Australian Government

Australian Accounting Standards Board

AASB Discussion Paper:

Improving Financial Reporting for Australian Charities

November 2017

Improving Financial Reporting for Australian Charities

Discussion Paper

Foreword

Community support is vital to the charity sector; each year Australians donate $11 billion and three million of us volunteer. Access to reliable, accurate, and up-to-date information about registered charities underpins this generosity.

The financial information provided by registered charities is the cornerstone of the Australian Charities and Not-for-Profits Commission (ACNC's) regulation of the charity sector. This information significantly increases transparency and accountability, and helps promote public trust and confidence. For this reason, it is critical that financial reporting by charities is clear and objective, while also balancing the needs of users with the cost of providing the information by preparers.

Since it was established in 2012, the ACNC has made significant inroads in improving the reporting framework for charities, and harmonising ACNC and state and territory regulatory requirements. But there is still work to do.

With the upcoming ACNC legislative review soon to commence, now is the time for charity stakeholders, the ACNC and other regulator to come together to discuss how the reporting framework can be further improved.

With the aim of facilitating that conversation, this Discussion Paper was developed in consultation with the ACNC and the Auditing and Assurance Standards Board. Outreach events are due to commence shortly and we look forward to participating with the ACNC and state regulators in this process.

We encourage all charity stakeholders to get involved. You can do this by making submissions to the review of the ACNC legislation; by participating in the AASB's Discussion Forums on the financial reporting framework; and/or by providing direct feedback to the ACNC or the AASB.

Kris Peach
Chair, the Australian Accounting Standards Board

Contents

Executive Summary

The current financial reporting framework for charities has been the subject of criticism from a number of reviews in recent years. Charities complain of unnecessary complexity, inconsistent and uncertain requirements, and financial reports that are not focused on the needs of their stakeholders.

There is no 'level playing field' for charities: similar entities may have very different reporting, driven by their geographic location, entity type or self-assessment of reporting obligations.

There is no 'level playing field' for charities: similar entities may have very different reporting, driven by their geographic location, entity type or self-assessment of reporting obligations.

The current financial reporting framework for charities – key issues

- Complex, duplicated and inconsistent reporting requirements across jurisdictions.
- Reports – even of very similar entities – can be prepared on very different bases, making comparisons difficult. Reporting requirements are driven less by user needs than by geographic location, entity type and historic reporting choices.
- Unclear rationales for reporting requirements, and the need for charities to exercise judgment on complex and technical issues.
- It is not clear why some entities are preparing and lodging financial statements and others not.
- It is not clear why criteria and thresholds for reporting have been chosen, on what basis the thresholds have been set or when they should be revised.
- It is not clear that the current two types of the Australian Accounting Standards Board (AASB) specified financial reporting appropriately match the needs of users and preparer costs.
- Reports are costly to prepare, and are not effective in building trust by clearly communicating the basis of performance, both financial and service related, to report users. Fundraising and administrative costs are not clearly disclosed. Poor reporting also hampers regulators' ability to assess the viability of charities.
- Charities do not value financial reports as a communication tool, with a strong perception in the sector that nobody reads them. This is linked to the misalignment of reporting requirements to the size and significance of a charity, and perceived lack of consideration of user needs in setting reporting requirements.
- The playing field is not level as Australia is the only country to permit charities to self-assess what type of financial reporting is required. Some charities are reporting prescriptively and comprehensively in accordance with accounting standards (general purpose financial reports) while other similar charities are preparing special purpose financial reports in accordance with the preparer's selected accounting standards and in some cases, regulator's limited requirements. Enforcement of the requirements is difficult given the subjectivity of the underlying criteria.
- Charities often perceive the preparation and lodgement of financial statements as a compliance exercise and to fulfil regulatory requirements which may result in the choice of statements prepared without assessing the whether there were users of those

statements. Special purpose reports should only be prepared if all the users can obtain the financial information they require without regulator help. Accordingly, if accurately self-assessed, why are these entities preparing and publicly lodging financial reports at all?

- Assurance requirements on financial reporting, and the skills of the 'assurer' are also inconsistent and do not balance user needs with preparer costs.

It is clear that the current financial reporting framework is not 'fit for purpose' for charities. Some important progress has been made during the past five years, however, further reform is required if our charitable sector is to be efficient and effective.

Based on the issues discussed in this Paper, we propose four key areas to improve the charity financial reporting framework:

a) Eliminating duplicate reporting requirements between states/territories and the Commonwealth.

This may be through having one regulator, the Australian Charities and Not-for-profits Commission (ACNC) to be the 'one stop shop' and harmonise reporting requirements for all charities, similar to corporates, or establishing consistent criteria and thresholds for public lodgement, reporting and assurance requirements across relevant regulators.

b) Regulators designing transparent and objective criteria and thresholds for public lodgement, reporting and assurance requirements.

These should require only charities with an appropriate level of economic significance, public interest or external users to publicly lodge financial statements.

c) The AASB specifying financial reporting requirements for those required to publicly lodge, that are clear and objective, balancing user needs with preparer costs (general purpose financial reporting).

There should be no special purpose financial reporting as charities who only have users that do not need regulators to obtain the financial information should not be publicly lodging.

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, to balance user needs and preparer costs.

The types of general purpose financial reporting should be based on the needs of users and the characteristics of particular groups of charities selected from:

1) full recognition, measurement and disclosure requirements of accounting standards
2) full recognition and measurement but reduced disclosure requirements of accounting standards
3) modified recognition, measurement and disclosure (new accounting standard to be developed)

4) cash accounting (new accounting standard and template report consistent with the National Standard Chart of Accounts (NSCOA)[1] to be developed).

d) The Australian Auditing Standards Board (AUASB) to work with regulators to specify the appropriate level of assurance and the appropriate skill set for the 'assurer' to match with the type of general purpose financial reporting.

The types of assurance engagements should be selected from

i. audit
ii. review
iii. other assurances
iv. agreed-upon procedures.

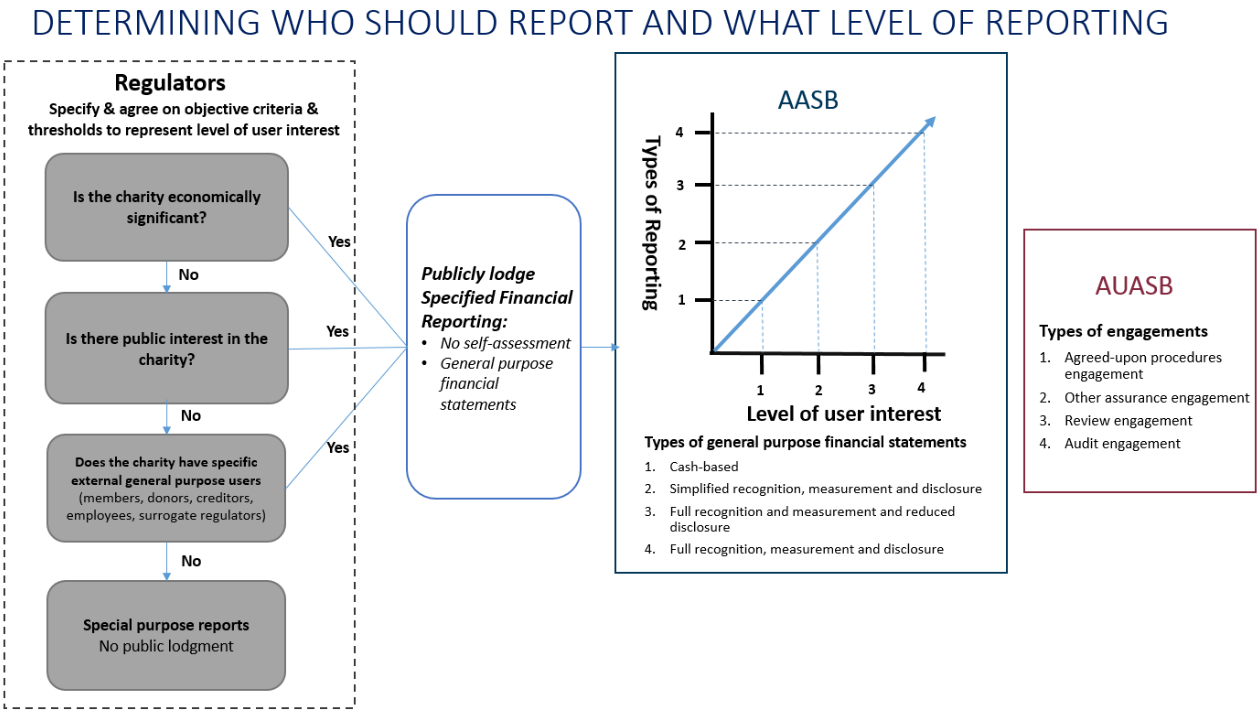

Figure 1 – Flowchart showing the 4 key areas that needs to be considered to determine who should report and what level of reporting as described in paragraphs a-d.

