standards.



- 2. Further work to be undertaken by the ACNC, AASB and AUASB, in consultation with the sector, to develop a suitable reporting framework for registered charities. The framework should set transparent, clear and objective criteria and thresholds for public lodgement, with specified financial reporting and assurance requirements for each tier that are proportionate and fair, meeting the needs of users.**

Setting transparent, clear and objective criteria and thresholds for public lodgement supports proportionate reporting and ensures the regulatory burden falls most on those with the greatest number of external users, public interest and economic significance.

As noted by the ACNC, the current ACNC size thresholds were drawn from the *Corporations Act 2001* and there are differing views about the appropriateness of these thresholds. It is not clear on what basis these thresholds have been chosen and when they should be revised. Setting transparent, clear and objective criteria and thresholds will ensure charities with an appropriate level of economic significance, public interest or external users publicly lodge financial reports. The criteria and threshold levels for public lodgement should be matched with an appropriate level of specified financial reporting. The greater the level of economic significance, public interest or external users, the greater the level of specified financial reporting should be, to balance user needs and preparer costs.

The AASB received consistent feedback from constituents during its outreach sessions that revenue alone is not a sufficient criterion to determine who should publicly lodge financial reports, especially for entities with a disproportionately low level of revenue but significant assets. Such entities are not currently required to report, despite having as much economic significance as those with large revenues and few assets.

Any exemptions from financial reporting for charities should have a clear rationale and basis for the exemption, to ensure Object 1 of the ACNC Act is supported.



Feedback from the AASB's outreach sessions (see Appendix B) indicated that further consultation is needed with charity stakeholders to consider the criteria most relevant in operationalising the principles that determine which charities should report publicly. Further consultation will need to be conducted on the appropriate reporting requirements applicable to the three reporting tiers, in particular the appropriate reporting requirements for the middle tier, and how the charity population could be best objectively segmented to allow proportionate reporting across the three reporting tiers. Further detail of the outreach findings are set out in Appendix B.

Regulators, the AASB and the AUASB should work closely together to match the criteria and thresholds with appropriate reporting and assurance requirements with the aim of ensuring that reporting is proportionate and consistent according to the size of an entity.

3. Further investigate the need for charity specific matters, such as fundraising and administration costs and service performance reporting, to be addressed in financial reports or supplemental reports.

The ACNC and other charity stakeholders have identified that fundraising and administrative costs are not clearly disclosed in financial reports due to the lack of consistent definitions and guidance. Our outreach also confirms donors and grantors to charities require reporting of services delivered using the funds provided.

The AASB will work closely with the ACNC, state and territory regulators and charity stakeholders to determine what additional information may be required in financial reports or supplemental reports to address fundraising and service performance reporting issues across all three tiers of reporting. The AASB will also continue to progress its project on Service Performance Reporting, working closely with the New Zealand External Reporting Board who recently issued their Service Performance Reporting Standard, and looking at how this might be tailored for Australia.

4. Move financial reporting thresholds to the Regulation from the Act.

Legislative amendments are generally more complicated than Regulation amendments, and accordingly occur less frequently. They can often be delayed depending on the priorities of government and the capacity of the drafters of the legislation. As such financial reporting thresholds set in the Regulation rather than the Act allows the regulator more flexibility to amend the thresholds on a timely basis to ensure financial reporting requirements remain appropriate and contemporary.



5. Amend criteria for movement between financial reporting tiers to two consecutive years of meeting requirements and remove regulator pre-approval.

Movements in and out of a reporting threshold should be based on meeting the criteria for two consecutive years (consistent with ACNC's recommendation 22). This will resolve the issue where an unusual or one-off event results in a charity exceeding a tier threshold, thereby triggering the requirement for the charity to move to a different tier of reporting and assurance.

Internationally, there is generally a requirement for entities to have exceeded the relevant threshold for at least 2 years before being required to move between tiers. This would seem to be a more appropriate requirement and avoid the need for regulators to continually exercise discretion in requiring movement between tiers.

