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**Australian Accounting
Standards Board**

AASB RESEARCH REPORT 11

**Review of Special Purpose Financial
Statements: Large and Medium-Sized
Australian Charities**

August 2019



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Disclaimer

The views expressed in AASB Research Reports are those of the author and those views do not necessarily coincide with the views of the Australian Accounting Standards Board. Any errors or omissions remain the responsibility of the principal authors.

This Research Report does not, in any way, aim to examine or draw conclusions regarding whether charities sampled have complied with the *Australian Charities and Not-for-profits Commission Act 2012 (Cth)* or the *Australian Charities and Not-for-profits Commission Regulation 2013 (Cth)*.

Obtaining a copy of this publication

This AASB Research Report is available on the AASB website.

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Foreword

The ability for directors/members of management committees to self-assess their entity's reporting requirements when required to publicly lodge financial statements is unique to Australia. This ability has been long-standing and preparers, professional bodies and auditors have resisted many attempts at reform¹. Prior reform attempts have been further hampered by lack of evidence regarding the quality and use of special purpose financial statements (SPFS), where directors/members of management committees determine what information to provide to their users. Accordingly, the AASB commissioned this research into not-for-profit entities lodging public financial statements with the Australian Charities and Not-for-Profits Commission (ACNC) in 2016, to determine how extensively SPFS are used and whether the quality of those SPFS is meeting the information needs of their users.

The findings from this research are critical to determining the need for, and extent of, reform. They indicate that the use of SPFS remains extensive at 36% of charities lodging financial statements with ACNC and that the quality of these SPFS also remains poor.

The results of the research indicate that the extent of stating compliance with recognition and measurement (R&M) requirements in Australian Accounting Standards (AAS) at 26% is significantly lower than in the for-profit sector at 76%², perhaps not unexpectedly. 30% state non-compliance and it is not clear for the remaining 44% whether or not they complied with R&M requirements. The results indicate a lack of comparability in financial reporting for the charity sector. The findings also highlight that proposals to remove SPFS in this sector are likely to have significantly greater costs than for the for-profit sector, as the starting base is very different for each charity.

Australian charities make up a significant sector of Australia's society and economy, managing net assets of \$213 billion and generating \$150 billion total income. They provide essential social, cultural, community, education, health and other charitable services, employing 1.2 million people and an estimated three million volunteers to do so³.

The financial information provided by registered charities is the cornerstone of the ACNC 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

¹ For example, AASB Invitation to Comment ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia* and IASB Exposure Draft of *A Proposed IFRS for Small and Medium-sized Entities* (May 2007), AASB Consultation Paper (CP) *Differential Financial Reporting – Reducing Disclosure Requirements* (February 2010) and ED 192 *Revised Differential Reporting Framework* (February 2010).

² AASB Research Report 12: *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements*

³ Australian Charities Report 2017 (<https://www.acnc.gov.au/tools/reports/australian-charities-report-2017>)



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.

The Australian Charities and Not-for-profits Commission Act 2012 (ACNC Act) and Australian Charities and Not-for-profits Commission Regulation 2013 (ACNC Regulations) permit charities that prepare publicly available financial statements to self-assess the most appropriate form of financial report to lodge, whether it will be general purpose financial statements (GPFS) or SPFS⁴. Minimum requirements for charities that prepare SPFS are expressed differently by Australian regulators⁵. Depending on how these respective requirements are interpreted, they could result in different outcomes.

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. The report on legislation review of Australian Charities and Not-for-Profits Commission⁶ (ACNC Legislation Review Report) advocates that Australia needs a vibrant and innovative charities and not-for-profit sector and highlights the need to find a balance between supporting the sector, reducing red tape, enhancing accountability and addressing misconduct. The report suggested further work be undertaken to consider further changes to the financial reporting framework for registered charities.

This Report is part of a larger project by the AASB, supported by the Auditing and Assurance Standards Board (AUASB), to assist in reforming the financial reporting framework in Australia for all sectors. The goal of the project for the charitable sector is to achieve financial reporting that is clear, objective and comparable, balancing user needs and preparer costs. It also aims to reduce the burden on preparers by simplifying the requirements and ensuring the information they are required to provide is useful to them and their stakeholders.