1 The NSCOA is a data dictionary for charities and other not-for-profit organisations. All Australian governments (Commonwealth, state and territory) have agreed to accept NSCOA when requesting information from not-for-profits. See further information at www.acnc.gov.au/nscoa.

Illustrative financial reporting frameworks

This Paper presents four illustrative financial reporting framework that take the criteria and thresholds considered to match with the types of general purpose financial statements for each identified thresholds.

The below summary table demonstrates the illustrative financial reporting framework (discussed in more detail in paragraphs 56)). These options are by no means all the possible options. They have been chosen to demonstrate the wide range of possibilities and provide a starting point for discussion. However, none of the options presented are self-assessment options.

	Option 1 (NZ PBE model)	Option 2 (public interest and economic significance represented by expenses)	Option 3 (public interest and economic significance represented by expenses and external users by external donations)	Option 4 (number of users)
Criteria underpinning thresholds	Expenditure/expenses are proxies for economic significance. All charities report, but cost/benefit differentiates what is to be reported	Expenditure/expenses are proxies for size/economic significance/public interest.	Expenditure/expenses are proxies for size/economic significance/public interest. Donations/bequests/government funds is a proxy for external users and public interest	Expenditure/expenses are proxies for size/economic significance/public interest. Total number of users is a proxy for user needs/public interest (and to the extent that number of beneficiaries includes social significance).
Thresholds	**1:** Operating payments[2] <$125,000 (66% of population) **2:** Expenses[3] ≤$2,000,000 (26%) **3:** Expenses ≤$30,000,000 (7%) **4:** Expenses (including grants) >$30,000,000 (1%)	**1:** Operating payments <$270,000 (75% of population) **2:** Expenses greater than $270,000 and ≤ $4,500,000 (20%) **3:** Expenses >4,500,000 (5%)	**1:** Operating payments =$0 (first 25%) or donations/bequests/ government funds =$0 (first 25%) **2:** Expenses >$0<$34,000 (next 25%) or donations/bequests/ government funds >$0<$1,800 (next 25%) **3:** Expenses >$34,000<$260,000 (next 25%) or donations/bequests/	**1:** Operating payments <$X (first quartile) or number of users <X (first quartile – data currently not available) , having regard to some measure [not currently available] of total/number of: - creditors - lenders - donors

2 Operating payments – defined as cash outflow for the year related to operating activities (grants/donations made, salaries and wages, utilities, fundraising costs).

3 Expenses – calculated in accordance with accounting standards.

	Option 1 (NZ PBE model)	Option 2 (public interest and economic significance represented by expenses)	Option 3 (public interest and economic significance represented by expenses and external users by external donations)	Option 4 (number of users)
			government funds >$1,800<$87,000 (next 25%) **4:** Expenses >260,000 (next 25%) or donations/bequests/ government funds >$87,000 (next 25%)	- employees - beneficiaries - members - volunteers **2-4:** Expenses >X or number of users >X; determined on each further quartile
Type of specified financial statements for each threshold above	**1:** Cash accounting financial statements, including a statement of outcomes and outputs[4] (service performance report) **2:** Simplified recognition, measurement and disclosure **3:** Full recognition and measurement, reduced disclosure **4:** Full recognition, measurement and disclosure	**1:** Cash flow statement to support Annual Information Statement **2:** Full recognition and measurement, reduced disclosure **3:** Full recognition, measurement and disclosure	**1:** Cash flow statement to support Annual Information Statement **2:** Simplified recognition, measurement and disclosure **3:** Full recognition and measurement, reduced disclosure **4:** Full recognition, measurement and disclosure	**1:** Cash flow statement to support Annual Information Statement **2:** Simplified recognition, measurement and disclosure **3:** Full recognition and measurement, reduced disclosure **4:** Full recognition, measurement and disclosure

4 **Outcomes:** what the entity is seeking to achieve in terms of its impact on society; and
Outputs: the goods or services that the entity delivered during the year.

A way forward

This Paper is intended to stimulate discussion in the charitable sector.

The ACNC legislative review, commencing on 3 December 2017, is an opportunity for charity stakeholders to raise these issues and look for ways to improve the financial reporting framework for charities.

This Paper presents possible options for improving the current framework that charity stakeholders might find useful in providing input to the ACNC legislative review. The illustrative frameworks demonstrate the impact of some of the possible options.

> This Paper provides possible options for improving the current framework that charity stakeholders might find useful in providing input to the ACNC legislative review.

This Paper forms part of the Financial Reporting Framework project being conducted by the AASB and AUASB. Similar research and discussion papers will be undertaken for the public sector and the corporate sector entities.

Why is reform of the Australian financial reporting framework required?

This Paper's purpose is to set out the main issues with the current reporting framework, establish the principles that would underpin a better reporting framework, and outline potential options for change.

1) In 2015, the AASB, the AUASB[5] and the Financial Reporting Council (FRC) agreed on a project to improve the clarity, objectivity and fairness of the Australian financial reporting framework.

2) As part of the Financial Reporting Framework project, the AASB and the AUASB are assisting government policy makers, regulators and other stakeholders to determine which entities should publicly lodge financial statements, and what they should report.

3) The goal of the project is to achieve more objective, transparent and fair reporting and assurance requirements, reducing the burden on preparers and ensuring the information they are required to provide is useful to them and their stakeholders.

4) This Paper is focused on the financial reporting framework as it applies to charities. Its purpose is to set out the main issues with the current reporting framework, establish the principles that would underpin a better reporting framework, and outline potential options for change.

5) This Paper does not contain specific recommendations for a way forward, but is intended to act as a basis for discussion between report preparers, regulators, report users and standard setters.

Work done to date

The ACNC has made important progress in relation to promoting the quality of reporting and reducing unnecessary regulatory obligations within the charity sector.

6) Since its establishment in 2012, the ACNC has made important progress in relation to promoting the quality of reporting and reducing unnecessary regulatory obligations within the charity sector.

7) Greater harmonisation between states/territories has been achieved recently, particularly through the ACNC working with the ACT, Tasmania and South Australia regulators, and the ongoing discussions ACNC is having with the other state/territory regulators suggests a potential to achieve greater harmonisation.[6]

8) There is however, still underlying complexity and inefficiency in the financial reporting framework for charities.

---

5 AASB and AUASB Strategy, 2017-2021 Strategic Objective 2.

6 Full schedule of the red tape reduction work is provided at the ACNC website at http://acnc.gov.au/redtapereduction

9) There are many challenges with legislative changes that require endorsement by respective Commonwealth, state and territory regulators through the parliamentary process.

10) The upcoming ACNC legislative review provides all charity stakeholders an opportunity to start the conversation in driving a positive change for the charity sector.

What is the role of the AASB and the AUASB in the Australian financial reporting framework?

11) Changing the Australian financial reporting framework requires a number of regulators to work together.

12) The AASB is able to provide change to the types of financial reports to be prepared and the AUASB can provide guidance on types of assurance that might be relevant.

13) Ultimately however, it is the regulators, such as the ACNC and state regulators, who are responsible for the legislation requiring charities to prepare financial reports.

To determine the right reporting and assurance standards, there needs to be a clear understanding of which charities are required to report and why.

14) In order for the AASB and the AUASB to address concerns noted in paragraphs 23) about types of financial reporting and assurance levels not meeting users' needs, all aspects of the financial reporting framework need to be addressed.

15) To determine the right reporting and assurance standards, there needs to be a clear understanding of which charities are required to report and why. Accordingly, the AASB and the AUASB are using this opportunity to promote wider discussion with charity regulators and the sector more broadly, on how to improve the financial reporting framework.

Scope

16) This Discussion Paper is the first in a series of papers that will address the financial reporting framework from the perspective of different sectors of the economy. The focus of this paper is on charities registered with the ACNC.

17) The charity sector is significant and the reporting framework particularly complex. As the review of the ACNC legislation by the Australian Government Treasury is commencing on 3 December 2017, it is important that the charity sector takes this opportunity to seek resolution of some of the long-standing issues identified below.