6. ACNC to continue its initiative in reducing red tape in charities' financial reporting.

The ACNC has made important progress in relation to promoting the quality of reporting and reducing unnecessary regulation for charities.

The AASB is supportive of ACNC's efforts and encourages the ACNC to continue the harmonisation of charities' reporting requirements across all states/territories in order to enable consistent criteria and thresholds for public lodgement, reporting and assurance requirements across all relevant regulators.



Appendix B – Collation of feedback from AASB outreach

- 1 The objective of this Appendix is to provide to the ACNC Legislative review a collation of the discussions in each of the framework sessions and any other feedback received.
- 2 This paper is structured as follows:
 - (a) Overall key common views of 6 outreach sessions (page 9)
 - (b) Table of feedback received (page 11-12);
 - (c) Detailed collation of Melbourne session (pages 13-14);
 - (d) Detailed collation of Adelaide session (pages 15-16);
 - (e) Detailed collation of Sydney session (pages 17-18);
 - (f) Detailed collation of Brisbane sessions (pages 19-21); and
 - (g) Detailed collation of online webinar (pages 21-22).

Overall key common views of 6 outreach sessions

- 3 Six AASB outreach sessions were organised and a total of 234 participants attended these outreach sessions. AASB received consistent feedback from all sessions which is summarised below:
 - (a) the top key issues impacting the charity sector are duplicate reporting requirements and self-assessment;
 - (b) the principles that should determine which charities report were generally agreed to be public interest. A charity receiving most of its funds from the public should be required to lodge financial information publicly and be accountable to the public.
 - (c) to operationalise the principles, participants agree that a combination of criteria should be used to best represent the principles. Criteria considered by most to be relevant were revenue, expenses and assets. Some participants suggested 'number of employees' could also be a criteria.
 - (d) the majority of participants viewed having three Tiers of reporting for general purpose financial statements (GPFS) to be appropriate with most agreeing that the lowest Tier should be some form of cash reporting rather than accruals accounting. Most also agreed that the highest Tier should be the current Tier 1 reporting requirements. Participants also agreed that an entity should be assessed over a period of more than one year to determine whether it has reached the threshold set to move to the next Tier up. However participants could not express a clear view in relation to the reporting requirements for the middle Tier. Most expressed a view that some form of simplified recognition and measurement requirements compared to Tier 1 would be cost beneficial but did not specify what those simplifications should be.



- (e) there were no consistent views on how the population can be segmented objectively to allow for proportionate reporting. However it was generally agreed that, based on the 2015 Annual Information Statement data from ACNC, 75% of charities which is roughly equal to those charities with less than \$250,000 in revenue and/or expenses should be in the Cash Reporting Tier. The top 3% charities with \$5 to \$10 million in revenue and/or expenses should be doing Tier 1 reporting.

Background

- 4 Six outreach sessions to discuss the Financial Reporting Framework for Charities were hosted by the AASB in Brisbane (14 Nov 2017 and 15 Nov 2017), Sydney (16 Nov 2017), Adelaide (20 Nov 2017), Melbourne (21 Nov 2017) and an online webinar (9 Feb 2018). The sessions were attended by a mixture of stakeholders, the ACNC and State regulators attended the sessions.
 - (a) The first Brisbane sessions had a good representation of large and medium charities, professional service organisations, and the Queensland regulator attended as observers. The second Brisbane sessions had a good representation of professional service organisations.
 - (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 had good charity and professional service organisation representation. This session also had the highest attendance from the ACNC and academics.
 - (e) The online webinar was held last and was best attended by a range of charities, professional service organisation representations and representatives from the ACNC.
- 5 The sessions were structured on generating discussion and obtaining feedback on five 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

- 6 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.