On behalf of the AASB, I would like to thank the researcher, Yitang (Jenny) Yang for the considerable time, expertise and energy she has devoted to the project. Her work has been and will continue to be critical in shaping the Board's proposals to improve financial reporting quality in this sector as follows:

⁴ More detail please refer to <https://www.acnc.gov.au/annual-financial-report-general-and-special-purpose-statements>.

⁵ For example, ACNC specifically requires them to comply with a handful of accounting standards, while NSW Fair Trading requires incorporated associations with total revenue of less than \$2 million to "Apply the recognition, measurement and classification requirements of Australian Standards transactions recorded in the financial statements".

⁶ Strengthening for Purpose: Australian Charities and Not-for-profits Commission Legislation Review 2018



- replacing the definition for not-for-profit (NFP) entity⁷ to better distinguish between for-profit (FP) and NFP entities as different recognition, measurement, presentation and disclosure requirements can apply to an entity depending on whether it is a FP or NFP entity, and the distinction between a FP entity and a NFP entity would become even more significant if the AASB develops a separate NFP financial reporting framework with simplified recognition and measurement requirements and different reporting tiers for NFP entities;
- requiring entities continuing to prepare SPFS to make an explicit statement as to whether or not the accounting policies comply with all the R&M requirements in AAS⁸;
- replacing the existing Tier 2 general purpose financial reporting requirements (Reduced Disclosure Requirements) to reduce the disclosure burden for all Tier 2 entities, including not-for-profit entities⁹;
- informing the ongoing collaboration with other regulators in the sector to try and achieve further balanced and appropriate financial reporting reform; and
- informing the AASB regarding the likely costs of any further reform of the sector.

Such collaboration demonstrates the value of high-quality empirical research that analyses data relevant to setting public policy for financial reporting, auditing and enforcement.

Kris Peach

(Chair of AASB)

⁷ AASB ED 291 [Not-for-Profit Entity Definition and Guidance](#)

⁸ AASB ED 293 [Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Compliance with Recognition and Measurement Requirements](#)

⁹ AASB ED 295 [General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities](#) (August 2019), currently open for feedback and comments.



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Executive Summary

Background

This Report (RR 11) presents factual findings regarding the extent to which charities producing Special Purpose Financial Statements (SPFS) are currently complying with the recognition and measurement (R&M) and disclosure requirements in Australian Accounting Standards (AAS). This Report is based on the analysis of 407 large and medium-sized charities that claimed to lodge SPFS for the 2016 financial year. The sample was drawn from a population of 5,674 large and medium charities which produce and lodge SPFS to the Australian Charities and Not-for-Profits Commission (ACNC), with a confidence level of 95% to the conclusion presented in this report. The research in this Report was commissioned by the AASB and undertaken by researchers at the University of New South Wales.

The findings provide empirical evidence to support the need for reform for the financial reporting framework governing the charitable sector. They indicate that the extent of compliance with R&M is significantly lower than in the for-profit sector, perhaps not unexpectedly, given the size of the entities and the resources available to them. Some of the key implications are the demonstrated lack of comparability in financial reporting for the charity sector, and proposals to remove SPFS, which will have significantly greater costs for this sector as the starting base is very different for each charity. As a result, the solution to the SPFS problem for the charity sector may well be different to that for the for-profit sector.

This report supplements Research Report No. 5 [Financial Reporting Requirements Applicable to Charities](#) (RR 5) published in October 2017, which documented the financial reporting requirements applicable to charities in Australia, and the Discussion Paper [Improving Financial Reporting for Australian Charities](#) (DP Charities) published in November 2017, which presented possible options for improving the current financial reporting framework that charity stakeholders could find useful in providing input to the ACNC legislative review. The financial reporting thresholds of not-for-profit (NFP) private sector entities may be revised as a result of the ACNC Legislative Review recommendations, and it is possible that simplified recognition, measurement and disclosure requirements will be considered for entities at lower levels of the reporting thresholds.

These Reports form part of a larger project by the AASB to assist in reforming the financial reporting framework in Australia for all sectors. It is difficult to extrapolate these findings to other NFP populations, such as those companies limited by guarantee still reporting to ASIC, or incorporated associations reporting to various state regulators. The AASB is considering whether additional research is required for these populations.