The charity sector is significant and the reporting framework particularly complex ... it is important that the charity sector takes this opportunity to seek resolution of some of the long-standing issues.

Sources

18) The issues with the current reporting framework that are set out in this Discussion Paper have been identified from a range of sources, the main findings of which are summarised in Appendix B of *Appendices to Charity Discussion Paper*.

19) These sources include the *AASB Research Report No 5 Financial Reporting Requirements Applicable to Charities* (October 2017), which reviewed the reporting requirements applicable across all Australian States and Territories to identify overlaps, inconsistencies and other concerns.

20) The principles for an optimal financial reporting framework are based on preliminary deliberations by the AASB (including some preliminary engagement with the charitable sector), examination of reporting frameworks in other jurisdictions, and an academic literature review.

What are the issues with the current financial reporting framework for charities?

21) The current financial reporting framework for charities has been the subject of criticism from a number of reviews in recent years. Charities complain of unnecessary complexity, inconsistent and uncertain requirements, and financial reports that are not focused on the needs of their stakeholders.

22) There is no ‘level playing field’ for charities: similar charities may have very different reporting, driven by their geographic location, entity type or self-assessment of reporting obligations.

23) The key issues are as follows:

- Duplication and inconsistency of regulatory requirements
- Inconsistencies between financial reports
- Lack of clarity/requirement to exercise judgment
- Impact on operations
- User needs are not understood/being met
- Regulation is not fit-for-purpose

Duplication and inconsistency of regulatory requirements

- Unnecessary duplication of financial reporting, resulting from obligations to multiple regulators with different requirements.
- Different regulators adopt different boundaries for circumscribing a charity (whether the registered charity or the consolidated group or some other basis); and accept different types of group accounts.
- Different regulators adopt different criteria for reporting thresholds[7], with different levels of subjectivity in determining those criteria, or different minimum reporting thresholds are adopted even where the same criteria are adopted. Further, the frequency with which the thresholds are reviewed in light of changing circumstances is inconsistent, and relief for expected temporary movements between levels of reporting from year to year also differs.
- Interpretations of what constitutes fundraising and administrative costs differ between regulators, with different reporting requirements applying in each case.
- There are differences in the level of assurance required by different regulators.
- There are differences in the qualifications of auditors or reviewers required by different regulators.

---

7 Some question their appropriateness (e.g. During the ACNC Implementation Design Discussion Paper, some constituents think the current minimum threshold for charities of $250,000 set by ACNC was too high, others think it was too low)

Inconsistencies between financial reports

- The inconsistencies between regulatory regimes means that very similar charities can have very different financial reports, depending on geographic location, entity type and historic reporting choices.
- Charities are not using consistent criteria to determine what they are required to report, resulting in inconsistent information being provided between different charities. Under the existing framework, a charity should prepare a full financial report (GPFS) unless all users of its report can obtain the financial information they need through other channels[8]. If this is the case, then the question could be asked why such an entity would need to publicly lodge financial statements at all. Yet 43%[9] of charities currently assess themselves as having no users who rely on their financial reports. (Appendix C of *Appendices to Charity Discussion Paper* further discusses the case for withdrawing the need for charities to self-assess their reporting requirements).

Lack of clarity/requirement to exercise judgment

- The underlying principle for reporting thresholds (e.g. for companies limited by guarantee) is not readily apparent. As a result, regulators are required to use significant judgement to determine when and by how much relevant reporting thresholds should be adjusted.
- It is difficult to determine the underlying factors which indicate whether a charity is economically significant or is of public interest. There is presently little research on what criteria best represents these underlying principles, which makes determining who and what should be reported difficult.
- The requirement for charities to self-assess whether they should prepare full financial reports (GPFS) requires significant judgment. Similarly, if charities decide they are not required to prepare GPFS, they must exercise judgment in determining what needs to be reported, and on what basis. These decisions can impose additional costs as preparers seek advice, and leaves directors and management open to potential disputes and liability. Enforcement by regulators is also difficult due to the subjective nature of the underlying criteria.

Impact on operations

- The cost of meeting current reporting requirements is high – the average burden on charities from complying with Commonwealth requirements is approximately $108,000 per annum, with large charities bearing the brunt of the cost.
- Poor reporting contributes to a lack of trust – 19.2% of a sample of 6,021 Australian respondents to a survey about individual giving and volunteering did not give money to charities, a substantial proportion of whom explained it as “I don’t know where the money would be used”, “I think too much in every dollar is used in administration” and “I don’t believe that the money would reach those in need”. Some 48.1% of non-givers

---

8 AASB 1053 *Application of Tiers of Australian Accounting Standards* Appendix A “Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial statement for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

9 Data based on the selection of the report type as special purpose financial report from the 2015 Annual Information Statement (AIS).

indicated that better information on how the money will be spent would influence their future giving.

- There are too many charitable entities operating in very similar spaces, which results in inefficiency of the sector overall. Stronger monitoring and reporting of income and expenditure is required to ensure viability.

User needs are not understood/being met

- There is a perception in the sector that there are no users of the financial reports of charities other than the regulators. There are limited research that identifies the users of charities' financial reports and what their needs are.
- The criteria and thresholds for financial reporting are not aligned to the number of external users of a charity's financial report, or the level of public interest in the charity and its economic significance. Reporting requirements are therefore not balancing benefits to users and costs to preparers. For example, some overseas jurisdictions use expenses rather than revenues as a more stable and appropriate reflection of a charity's operations and significance.
- Disclosure requirements appear not to have been developed with the needs of users in mind. Some information that is required is of little interest, while other information (such as related party disclosures) is not required.

Regulation is not fit-for-purpose

- Charities that conclude they need to produce financial statements that comply with all accounting standards have two options to choose from: full financial statements and reduced disclosure reporting. Neither option is tailored to the specific requirements of charities and their stakeholders. In contrast, comparable overseas jurisdictions such as New Zealand provide more options and – despite this – are less complex to apply than the Australian approach[10].
- In comparison to other jurisdictions (such as New Zealand), guidance on the preparation of financial reports is sometimes limited. For example, the Annual Information Statements (AISs)[11] to be submitted by a charity to the ACNC can be prepared on a cash basis if the charity's revenue is less than $250,000, there is less guidance on the application of the cash basis, compared to the NZ model, which provides accounting policies and templates. Some information required for the AIS requires accrual

---

10 For example, as documented in Appendix B of AASB Research Report No 5, in New Zealand all charities referred to as Public Benefit Entities are required to report in accordance with a suitable tier of reporting. Determination of which tier is suitable is reasonably straight forward, being based on having 'public accountability' as defined by the External Reporting Board (XRB) (being the International Accounting Standards Board (IASB) definition) or on a charity's level of expenses (or operating payments) where it does not have 'public accountability'. Once the tier has been determined, there is no choice of adopting a lower tier (but a higher tier can be adopted). For example, if an entity falls into tier 1, it must prepare full GPFSs. There is no requirement to assess whether a charity is a reporting entity to determine whether GPFSs or SPFSs are prepared.

11 According to the explanatory memorandum to the ACNC legislation, the introduction of the AIS was to serve two roles:

1) Accountability to the public – NFPs play a unique role in Australia and generally operate towards broad public benefit. NFPs are funded by government and both directly and indirectly by the public, and are provided special treatment by the government and therefore through receiving this public money and concessions something should be reported publicly.

2) 'One-stop shop' reporting – the ACNC is to act as a one-stop shop for reporting and is able to disclose information obtained through the AIS to other government departments to fulfil their requirements.

accounting which may be confusing to preparers if they have chosen cash-basis. It is also not explicitly stated that all charities preparing financial statements should comply with all the recognition and measurement requirements of Australian Accounting Standards in order for the financial statements to provide the necessary legislated 'true and fair view' (what constitutes a 'true and fair view' is not presently clear).

The difficulties of self-assessment

A key issue in the various reviews of the current financial report framework is that the current system, where charities self-assess the type of financial report they need to prepare, is not operating as intended across the for-profit private, not-for-profit private and public sector.

The difficulty with self-assessment stems from the significant judgement required and the high degree of variability in the quality of the reports prepared. This brings into question the suitability of charities self-assessing their reporting requirements (see Appendix C of *Appendices to Charity Discussion Paper* for further discussion). This is particularly the case in instances where a charity is relying on a volunteer to prepare the financial statements and the challenges many preparers face in interpreting and applying the accounting standards.