- 7 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

- 8 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.
- 9 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

- 10 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

- 11 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

12 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. Majority 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. Some participants suggested lowering the \$250,000 revenue threshold to align it to an external factor such as the GST NFP thresholds

	Melbourne	Adelaide	Sydney	Brisbane	Brisbane 2 nd session	Webinar
What are the key issues in the current reporting framework (top 3)	<ul style="list-style-type: none"> - Duplication - Not fit-for-purpose - User needs 	<ul style="list-style-type: none"> - Duplication - Self-assessment - Alternative criteria 	<ul style="list-style-type: none"> - Duplication - Self-assessment - Inconsistency 	<ul style="list-style-type: none"> - Duplication - Not fit-for-purpose - User needs 	<ul style="list-style-type: none"> - Duplication - User needs - Not fit-for-purpose 	<ul style="list-style-type: none"> - Duplication - Not fit-for-purpose - Alternative criteria - Other (lack of accounting/assurance knowledge)
What should be the criteria for assessing a good framework	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	Agree with the criteria	N/A



	Melbourne	Adelaide	Sydney	Brisbane	Brisbane 2 nd session	Webinar
Which charities should be reporting	All charities by their nature should report something. Principle: Combination of: - Public Interest; and - DGR status; and/or - Public money Operationalisation: - Revenue - Expenses - Assets	All charities by their nature should report something. Principle: Combination of: - Public Interest; and - Public money Operationalisation : - Revenue - Expenses	All charities by their nature should report something. Principle: Combination of: - Public Interest; and - Government privilege Operationalisation : - Revenue - Expenses - Assets	All charities by their nature should report something. Principle: Combination of: - Public Interest; and - Economic significance Operationalisation: - Revenue - Expenses - Assets - Employee numbers	All charities by their nature should report something. Principle Combination of: - Public interest; and - Government privilege Operationalisation: - Revenue - Expenses - Assets	Principle Combination of: - Public interest and Economic Significance - Public Interest and Recipient of Government Grants - Public Interest and Charity Operationalisation: - Revenue, Expense and Assets - Revenue and Expenses - Other, e.g. employee numbers
What is the appropriate number of tiers and what should each of those tiers report	Number of tiers: 3 Lowest tier – Cash Middle tier – large majority Simplified Top tier – Full GPFS	Number of tiers: 3 Lowest tier – Cash Middle tier – mixed views Top tier – Full GPFS	Number of tiers: 3 Lowest tier – Cash Middle tier –mixed views Top tier – Full GPFS	Number of tiers: 3 Lowest tier – Cash Middle tier – small majority simplified Top tier – Full GPFS	Number of tiers: 3 Lowest tier – Cash Middle tier – majority simplified Top tier – Full GPFS	Number of tiers: 3 Split of population: Small – 75%, Medium – 20%, Large – top 5% or Small = \$250k, Large – 10%
Number of attendees	37	20	24	19	16	118



Melbourne – Tuesday 21 November 2017

What are the issues for charities in the current framework

- 13 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

- 14 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

- 15 All participants agree that the number of external users is not the sole driver of who should prepare and publicly lodge financial reports within this sector.
- 16 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.
- 17 **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.
- 18 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.
- 19 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

- 20 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.
- 21 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.



- 22 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.
- 23 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.
- 24 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

- 25 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.
- 26 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 3rd Tier.
- 27 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).
- 28 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.
- 29 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

- 30 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.
- 31 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.
- 32 ATO provides a small business tax concession for businesses under \$10 million, which may be a possible cut off for the large sector.
- 33 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

- 34 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

- 35 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

- 36 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**.
- 37 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

- 38 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.
- 39 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.
- 40 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.
- 41 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.
- 42 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

- 43 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.
- 44 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.
- 45 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.
- 46 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

- 47 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

- 48 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.
- 49 Matching the type of assurance engagements with the appropriate level of assurer based on the type of specified financial reports collected was also mentioned.

Which charities should be reporting

Principle

- 50 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.
- 51 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

- 52 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.
- 53 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.
- 54 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.
- 55 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.



- 56 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

- 57 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.
- 58 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.
- 59 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.
- 60 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.
- 61 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.
- 62 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

- 63 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

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

Which charities should be reporting

Principle

- 65 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

- 66 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

- 67 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.
- 68 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.
- 69 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.
- 70 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.