Evaluation of results

Key findings

- **Compliance with all R&M requirements¹⁰:** The results show that from an overall sample of 407 large and medium charities that lodged SPFS with the ACNC for 2016, 26% (107 charities) stated that they applied all R&M requirements. Around 30% (123 charities) of the charities stated that they did not apply all R&M requirements. There was not a clear statement as to what requirements the remaining 44% (177 charities) were complying with.

Wilcoxon rank-sum tests show that, between those that stated compliance with all R&M and those that did not, there are no significant differences for the median values of total revenues and income. In general, charities which stated compliance with all R&M requirements have significantly greater total assets, and total liabilities, but a lower number of employees, compared to those that stated non-compliance with all R&M, at the 5% level.

- **Compliance with the five key standards:** Of the 107 charities which stated compliance with the R&M requirements, 79% stated compliance with AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures* (referred to throughout this report as 'the five key standards'). Compliance with these standards was tested as these disclosures are typically required by the ACNC Act and ACNC Regulations for entities that prepare SPFS unless exempt by the Commissioner.¹¹

Of the 123 charities that stated non-compliance with all the R&M requirements of the AAS, 54% stated compliance with the five key standards.

Reference to additional disclosures: As part of the research, an assessment was made of whether the charities referenced disclosures in AASB 118 *Revenue*, AASB 124 *Related Party Disclosures* and AASB 136 *Impairment of Assets* disclosures

¹⁰ This section is based on observations that charities have made references to the additional disclosures, but no assessment was made on whether the charity has materially complied with the disclosure.

¹¹ However, owing to various transitional reliefs available for charities registered with the ACNC, it is very hard to say whether the non-compliance with any of the mandatory standards as required by the ACNC Regulations is owing to the transitional relief that the charity may be entitled to. As such this Report aims to present factual findings and does not, in any way, aim to examine or draw conclusions regarding whether charities sampled have complied with the ACNC Act or ACNC Regulations.



(referred to throughout this document as the ‘additional disclosures’). Although it was not assessed whether charities had materially complied with these additional disclosures, 83% of charities sampled had made references to additional disclosures related to revenue recognition, 43% had made references to additional disclosures related to impairment of assets and 14% had notes on related parties.

- Consolidated financial statements:** A very small number of charities (13 out of 407 large and medium charities) referred to the charity as a parent entity and 12 of these 13 charities had prepared consolidated financial statements. For the remaining charity, there is no statement in its financial statements that it applied the AASB 10 Consolidated Financial Statements exemption. Since the number of charities sampled for consolidated financial statements is very low, it cannot be concluded whether the results are representative for a larger population requiring compliance with AASB 10.

Comparison with Research Report No. 1

Companies limited by guarantee

AASB Research Report No.1 [Application of the Reporting Entity Concept and Lodgement of Special Purpose Financial Statements](#) (RR 1), published in June 2014, conducted a similar exercise for companies lodging financial statements with the ASIC for the years 2009-11. This included companies limited by guarantee, which are mostly NFP organisations.

With the establishment of the ACNC in 2012, some provisions of the Corporations Act 2001 are no longer applicable to charities registered with the ACNC. For example, the reporting requirements of charities are now governed by the ACNC Act and ACNC Regulations.

However, since most of the public companies limited by guarantee which were previously lodging financial statements with ASIC are now registered with the ACNC, it is useful to consider how the results in this report compare with results under RR 1.

Compliance with R&M specifically for companies limited by guarantee

	RR 11				RR 1	
	Sample of companies limited by guarantee		Overall sample of large and medium charities registered with ACNC		Sample of companies limited by guarantee	
R&M compliance stated	14	30%	107	26%	44	36%
R&M non-compliance stated	6	13%	123	30%	66	53%
Application of R&M not clear	26	57%	177	44%	13	11%
	46	100%	407	100%	123	100%



There has been a slight decrease in the percentage of stating compliance with the R&M requirements of the AAS by companies limited by guarantee registered with the ACNC (30%) since the last RR1 (36%). The proportion of stating R&M non-compliance is much lower (13%), compared to that in RR1 (53%). However, the comparison needs to be considered with the different populations based on which of the samples were selected in the two Research Reports.