The responsibility of determining whether the required form of financial reporting has been applied correctly is by management of the charity, the auditor assessing management's determination, and the regulator enforcing the requirements to prepare financial statements. However, as a result of the high level of judgement involved, enforcement of the requirements is difficulties.

The reality is, that many charities are likely to choose not to comply with the full requirements of Australian Accounting Standards.

The solution, however, is not to expect each charity to determine the appropriate disclosures on its own, but to create a framework that is fit for purpose, based on objective criteria, and that provides consistency and clarity for users and preparers alike.

This would also allow for the development of templates and other tools to assist charities, ensuring that time and resources are spent on achieving a charity's objectives rather than financial reporting obligations.

What do report users need?

24) Financial statements are intended to satisfy the needs of existing or potential stakeholders who cannot otherwise obtain the information they need to make informed decisions.

25) A persistent perception is that there are few or no users of charity financial reports. In particular, preparers of financial information perceive that reporting is to meet the needs of regulators rather than other stakeholders.[12]

26) The users of charity financial information may not be as apparent as the users in a for-profit context (such as shareholders). The AASB Conceptual Framework identifies the following as some of the existing and potential users of charity financial information:

(a) existing and potential resource providers (such as investors, lenders, other creditors, donors and taxpayers);

(b) recipients of goods and services (such as beneficiaries e.g. the community);

(c) parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament)[13].

Charities are under increasing pressure to show greater impact, transparency and accountability (among other important measures) often in the form of financial and non-financial information.

27) A common theme of available academic research is that while donors and other users may not specifically look at the financial information, there is an expectation that the financial information is being looked at by ‘somebody’ to ensure that the charity is making the best use of the funds received (i.e. the regulator is acting as a ‘super user’).

28) Financial statements are needed as input to that review function. However, the findings suggest that current financial reporting is not simple enough or focused enough on the charity’s outcomes to encourage users to perform their own review.

29) There also exists an expectation gap between what stakeholders perceive as the regulator’s role and the actual regulatory activities.[14]

30) Charities are under increasing pressure to show greater impact, transparency and accountability (among other important measures) often in the form of financial and non-financial information[15]. Preliminary experimental research is showing that whilst donors do not actively seek financial information of charities, they are given a sense of comfort that donations are being used wisely through the availability of financial information. The vast majority of respondents believed it was important or very important for charities to disclose information about how the funds are used and generally believed that a high level of transparency and access to information represented a well-run charity.[16]

---

12 Hooper, K. et al. “Financial reporting by New Zealand charities: finding a way forward.” *Managerial Auditing Journal* 23.1 (2007).

13 AASB Conceptual Framework *Chapter 1: The Objective Of General Purpose Financial Reporting* paragraph AUSOB2.1.

14 Jetty J. and V.Beattie, “Factors Influencing Narrative Disclosure by Large UK Charities: Interview Evidence”

15 Leat, Diana. 2006. "Information for A Messy World: Making Sense of Pre-Grant Inquiry." Third Sector Review 13 (1): 33-55.

16 He, W. et al. Working paper “Donors Use of Information Disclosed by Charities”

31) The financial information needed by users is becoming clearer and further outreach is needed to determine the best way of providing the required financial information. The format and content of financial reporting is likely to change as a result of the Discussion Forums occurring with this Paper.

How can the current financial reporting framework be improved?

What should an improved framework look like?

32) Based on the issues noted with the current framework, an improved framework should address the following four key areas:

a) **Eliminating duplicate reporting requirements between states/territories and the Commonwealth** – This may be through having one regulator for all charities, similar to corporates or establishing consistent criteria and thresholds for public lodgement, reporting and assurance requirements across relevant regulators.

b) **Regulators designing transparent and objective criteria and thresholds for public lodgement, reporting and assurance requirements.** These should require only charities with an appropriate level of economic significance, public interest or external users to publicly lodge financial statements.

c) **The AASB specifying financial reporting requirements for those required to publicly lodge**, that are clear and objective, balancing user needs with preparer costs (general purpose financial reporting).

   i. There should be no special purpose financial reporting as charities who only have users that do not need regulators to obtain the financial information they need should not be publicly lodging.

   ii. 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, to balance user needs and preparer costs.

   iii. The types of general purpose financial reporting should be based on the needs of users and the characteristics of particular groups of charities selected from

      1) full recognition, measurement and disclosure requirements of accounting standards,
      2) full recognition and measurement but reduced disclosure requirements of accounting standards,
      3) modified recognition, measurement and disclosure (new accounting standard to be developed) and
      4) cash accounting (new accounting standard and template report consistent with NSCOA to be developed).

An improved framework should address four key areas:

1. Eliminate duplicate reporting requirements
2. Transparent and objective criteria and thresholds
3. Specified financial reporting requirements based on needs of users matched with the level of public interest and external users
4. Appropriate level of assurance matched with the type of financial report

d) The AUASB to work with regulators to specify the appropriate level of assurance and the appropriate skill set for the 'assurer' to match with the type of financial reporting.

The types of assurance engagements should be selected from

a) audit
b) review
c) other assurances
d) agreed-upon procedures.

Possible options for change

33) Four possible illustrative financial reporting frameworks are set out on page 29 and address:

a) **who should report** - which entities should be required to prepare and lodge specified financial statements on the public record

b) **what should be reported** - the content of those specified financial statements – what tier of financial statements should be adopted

c) **what level of assurance** (if any) should be provided for the various levels of financial statements.

34) Each option has a clear underlying principle as to who should lodge financial statements publicly, and clear and objective criteria, thresholds and reporting and assurance requirements. The current ACNC criteria and thresholds are included in the table to enable comparison with the current financial reporting framework. Where the information is available, each option identifies an estimate of the number of entities that would be expected to be affected, based on the ACNC data from 2015.

35) These options are by no means all the possible options. They have been chosen to demonstrate the wide range of possibilities and provide a starting point for discussion. However, none of the options presented are self-assessment options.

36) The detailed analysis of how the options were determined is set out in paragraphs 44) to51) and Appendices D to F of *Appendices to Charity Discussion Paper.*

Benefits of reform

37) The Four illustrative financial reporting framework options are possible ways to implement the improved framework components. These options address who should report publicly, what is reported publicly and the level of assurance provided for the various levels of financial statements. An improved financial reporting framework has the potential to result in a number of benefits, including:

- improved trust in the sector through transparent and comparable reporting which supports Governance Standard 2: Accountability to members[17] requiring charities to take reasonable steps to be accountable to their members including letting members know what the charity's activities and what the results of the activities are;
- improved balancing of the costs and benefits of preparing financial statements, with a suitable level of assurance, thereby allowing a charity to direct additional resources to

17 Division 45—Governance standards *Australian Charities and Not-for-profits Commission Regulation* 2013

achieving its objectives rather than compliance. While some individual charities might be faced with more onerous requirements depending on the options being considered and their current level of reporting, overall the sector should have a better balance of benefits relative to costs if only appropriate charities are required to prepare and lodge consistent information to fulfil their accountability obligations;

- greater consistency and comparability in financial reporting and assurance requirements across the sector, which would benefit users and help level the playing field for charities in preparing financial statements;
- simple, clear, and objective criteria and thresholds and associated reporting and assurance requirements, which will reduce time spent by charities in identifying reporting obligations and enable easy identification of when these framework components need to be amended by the regulator. The elimination in self-assessments and judgements should simplify application of the requirements and result in more useful information being reported both across the charities sector and on an individual charity basis. Enforcement by regulators will also be easier; and
- a greater appreciation by charities of the rationale for the reporting obligations, which in turn has the potential to improve the quality of the information reported.