- 71 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%.

Brisbane – Friday 15 December 2017

What are the issues for charities in the current framework

- 72 Participants ranked duplicative reporting requirements, user needs were not understood and regulation not being fit-for-purpose as the issues which resulted in the greatest impact on them. Comments were made in relation to the different user needs of financial information and financial reports that are prepared on different basis does not allow for comparisons.

What should be the criteria for assessing a good framework

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

Which charities should be reporting

Principle

- 74 Participants thought that a combination of receipt of government privilege and public interest should be the underlying principle that determines who should report and charities by their nature should be reporting.

Operationalisation

- 75 To operationalise the principles, participants supported that a combination of revenue, expenses and assets are reasonable surrogates. Participants rationalised that expenses was an important factor to determine how a charity spends their money on achieving their purpose, and a focus on assets on how charities fulfil their purposes would fit in with the ACNC regulatory function. Unlike the first Brisbane sessions, participants felt that employees may not be an additional criteria as it would have been included in the expenses criteria.

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

- 76 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. Some participants suggested an external factor to determine the lowest Tier could be the \$150,000 GST registration threshold for an NFP organisation which is legislated by the Australian Taxation Office. Cash reporting would be appropriate for this Tier which covers 60% to 70% of charities based on the 2015 AIS data. Where a charity has employees, this will create other obligations which would require accrual accounting and possibly a trigger to move to second tier.
- 77 It was also generally supported that there is a need for a top tier of reporting by some charities to prepare full GPFS. Some participants suggested that the threshold could be where a charity has above \$5 million in expenses and a level of assets such as \$10 million would be required to prepare full GPFS. Whilst some participants suggested that charities with \$2 million or above should be required to prepare full GPFS.



- 78 Majority of participants agreed that a simplified recognition and measurement tier would be the middle tier.
- 79 A small number of participants suggested that the lowest tier should be the simplified recognition and measurement depending on how simplified the accrual accounting is instead of cash reporting. The reason is because a charity that has employees will need to measure entitlements using accrual accounting. The top Tier may be determined by other complex elements applicable to the charity such as interest rate swaps or business combination under common control.

Webinar – Friday 9 February 2018

What are the issues for charities in the current framework

- 80 Participants ranked duplicative reporting requirements; regulation is not fit-for-purpose and lack of clarity and alternative threshold criteria as the issues which resulted in the greatest impact on them. A number of participants also selected other issues and identified:
- difficulties with applying the accounting standards that are designed for for-profit entities,
 - lack of accounting knowledge and assurance requirements
 - financials were not the main driver of the organisation's performance

Which charities should be reporting

Principle

- 81 Participants thought that a combination of public interest and economic significance or public interest and recipient of government grants should be the underlying principle that determines who should report and charities by their nature should be reporting. Some participants selected public interest and charity and a small number of the audience selected other however no additional comments were provided in relation to what the other principles may apply.

Operationalisation

- 82 To operationalise the principles, participants supported that a combination of revenue, expenses and assets are the most appropriate. While the second most common selection was revenue and expenses. Some participants also selected other and agreed that employee numbers would trigger as a criteria because of the need to apply accrual accounting to account for long service leave.

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

- 83 Participants selected 3 Tiers as the most appropriate number based on the available data. Some participants selected 4 Tiers and provided feedback to lower the current size threshold to determine a small charity to lesser than \$200,000 and large should be above 10 percentage to allow the middle size to be split into 2 categories.



- 84 It was also generally supported that the population of charities should be split into small being 75% of the population, medium being 20% and large being top 5%. However this selection was closely followed by participants selecting small to remain at \$250,000 and large should be the top 10%. Feedback was received separately that small should be 80% of the population; medium should be 15% and top 5% large. A participant also raised concern regarding the use of percentages to stratify the population especially where charities merge or new charities are established, this could cause inconsistent reporting and variations for charity reporting year by year even though they may be conducting the same activities.