Data limitations

- The ACNC distinguishes between a large, medium and a small charity based on the revenue thresholds, which is typically calculated in accordance with AAS. Since a large percentage of charities either stated to be not complying with the R&M requirements or it was not clear what requirements they were complying with, the accuracy of the categorisation of a charity as large or medium is subject to this limitation.
- The sample of SPFS taken for this research is based on the population of large and medium charities that claim to be producing SPFS for 2016 based on ACNC 2016 AIS data. However, considering the past misreporting rate for large charities who claimed to prepare GPFS (but were actually preparing SPFS), the population of SPFS from which the sample is extracted may not include the full population of SPFS. This is also a limitation of the research.

Next steps

- The AASB is working closely with the ACNC and other NFP private sector regulators to develop possible options for revised financial reporting thresholds and requirements. This work will consider consistency for NFP private sector entities across Australia, by having a standardised financial reporting framework which could be based on one set of revenue thresholds, regardless of jurisdiction.
- As evident in RR 1, the rate of non-compliance with R&M requirements is higher for the NFP sector as compared to the for-profit sector. Thus, it is appropriate to consider financial reporting reform in the NFP private sector separately. The AASB is conducting extensive research to support reform of the financial reporting framework and a smooth transition for the sector, including appropriate implementation time and educational support.



1. Introduction

This research has been undertaken in accordance with specific research requirements requested by the AASB. It examines a sample of SPFS that are produced by the large and medium-sized charities¹² and lodged with the ACNC for reporting period 2016¹³. The purpose for examining this sample is to inform the AASB regarding the extent to which charities producing SPFS are currently complying with recognition and measurement (R&M) and disclosure requirements of the Australian Accounting Standards (AAS) that are typically required by the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act). Following the AASB's instructions¹⁴, this report addresses and provides findings of the extent to which R&M requirements of AAS have been applied, and whether specified disclosures have been made, within the SPFS.

1.1 Disclaimer

This research does not, in any way, aim to examine or draw conclusions regarding whether the sampled charities have complied with the ACNC Act or the *Australian Charities and Not-for-profits Commission Regulation 2013* (ACNC Regulations).

2. Sample selection and coding process

The AASB requested that sample size be determined to provide a minimum 95% confidence level to the conclusions being drawn about the population of large and medium-sized charities that claim to be producing SPFS for 2016 based on the ACNC 2016 Annual Information Statement (AIS) data available from data.gov.au. The total SPFS population from which the sample was drawn (N=5,674) is summarised in Table 1¹⁵.

A random sample of 440 charities was selected and examined, as approved by the AASB. The sample selection and coding procedures are summarised in Appendix 3. Table 2 shows that the initial sample size is 408¹⁶ after excluding those that do not meet the requirement

¹² The ACNC defines charities whose annual revenue is \$1 million or more as large charities, and charities whose annual revenue is \$250,000 or more but less than \$1 million as medium charities. The financial reporting requirements are not different between large and medium charities (except for the auditing requirements). They are required to lodge their financial statements to the ACNC.

¹³ 2016 was the most recent annual reports publicly available at time of data collection, May-June 2018.

¹⁴ See Appendix 1 for the instructions provided by the AASB.

¹⁵ The ACNC (2015) reports that a major area of non-compliance relates to the inconsistent reporting of the basis of preparation of the financial report for large and medium-sized charitable organisations. According to Yang and Simnett (2019), the misreporting rate for large charities who claim to prepare GPFS to the ACNC for the reporting years 2014 and 2015 is over 20%. Thus, this report needs to be considered with the above limitation. See Appendix 2 for the statistics.

¹⁶ See Section 3.1 for a detailed discussion of the presence of one outlier. As a result, the final observation is 407.



of preparing and lodging identifiable SPFS. Among the exclusion, 21 charities prepared GPFS rather than SPFS as identified from the notes of the financial statements, and for 11 charities, it was not clear what type of financial report they had prepared due to reasons such as 1) no financial report had been uploaded to the ACNC; or 2) no notes or incomplete notes were included in the uploaded financial report.