Barriers to change

38) The barriers to improving the current financial reporting framework and suggested mitigating strategies include:

Table 1 – Barriers and mitigating strategies to change

Barrier	Mitigation
The number of regulators that would need to agree on new criteria and thresholds and make the necessary legislative changes, including ACNC, Office of the Registrar of Indigenous Corporation (ORIC), and each state and territory, Experience has indicated that, while this is possible, it takes significant time and effort to achieve.	There is widespread acknowledgement of the problems with the current financial reporting framework and consequently support from the sector (users, preparers, auditors, regulators) for change. Empirical research can provide information about the impact of contemplated changes, including benefits relative to costs.
Perception that there are no users of charities' financial statements, with key philanthropists and governments obtaining their required information in other ways.	Further consultation with the general public about their expectations of charity reporting (in addition to that already undertaken as part of the *Giving Australia 2016* report series). Tailoring financial reporting to clearly set out fundraising and administration costs and requiring reporting of services delivered using funds provided
Concern that removing the ability to self-assess reporting requirements and changing the criteria and thresholds will increase the regulatory burden.	Setting transparent criteria and thresholds for public lodgement so that the regulatory burden falls most on those with the greatest number of external users, public interest and economic significance. Some individual charities may have their regulatory burden increased, others may have their burden reduced, however the overall benefits to the charity sector should outweigh costs to individual charities. Regulators, the AASB and the AUASB should work closely together to match the criteria and thresholds with appropriate reporting and assurance requirements. The AASB develops specified financial reporting requirements for each reporting level so that costs to preparers and benefits to users are balanced. Specifically, the AASB improves tier 2 Reduced Disclosure Requirements and/or develops other tiers as necessary in consultation with regulators and other stakeholders.
Concern that consolidation of controlled entities will be required	The AASB and regulators need to consult with preparers and users to set consolidation requirements to appropriately balance user needs and costs to preparers. The AASB to consider transitional relief and guidance to charities having to consolidate for the first time.
New tiers of GPFSs are suggested in this Discussion Paper but it is not clear what is in each of these potential tiers (see Appendix E of *Appendices to Charity Discussion Paper*)	Further outreach by the AASB as to what the reporting requirements should be, once it is clear how many tiers might be required and what additional information may be required to address fundraising reporting prepared in conjunction with performance reporting. If it is considered that one tier should be 'simplified accrual accounting', additional research along the lines described in the 'Next step' section below needs to be undertaken.
Concern that only charities are being considered. The charity sector's ability to self-assess reporting requirements should not be removed before others, such as for-profit corporates. Furthermore, many for-profit entities have equivalent accountability obligations to the public because, like	The AASB, the AUASB and the FRC are looking at improving the financial reporting framework across all sectors. However, as the legislative review of the ACNC is about to commence, ensuring there is appropriate outreach and discussion to contribute to this review is a priority. Outreach on the public sector and the corporate sector will follow, and will similarly address the issues regarding self-assessment and

Barrier	Mitigation
charities, they receive funding and other benefits from governments, and therefore charities should not be singled out for more onerous requirements.	accountability obligations to the public.
Transitioning to new requirements will be costly and difficult.	Some entities are likely to have relief from reporting requirements. For those who do have increased requirements, providing appropriate education, implementation support, transitional relief and adequate timeframes to implement.

Next steps

39) The AASB and the AUASB, with other regulators such as the ACNC and relevant state regulators, will be conducting Discussion Forums to discuss the issues and possible options identified in this Paper.

40) These discussions will also assist those participating in the impending ACNC legislative review and those responsible for the regulation of charities in addition to the ACNC (including ORIC and state/territory regulators) to identify areas for improvement or further investigation. Depending on the outreach outcomes, evidence-based recommendations are expected to be identified.

41) The AASB will also be undertaking further work on the following topics relevant to improving the financial reporting framework for charities:

- Further exploration of whether consolidation of controlled entities should be required for applying criteria and thresholds. In addition, if consolidated financial statements are to be publicly lodged, the question of whether individual controlled entities should be required to publicly lodge their own financial statements will be addressed. If separate lodgement is not necessary, consideration will be given to what disclosures may be required in the consolidated financial statements in relation to controlled entities.
- Differences between IFRS for SMEs, Tier 2 RDR GPFSs, the New Zealand Accounting Standards Board (NZASB) Tier 3 Modified accrual accounting standards and the UK Charities Statement of Recommended Practice (SORP).
- Improving Tier 2 RDR GPFSs in conjunction with the NZASB.
- Reassessing the reporting entity concept, which determines who can prepare special purpose reports, as part of the Conceptual Framework Project, as the reporting entity concept is used in a different way internationally[18].

Matters for consideration

42) The AASB has provided the following questions as triggers for discussion. These questions should help charity stakeholders provide input to the ACNC legislative review:

Duplicated reporting requirements

43) Should there be one regulator for all charities? Alternatively should state/territory regulators align their requirements for charities with the ACNC legislation?

Who should report and why?

18 IASB Conceptual Framework for Financial Reporting *Chapter 3—Financial Statements and the Reporting Entity*

- What are the appropriate criteria to determine which charities should publicly lodge financial reports? Do you agree that economic significance, public interest and external users are appropriate criteria?
- Do you think revenues are the most appropriate representation of the criteria for public lodgement? If not what alternative do you prefer (e.g. expenses, number of external users etc.)
- How many tiers of reporting and assurance should there be for those that have to publicly lodge?

What should be reported?

- At what threshold of the appropriate criteria for public lodgement do you believe accrual accounting and reporting should be required by charities (e.g. if expenses, is it the largest 25% as is currently the case for revenue?
- Do all charities have a level of public interest that means they should prepare a financial report? Would cash accounting represented by a cash flow statement meet the needs of users, or would this need to be supported by additional information such as the reporting of objectives and outcomes by the charity?
- Would a cash flow template which could be used to complete an AIS, be a good balance of cost and benefit for smaller charities?
- For charities above the cash accounting threshold, should any of them prepare financial statements complying with all recognition, measurement and disclosure requirements of accounting standards?
- Do you agree with any of the options in their entirety in the ‘Options for Comprehensive Financial Reporting Frameworks for charities’?
- If not, what elements of the frameworks do you disagree with and what would you replace them with?

Overarching

- Do you agree that moving between reporting tiers should be assessed over a period of more than one year?
- Do you agree that reporting thresholds should be assessed on a consolidated entity basis rather than on a registered entity basis?
- Do you agree that, when you are required to report publicly, what is to be reported should not be based on a self-assessment and it should be clear what you have to prepare?
- Should all charities within a tier be required to report the same information, or should some charities be exempt, even though they meet the threshold requirements (e.g. basic religious charities currently receive exemptions)?

Possible Options for Comprehensive Financial Reporting Frameworks for Charities

Introduction

44) The table below identifies four alternative comprehensive financial reporting frameworks for charities drawn from the range of possible:

- underlying principles about which entities should report, and what they should report
- criteria to best reflect the chosen principle(s)
- thresholds to best reflect the chosen criterion or criteria
- approaches that best operationalise the chosen threshold(s)
- additional tiers of GPFSs that could be developed that are consistent with the options set out above.

45) The options have not been drawn from every possible principle, criterion, threshold or method of operationalisation; additional possibilities are identified in Appendix D of the *Appendices to Charity Discussion Paper*. They are designed to help stakeholders consider different combinations and permutations that might reflect their views and thereby promote further discussion.

46) Each option has a clear principle as to who should report publicly, and clear and objective criteria, thresholds and reporting and assurance requirements. None of the options presented are self-assessment options. The current ACNC criteria and thresholds are included in the table to enable comparison of the options with the current financial reporting framework. Where the information is available, each option identifies an estimate of the number of charities that would be expected to be affected, based on the ACNC data from 2015.

47) Compared with the status quo:

(a) some alternative frameworks would require fewer charities to report publicly and some would require more charities to report publicly

(b) some alternative frameworks would have less onerous reporting requirements for some charities (e.g. simpler financial reports – even simpler than current SPFSs) and some would be more onerous for some charities (but provide better information for users).

48) There are many other conceivable combinations and permutations, but those listed capture the broad types of features that would be expected to be common to many charities.

49) Frameworks that adopt cost-benefit as an underlying principle could be implemented in subtly different ways – and assessment depend on the weight a regulator might give to costs compared with benefits in particular circumstances in determining where to draw lines between different groups of charities and different Tiers of GPFSs.

50) Each illustrated framework attempts to balance the various competing forces and therefore requires significant judgement in how the various factors are incorporated. The judgement ultimately will be exercised by the regulators in determining any revisions of their existing financial reporting framework. Each framework option is likely to have components subject to criticism, however, the options being put forward are necessary to enable the sector to begin

the conversation and debate on how to best improve the current reporting framework, and be a strong catalyst for change (see 'What are the issues with the current financial reporting framework for charities').

51) It is important to note that the illustrated frameworks are based on the principle that reporting thresholds are applied on a consolidated basis, and that information reported is presented on a consolidated basis. A future paper to be issued by the AASB will explore the issues regarding consolidation versus single-entity information.