Table 1 Number of SPFS charities based on their self-declaration in 2016 AIS

	Entire charities	SPFS-declared charities	Percentage
Large charities	8,274	2,966	36%
Medium charities	7,515	2,643	35%
Large and medium group reported	163	65	40%
Total	15,952	5,674	36%

Table 2 Reconciliation of the number of charities stating that they prepared SPFS with the number of charities that lodged identifiable SPFS

		Number	Rate
Number of the random sample		440	100%
Number of charities identified which did not prepare SPFS	Prepared GPFS	9	2.05%
	Prepared Tier 2 - RDR	12	2.73%
Number of charities whose type of report was unclear	Did not lodge financial statements	2	0.45%
	Not specified in notes/no notes	9	2.05%
Number of charities preparing SPFS		408	92.72%

2.1 Limitations

The ACNC distinguishes between a small, medium or a large charity based on the revenue thresholds. Revenue for the purposes of assessing against thresholds is typically calculated in accordance with AAS. However, as evident in the findings of this report (see Section 3 for details), 30% of charities sampled stated non-compliance with all R&M and for 44% of charities it was not clear whether or not they complied with R&M. Thus, the accuracy of the categorisation of a charity as medium or large is subject to this limitation.



The sample of SPFS taken for this research is based on the population of large and medium-sized charities that claim to be producing SPFS for 2016 based on ACNC 2016 Annual Information Statement (AIS) data (available from data.gov.au). However, as elaborated in Appendix 2, the misreporting rate for large charities regarding the financial reporting framework for the reporting years 2014 and 2015 is 17%. Although at the time of issuing this report there is no further research outlining the misreporting rate for 2016, the significant misreporting rate in the past suggests that the population of SPFS from which the sample is extracted may not include the full population of SPFS. This is also a limitation of this research.

3. Results and discussion

This section reports the results in accordance with the specific research requirements requested by the AASB. It addresses and provides the following observations with respect to the charities preparing SPFS sampled.

3.1 The profile of the charities preparing SPFS

Table 3 summarises the profile of the charities selected by their size, main activity of the charity, legal structure, and the state/territory where the charity is based, as prepopulated based on ACNC 2016 AIS data (available from data.gov.au). Panel A outlines the largest five charities in terms of total assets and total income reported for 2016. It is noticed that the largest charity sampled significantly stands out, which has total assets of \$5 billion and total income of \$3 billion. The second largest charity in terms of total assets is at \$194 million, and the second largest charity in terms of total income is at \$34 million. Due to the presence of this outlier which can significantly skew a test, the largest charity sampled is excluded from the sample (Maddala 1992). Therefore, the final sample size for this research report is 407. Also, the Wilcoxon rank-sum test is conducted in this report as a nonparametric alternative to the two-sample *t*-test.

In addition, there are 65 non-government schools which have also been examined separately as most of these schools in the sample are still transitioning to accrual accounting. Therefore, analyses have been performed over three samples: 1) the entire sample (n=407); 2) a subsample which excludes these non-government schools (n=342), and 3) a subsample of non-government schools (n=65), respectively.

Panel B summarises the size of the charities in terms of the mean, median and range (min and max) for each of total assets, liabilities, revenues, gross income, expenses, and



employee numbers¹⁷. The mean total assets of the 407 charities sampled are \$5.8 million with a range between \$0 and \$194 million; the mean number of employees is 22 with the median being 7. In the subsample which excludes non-government schools, the mean total assets are \$6 million, while the average assets held by non-government schools are \$5 million. The medians of assets and liabilities for non-government schools are zero, which suggests that more than half of these non-government schools do not report their assets and liabilities or report them as being zero. This data confirms the importance of separating this type of charity from the sample. In addition, Person's correlation is provided in Appendix 4, which indicates that multivariate regression approaches seem inappropriate given the potential concern for multicollinearity.

Panels C, D and E then summarise the sample by the main activity of the charity, legal structure, and the state/territory in which the charity is based. There are 198 incorporated associations (49%), followed by unincorporated associations being 77 (19%). In addition, 64 of them are trusts, 46 are companies limited by guarantee, and 18 are companies. The majority of non-government schools are unincorporated associations (81%) and incorporated associations (17%). A selection of charities from each state/territory is included in the sample.

¹⁷ The size of the charity is based on what the charity reports to the ACNC 2016 AIS, which is available from data.gov.au.



Table 3 The profile of charities preparing SPFSs

Panel A: The largest 5 charities sampled by total assets and total income

The largest 5 charities	Total assets (\$)	The largest 5 charities	Total income (\$)
1	5,034,856,152	1	3,023,835,000
2	194,084,713	2	34,185,734
3	133,726,707	3	27,974,962
4	105,208,738	4	27,158,602
5	95,453,488	5	24,473,952

Panel B: Sample by size

Size	Mean	Median	Min	Max
Entire sample (n=407)				
Assets (\$)	5,815,893	924,611	0	194,084,713
Liabilities (\$)	781,779	136,321	0	15,957,119
Revenues (\$)	2,713,187	983,785	0 ¹⁸	32,973,152
Income (\$)	2,761,273	988,612	-261,644 ¹⁹	34,185,734
Expenses (\$)	2,443,716	894,924	828	32,537,205
Employee numbers	22	7	0	299
Subsample excluding non-government schools (n=342)				
Assets (\$)	5,976,582	1,167,344	22,962	194,084,713
Liabilities (\$)	712,364	175,890	0	13,031,733
Revenues (\$)	2,118,154	794,075	0	32,973,152
Income (\$)	2,166,897	807,308	-261,644	34,185,734
Expenses (\$)	1,861,798	713,271	828	32,537,205
Employee numbers	16	5	0	299
Subsample of non-government schools (n=65)				
Assets (\$)	4,970,423	0	0	42,451,266
Liabilities (\$)	1,147,010	0	0	15,957,119
Revenues (\$)	5,843,972	3,604,817	285,300	27,974,415
Income (\$)	5,888,603	3,604,817	285,300	27,974,962
Expenses (\$)	5,505,500	3,347,654	258,069	24,745,331
Employee numbers	50	37	0	214

¹⁸ There is one charity whose reported total revenue is 0 and its total income is \$389,371 which includes rental income, interest income and profit on sale of property.

¹⁹ There is one charity whose reported total revenue is \$763,057 and its total income is \$-261,644 due to net losses on financial instruments held at fair value.



Panel C: Sample by main activities

Main Activities	Entire sample		Excluding non-government schools		Non-government schools	
	Number	Rate	Number	Rate	Number	Rate
Aged care activities	10	2%	10	3%	0	0%
Animal Protection	4	1%	4	1%	0	0%
Civic and advocacy activities	12	3%	12	4%	0	0%
Culture and arts	12	3%	12	4%	0	0%
Economic, social and community development	28	7%	28	8%	0	0%
Emergency relief	5	1%	5	1%	0	0%
Employment and training	11	3%	11	3%	0	0%
Environmental activities	12	3%	12	4%	0	0%
Grant-making activities	18	4%	18	5%	0	0%
Higher education	7	2%	7	2%	0	0%
Hospital services and rehabilitation activities	3	1%	3	1%	0	0%
Housing activities	10	2%	10	3%	0	0%
Income support and maintenance	1	0%	1	0%	0	0%
International activities	4	1%	4	1%	0	0%
Law and legal services	4	1%	4	1%	0	0%
Mental Health and Crisis Intervention	4	1%	4	1%	0	0%
Other education	47	12%	47	14%	0	0%
Other health service delivery	23	6%	23	7%	0	0%
Other recreation and social club activity	4	1%	4	1%	0	0%
Other philanthropic	8	2%	8	2%	0	0%
Primary and secondary education ²⁰	74	18%	9	3%	65	100%
Religious activities	53	13%	53	15%	0	0%
Research	3	1%	3	1%	0	0%
Social services	44	11%	44	13%	0	0%
Sports	4	1%	4	1%	0	0%
Not specified	2	0%	2	1%	0	0%
Total	407	100%	342	100%	65	100%

²⁰ Nine of the 74 charities whose main activity is primary and secondary education are funds or organisations that are associated with a non-government school but are separately registered with the ACNC. They do not submit a separate Financial Questionnaire to the Department of Education and Training and need to report in compliance with the ACNC Act.