The data used to illustrate the frameworks

52) The ACNC 2015 AIS data has been used to illustrate the effects of the frameworks in this chapter. The data was obtained from data.gov.au. This dataset provides a record of the 2015 AISs submitted by charities, that is, the statements submitted for a charity's 2015 reporting year. For most charities that was the financial year 1 July 2014 – 30 June 2015, for others it was the 2015 calendar year. There are also a small number of charities that have different reporting periods.

53) The ACNC monitors the integrity of data available for the public. The appro ach used by the ACNC to identify errors has three levels:

1) level one checks – identification of material errors
2) level two checks – a comparison of financial information reported in the AIS to lodged financial statements is completed for charities which declared over $30 million of income, assets, liabilities and/or expenses
3) level three checks – a random sample of 150 medium and large charities are selected for a comprehensive review of their financial reporting.

54) Although the checks completed by the ACNC on the 2015 data, as documented in their publication of the analysis of the 2015 AISs[19], resulted in the correction of errors totalling $37.4 billion, no assurance is provided on the quality of the data.

55) The data has been used purely for illustrative purposes.

19 www.acnc.gov.au/ACNC/Publications/Reports/2015_AIS_Errors.aspx.

Distribution of populations

In coming up with some of the illustrative frameworks, the Paper has considered the distribution of the population of charities based on the data available, shown below in Figure 2 and Figure 3.

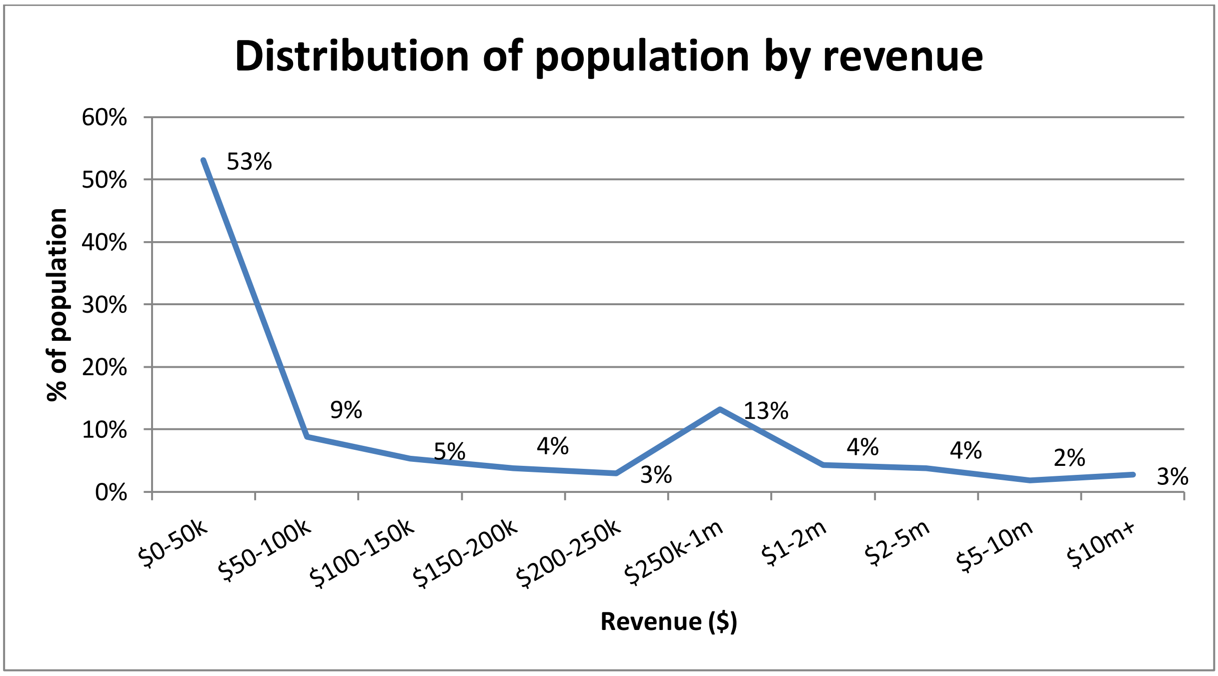

Figure 2 – Distribution of population by revenue

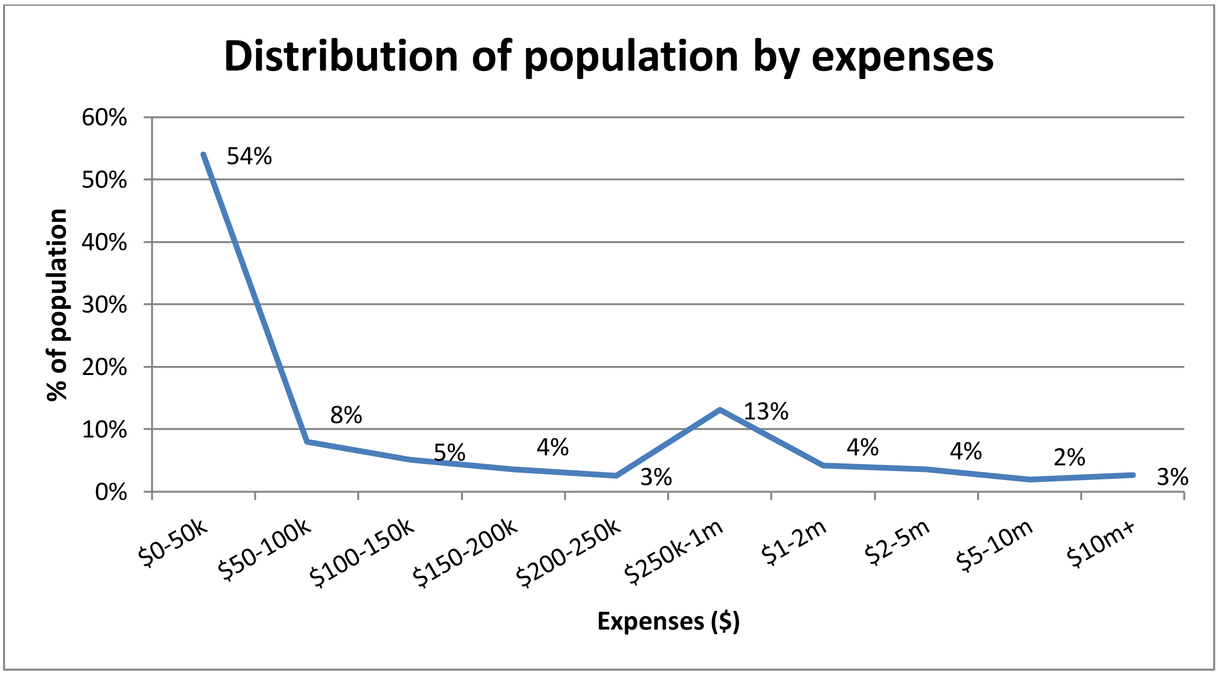

Figure 3 – Distribution of population by expenses

Illustrative Financial Reporting frameworks

56) The four illustrative frameworks take into account key elements from the section which discusses "What should a good framework look like". When looking at the illustrative frameworks below, the following should also be taken into account:

(a) a reference to GPFSs in this Paper is broader than the currently available Tier 1 and Tier 2. In this Paper, GPFSs are financial statements that have been determined to meet the needs of users, and the framework for those financial statements established in Standards by the AASB. This can mean that GPFSs could include cash financial statements, or even something quite different to the current understanding of GPFS such as an income statement presented by programs run by the charity;

(b) the discussion regarding the appropriate assurance will follow once the form of reporting has been determined;

(c) the types of engagement and level of assurance will form part of the discussions in the AASB Discussion Forums, therefore the frameworks below have not yet considered this;

(d) by their nature some charities have a higher degree of public accountability and may need to report in a higher tier such as a charity that is registered for deductible gift recipient or public benevolent institution, this has not been considered in the frameworks but is a key discussion to be had at the AASB Discussion Forums;

(e) a cash flow statement is not considered an additional burden for small charities as the information for the AIS effectively requires a simple cash flow statement to enable its preparation. Cash flow statements and simplified accrual options will draw on materials already available such as the NSCOA;

(f) cash flow statement are targeted towards smaller charities who likely should not be preparing a full financial report. Instead the statement will report on key information such as administration costs and fundraising income and expense;

(g) option 4 is a highly conceptual option, looking at the identification of general purpose users, this data is not currently collected by the ACNC so it is difficult to demonstrate the impact; and

(h) some individual charities may have their regulatory burden increased, others may have their burden reduced, however the overall benefits to the charity sector should outweigh costs to individual charities.