Panel D: Sample by legal structure

Legal Structure	Entire sample		Excluding non-government schools		Non-government schools	
	Number	Rate	Number	Rate	Number	Rate
Incorporated association	198	49%	187	55%	11	17%
Unincorporated association	77	19%	24	7%	53	81%
Trust	64	16%	64	19%	0	0%
Company limited by guarantee	46	11%	46	13%	0	0%
Company	18	4%	17	5%	1	2%
Others	4	1%	4	1%	0	0%
Total	407	100%	342	100%	65	100%

Panel E: Sample by state/territory

State/territory	Entire sample		Excluding non-government schools		Non-government schools	
	Number	Rate	Number	Rate	Number	Rate
Australian Capital Territory (ACT)	8	2%	8	2%	0	0%
New South Wales (NSW)	101	25%	99	29%	2	3%
Northern Territory (NT)	9	2%	7	2%	2	3%
Queensland (QLD)	54	13%	51	15%	3	5%
South Australia (SA)	27	7%	23	7%	4	6%
Tasmania (TAS)	14	3%	14	4%	0	0%
Victoria (VIC)	130	32%	90	26%	40	61%
Western Australia (WA)	59	15%	45	13%	14	22%
Not Specified	5	1%	5	2%	0	0%
Total	407	100%	342	100%	65	100%

3.2 Charities' statement on whether they complied with all R&M requirements

Table 4 provides a summary of whether charities stated compliance with R&M requirements, broken down by size, main activities, and legal structure, respectively. Overall, in the sample, 26% of the charities (107 out of 407) stated that they complied with all R&M requirements, while 30% (123 out of 407) stated that they did not comply with all R&M. The remaining 177 did not have a clear statement. In the subsample that excludes non-government schools, about 30% of them stated compliance with all R&M requirements, while 23% did not. Among the 65 non-government schools, the majority of them (68%) stated non-compliance with R&M requirements.

In terms of the size, Panel A indicates that, for the entire sample, charities that stated compliance with all R&M, on average, have larger total assets, total liabilities, revenues,



income, and expenses compared to those that did not. On the other hand, the medians of the total revenue, income, expenses and the number of employees are smaller for these charities, compared to those that stated non-compliance with all R&M. Wilcoxon rank-sum tests show that the differences in total assets and total liabilities between the two groups are statistically significant ($p < 0.01$). Further, charities which stated compliance with all R&M have a lower number of employees ($p < 0.01$), and a marginally lower level of expense ($p < 0.1$), compared to those that did not. There are no significant differences identified for the other size indicators.

When eliminating non-government schools from the sample, Wilcoxon rank-sum tests show that no significant differences are identified in all size indicators between the two groups. Among the 65 non-government schools, medians in all six size variables are statistically different between the two groups.

Panel B and Panel C of Table 4 further show the descriptive statistics based on the main activities of the entities, and the legal structure.



Table 4 Charities' statement on whether they comply with all R&M requirements

Panel A: Charities' statement on whether they comply with all R&M requirements by size