57) While the illustrative frameworks are a basis for discussion rather than recommendations, this Paper does make the following recommendations:

(a) the financial reporting thresholds should be set in the Regulation rather than the Legislation – Regulations allow the regulator more flexibility to amend the thresholds on a timely basis, as legislative amendments can often be pushed back depending on the capacity of the drafters of legislation;

(b) movement between financial reporting thresholds should be assessed on a two year average; and

(c) all charities make a submission that change is needed.

Illustrative Financial Reporting Frameworks

Table 2 – Four options of illustrative financial reporting framework

	Current ACNC framework	Option 1 (NZ PBE model)	Option 2 (public interest and economic significance represented by expenses)	Option 3 (public interest and economic significance represented by expenses and external users by external donations)	Option 4 (number of users)
Criteria underpinning thresholds	Unclear	Expenditure/expenses are proxies for economic significance. All charities report, but cost/benefit differentiates what is to be reported	Expenditure/expenses are proxies for size/economic significance/public interest.	Expenditure/expenses are proxies for size/economic significance/public interest. Donations/bequests/ government funds is a proxy for external users and public interest	Expenditure/expenses are proxies for size/economic significance/public interest. Total number of users is a proxy for user needs/public interest (and to the extent that number of beneficiaries includes social significance).
Thresholds	**1:** Revenue[20] <$250,000 (74% of population) **2:** Revenue ≥ $250,000 and < $1,000,000 (13%) **3:** Revenue ≥ $1,000,000 (13%)	**1:** Operating payments[21] <$125,000 (66% of population) **2:** Expenses[22] ≤$2,000,000 (26%) **3:** Expenses ≤$30,000,000 (7%) **4:** Expenses (including grants) >$30,000,000 (1%)	1: Operating payments <$270,000 (75% of population) 2: Expenses greater than $270,000 and ≤ $4,500,000 (20%) 3: Expenses >4,500,000 (5%)	**1:** Operating payments =$0 (first 25%) or donations/bequests/ government funds =$0 (first 25%) **2:** Expenses >$0<$34,000 (next 25%) or donations/bequests/ government funds >$0<$1,800 (next 25%) **3:** Expenses >$34,000<$260,000 (next	**1:** Operating payments <$X (first quartile) or number of users <X (first quartile – data currently not available) , having regard to some measure [not currently available] of total/number of: - creditors - lenders - donors

20 Current ACNC thresholds are based on single entity i.e. the registered entity.

21 Operating payments – defined as cash outflow for the year related to operating activities (grants/donations made, salaries and wages, utilities, fundraising costs)

22 Expenses – calculated in accordance with accounting standards

	Current ACNC framework	Option 1 (NZ PBE model)	Option 2 (public interest and economic significance represented by expenses)	Option 3 (public interest and economic significance represented by expenses and external users by external donations)	Option 4 (number of users)
				25%) or donations/bequests/ government funds >$1,800<$87,000 (next 25%) **4:** Expenses >260,000 (next 25%) or donations/bequests/ government funds >$87,000 (next 25%)	- employees - beneficiaries - members - volunteers **2-4:** Expenses >X or number of users >X; determined on each further quartile
Type of specified financial statements for each threshold above	**1:** AIS – effectively Cash information **2:** GPFS (Full or RDR) or SPFS **3:** GPFS (Full or RDR) or SPFS	**1:** Cash accounting financial statements, including a statement of outcomes and outputs[23] (service performance report) **2:** Simplified recognition, measurement and disclosure **3:** Full recognition and measurement, reduced disclosure **4:** Full recognition, measurement and disclosure	**1:** Cash flow statement to support Annual Information Statement **2:** Full recognition and measurement, reduced disclosure **3:** Full recognition, measurement and disclosure	**1:** Cash flow statement to support Annual Information Statement **2:** Simplified recognition, measurement and disclosure **3:** Full recognition and measurement, reduced disclosure **4:** Full recognition, measurement and disclosure	**1:** Cash flow statement to support Annual Information Statement **2:** Simplified recognition, measurement and disclosure **3:** Full recognition and measurement, reduced disclosure **4:** Full recognition, measurement and disclosure
Type of assurance engagement	**1:** No assurance **2:** Audit or review **3:** Audit	Operating expenditure for each of the previous two accounting periods: • >$500k: audit or review	**1:** No engagement **2:** Review **3:** Audit	**1:** No engagement **2:** Agreed upon procedures (AUP) and/or assurance engagement	**1:** No assurance **2:** Agreed upon procedures (AUP) and/or assurance engagement

23 **Outcomes:** what the entity is seeking to achieve in terms of its impact on society; and

Outputs: the goods or services that the entity delivered during the year.

	Current ACNC framework	Option 1 (NZ PBE model)	Option 2 (public interest and economic significance represented by expenses)	Option 3 (public interest and economic significance represented by expenses and external users by external donations)	Option 4 (number of users)
		• $1m: audit		**3:** Review **4:** Audit	**3:** Review **4:** Audit
Qualifications of assurer	**2:** Review – Registered company auditor, an audit firm, an authorised audit company, a current member of a relevant professional body. **3:** Audit – Registered company auditor, an audit firm, an authorised audit company.	Qualified auditor – a qualified auditor is defined in s36 of the *Financial Reporting Act 2013* (NZ)[24].	To be discussed in Discussion Forum	To be discussed in Discussion Forum	To be discussed in Discussion Forum
Principle underpinning thresholds	Unclear	Public accountability	Public interest	Public interest User needs	User needs Public interest
Criteria underpinning thresholds	Unclear	Expenditure/expenses are proxies for economic significance. All charities report, but cost/benefit differentiates what is to be reported	Expenditure/expenses are proxies for size/economic significance/public interest.	Expenditure/expenses are proxies for size/economic significance/public interest. Donations/bequests/ government funds is a proxy for external users and public interest	Expenditure/expenses are proxies for size/economic significance/public interest. Total number of users is a proxy for user needs/public interest (and to the extent that number of beneficiaries includes social significance).
Implications (number captured and % of population)	**1:** 35,496 charities – 74% **2:** 6,345 charities – 13% **3:**6,071 charities – 13%	**1:**31,636 charities – 66% **2:**12,372 charities – 26% **3**:3,478 charities – 7% **4:**426 charities – 1%	**1:** 36,139 charities – 75% **2:**9,439 charities – 20% **3:**2,334 charities – 5%	**1:**13,124 charities – 27% **2:**5,5517 charities – 12% **3**:13,953 charities – 29% **4:**15,318 charities – 32%	Data not presently available.

24 Wider range of persons able to meet the qualification in New Zealand than Australian registered company auditor.

Advantages and disadvantages of the options

	Current ACNC framework	Option 1 (NZ PBE model)	Option 2 (top quarter reporting)	Option 3 (expenses plus public money)	Option 4 (user-needs focus)
Advantages of each option					
Clear objective tiers of what is to be reported and when to adjust thresholds;	?	✓	✓	✓	✓
Expenses are more indicative of the size of charities' operations compared with revenue and less volatile;	×	✓	✓	✓	✓
Allows for proportionate regulation;	×	✓	✓	✓	✓
No self-assessment of reporting criteria;	×	✓	✓	✓	✓
Lowest threshold is not required to be set using accounting standard concepts, benefits preparer	×	✓	✓	✓	✓
The threshold for accrual accounting levels are set in a way to achieve a clear and balanced statistical outcome;	×	×	✓	✓	✓
Better balancing of cost/benefit through multiple clear reporting tiers;	×	✓	✓	✓	✓
The requirement to report on an accrual basis is based on economic significance, which is consistent with SAC 1 principles;	×	✓	✓	×	×
More useful information for users through service performance report in addition to cash financial statements;	×	✓	×	×	×
Economic significance takes into account the public interest in charities;	×	✓	✓	×	×
75% of the population would be required to prepare only a cash flow statement, which is less onerous. The information required to prepare a cash flow statement is already obtained by charities in meeting their current AIS reporting obligations;	×	×	✓	×	×

	Current ACNC framework	Option 1 (NZ PBE model)	Option 2 (top quarter reporting)	Option 3 (expenses plus public money)	Option 4 (user-needs focus)
Inclusion of donations/bequests as another factor, takes into account specific types of users of charity GPFSs.	×	×	×	✓	×
Inclusion of creditors, lenders, donors etc., takes into account various groups of users;	×	×	×	×	✓
Stratifies the population based on receiving public money;	×	×	×	✓	×
Better reflects user needs;	×	×	×	✓	×
Trans-Tasman harmonisation;	×	✓	×	×	×
Acknowledges RDR GPFSs might be too onerous for a significant cohort of charities that should adopt accrual accounting because of their level of accountability to the public.	×	✓	×	×	×
Thresholds are transparent and regulator is able to clearly identify when to adjust thresholds	×	×	✓	×	×
Disadvantages of each option					
Full GPFS is not currently required in this sector, however the largest charities generally already doing full GPFS;		•			•
May not meet specific user needs as reporting is based on public accountability moderated by cost/benefit;		•	•		
Four tiers would be onerous to maintain by regulators /AASB;		•			
Increased education cost for stakeholders to understand the different GPFSs;		•			
Using “or” may make it confusing for some charities to determine which level of reporting is required;					•

	Current ACNC framework	Option 1 (NZ PBE model)	Option 2 (top quarter reporting)	Option 3 (expenses plus public money)	Option 4 (user-needs focus)
Number of users may be hard to measure for charities (or indeed meaningless – e.g. the population of Australia – if the government is a donor of taxpayers' money);					•
All charities prepare and lodge a form of financial report (however lowest tier currently need to do form of cash flow statement to produce information for the AIS.		•			
The recognition and measurement of donations, bequests and government grants can be more variable than expenditure/ expenses due to Standard requirements, for example large donation received at the end of the period that is not able to be deferred.				•	
Data is currently not collected by the ACNC.					•

What impact do the options have on charities

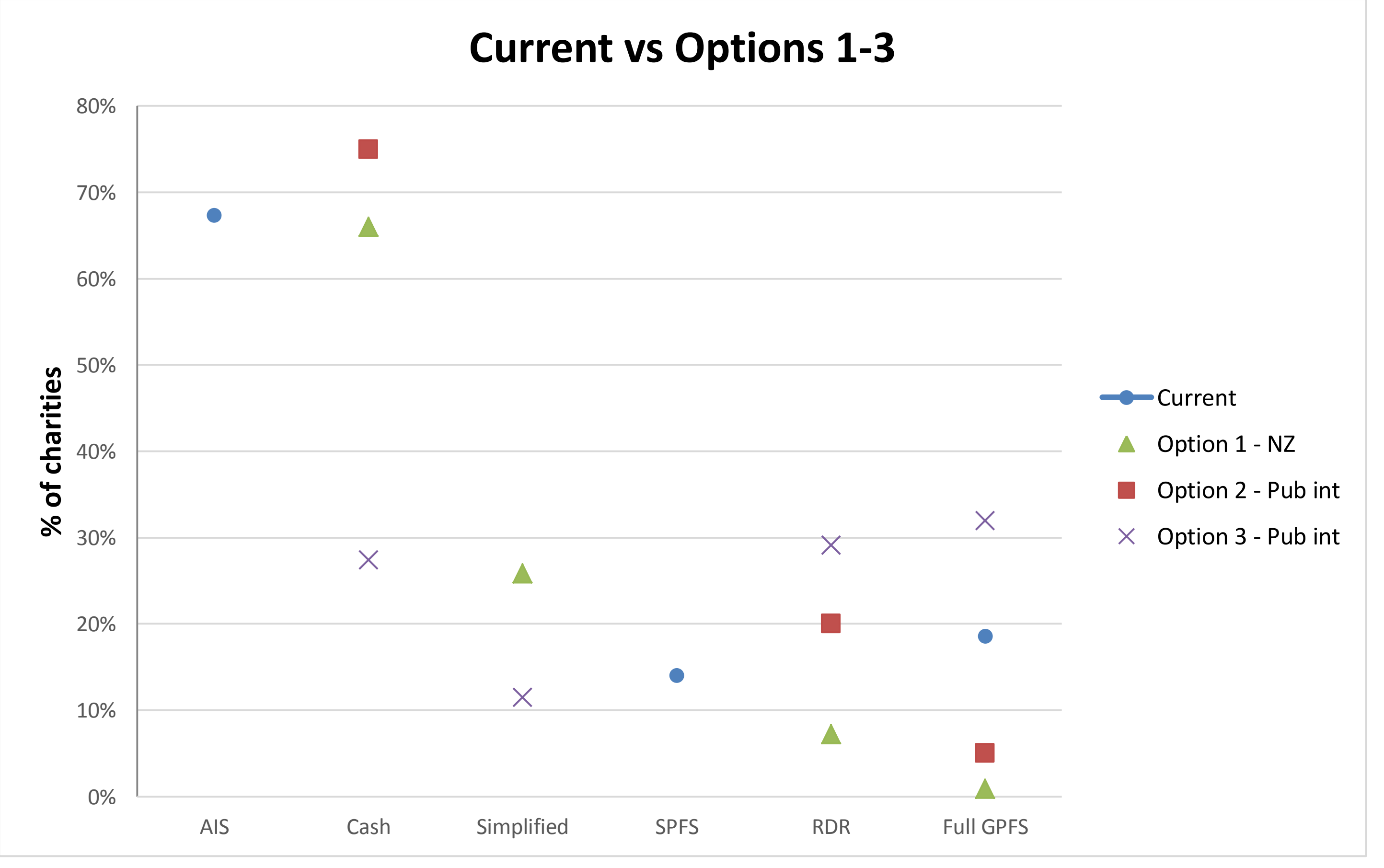

Figure 4 – Current Reporting vs Options 1-3

58) Figure 4 shows the impact of each option in terms of what could be reported by charities and the percentage of the population that could be reporting each particular tier against what is presently being reported. For example, Option 2 shows that the first 75% of the sector will, as a minimum, prepare and lodge a cash flow statement. In comparison Option 1 shows that the first 66% of sector will, as a minimum, prepare

and lodge a cash flow statement. The actual quantum of change would depend on which charities currently preparing Full GPFS who would choose to move to a lower form of reporting.

	Current	Option 1		Option 2		Option 3		Option 4	
	Charities	Charities	+/-	Charities	+/-	Charities	+/-	Charities	+/-
Tier 1	35,496	31,636	- 3,860	36,139	643	13,124	- 22,372		
Tier 2	6,345	12,372	6,027	9,439	3,094	5,517	- 828		
Tier 3	6,071	3,478	- 2,593	2,334	- 3,737	13,953	7,882		
Tier 4		426	426			15,318	15,318		
	47,912	47,912	-	47,912	-	47,912	-	-	-

Figure 5 – Comparison of Options to Current Framework

59) Figure 5 – Comparison of Options to Current Framework is a more detailed breakdown of the movements of charities within the sector. The charities column represents how many charities from the data population used fits within each tier. The +/- shows the number of charities moving in (represented by +) or moving out (represented by -) in each tier. A more detailed analysis has been completed in Appendix G of *Appendices to Charity Discussion Paper*. The Appendix G analysis looks at the movement in tiers as well as the movement in what is to be prepared and lodged by each charity.

Appendices to Charity Discussion Paper

60) Supporting materials that provide further detail are available on the AASB website. The following topics are covered by the supporting materials.

Appendix number	Summary of appendix
Appendix A	Definition of a charity - to clarify the scope to the Discussion Paper – Improving financial reporting framework for Australian Charities
Appendix B	What's wrong with the current financial reporting framework; to expand on the discussion in paragraphs 21)-23) and note the sources of the issues;
Appendix C:	The case for withdrawing the self-assessment of public reporting requirements (Special Purpose Financial Statements (SPFS)) on page 19 - this is fundamental to improving the current framework including the for-profit private and the public sectors;
Appendix D	Factors that could be used to answer the 'who should publicly report' question - which discusses a broad range of possible principles, criteria, thresholds and ways of operationalising those thresholds that could be combined to answer the 'who' question;
Appendix E	Possible types of specified financial statements - focuses on the tiers of financial statements that could be combined with the factors identified in Appendix D to answer the 'what' question
Appendix F	Possible levels of assurance for financial statements – discusses levels of assurance (audit or review) that might be appropriate for various types of financial statements and related issues (such as qualifications of assurers);
Appendix G	Impact on the sector – detailed analytics showing the impact of each threshold on the charity sector using 2015 AIS data; and
Appendix H	Information reported by charities in the Annual Information Statements (AISs) required by the ACNC – to assist in assessing the degree to which a change in reporting requirements would require charities to collect information in addition to that already required to be collected for the purpose of AIS reporting.