Size		Entire sample (n=407)						Excluding non-government schools (n=342)						Non-government schools (n=65)					
		Stated compliance with all R&M		Stated non-compliance with all R&M		Not clear		Stated compliance with all R&M		Stated non-compliance with all R&M		Not clear		Stated compliance with all R&M		Stated non-compliance with all R&M		Not clear	
Number	Rate	107	26%	123	30%	177	44%	101	30%	79	23%	162	47%	6	9%	44	68%	15	23%
Total assets (\$)	Mean	7,559,255		7,292,944		3,735,571		7,092,625		9,258,245		3,680,460		15,400,000		3,764,336		4,330,771	
	Median	1,904,660***		468,311***		809,386		1,701,685		1,023,509		956,522		12,300,000***		0***		0	
	Min	22,962		0		0		22,962		32,874		23,076		3,497,360		0		0	
	Max	133,726,707		194,084,713		34,371,951		133,726,707		194,084,713		34,371,951		36,283,426		42,451,266		30,946,341	
Total Liabilities (\$)	Mean	1,046,577		587,232		756,897		850,327		650,885		656,330		4,350,126		472,946		1,843,021	
	Median	183,114**		102,106**		144,577		148,345		271,501		156,131		2,942,868***		0***		0	
	Min	0		0		0		0		0		0		653,142		0		0	
	Max	12,057,249		7,224,470		15,957,119		8,828,598		7,224,470		13,031,733		12,057,249		6,636,880		15,957,119	
Revenues (\$)	Mean	3,463,769		3,049,491		2,025,742		3,036,563		1,914,041		1,645,103		10,700,000		5,088,139		6,136,644	
	Median	908,393		1,624,154		845,879		867,810		710,355		820,810		9,741,879**		3,576,688**		2,727,704	
	Min	258,625		256,540		0		258,625		256,540		0		2,500,719		940,714		285,300	
	Max	32,973,152		27,974,415		17,506,308		32,973,152		17,679,543		16,895,872		21,130,226		27,974,415		17,506,308	
Income (\$)	Mean	3,525,718		3,091,560		2,069,629		3,094,054		1,979,151		1,680,410		10,800,000		5,088,839		6,273,192	
	Median	935,592		1,639,690		849,915		904,476		743,737		822,528		9,741,879**		3,576,688**		2,727,704	
	Min	-261,644		260,598		143,003		-261,644		260,598		143,003		2,500,719		940,714		285,300	
	Max	34,185,734		27,974,962		17,506,308		34,185,734		18,553,865		16,895,872		21,945,284		27,974,962		17,506,308	
Expenses (\$)	Mean	3,098,220		2,664,056		1,894,936		2,653,873		1,525,336		1,532,049		10,600,000		4,708,577		5,814,117	
	Median	803,914*		1,381,832*		776,042		734,116		625,719		725,850		9,284,610**		3,111,955**		2,711,132	
	Min	828		4,244		3,978		828		4,244		3,978		2,405,050		921,324		258,069	
	Max	32,537,205		24,745,331		17,021,053		32,537,205		15,365,227		11,547,052		23,687,816		24,745,331		17,021,053	
Employee numbers	Mean	25		25		17		21		15		14		98		43		51	
	Median	4***		12***		7		3		6		6		96**		34**		37	
	Min	0		0		0		0		0		0		29		8		0	
	Max	299		207		256		299		207		256		214		158		152	

*, ** and *** indicate statistical significance at the 0.1, 0.05 and 0.01 levels, respectively, two tailed.



Panel B: Charities' statement on whether they comply with all R&M requirements by main activities (n=407)

Main Activities	Stated compliance with all R&M		Stated non-compliance with all R&M		Not clear		Total	
	Number	Rate	Number	Rate	Number	Rate	Number	Rate
Aged care activities	1	10%	3	30%	6	60%	10	100%
Animal Protection	3	75%	0	0%	1	25%	4	100%
Civic and advocacy activities	5	42%	3	25%	4	33%	12	100%
Culture and arts	5	42%	1	8%	6	50%	12	100%
Economic, social and community development	1	100%	0	0%	0	0%	1	100%
Emergency relief	1	100%	0	0%	0	0%	1	100%
Employment and training	13	48%	6	22%	8	30%	27	100%
Environmental activities	2	50%	1	25%	1	25%	4	100%
Grant-making activities	5	45%	2	18%	4	36%	11	100%
Higher education	6	50%	3	25%	3	25%	12	100%
Hospital services and rehabilitation activities	9	53%	2	12%	6	35%	17	100%
Housing activities	4	57%	0	0%	3	43%	7	100%
Income support and maintenance	1	33%	0	0%	2	67%	3	100%
International activities	1	10%	2	20%	7	70%	10	100%
Law and legal services	1	25%	1	25%	2	50%	4	100%
Mental Health and Crisis Intervention	2	50%	0	0%	2	50%	4	100%
Other education	4	50%	1	13%	3	38%	8	100%
Other health service delivery	9	19%	11	23%	27	57%	47	100%
Other recreation and social club activity	2	9%	10	43%	11	48%	23	100%
Other philanthropic	1	25%	0	0%	3	75%	4	100%
Primary and secondary education	9	12%	46	62%	19	26%	74	100%
Religious activities	1	50%	1	50%	0	0%	2	100%
Research	8	16%	13	25%	30	59%	51	100%
Social services	10	23%	13	30%	21	48%	44	100%
Sports	3	75%	0	0%	1	25%	4	100%
Not specified	0	0%	4	36%	7	64%	11	100%
Total	107	26%	123	30%	177	43%	407	100%



Panel C: Charities' statement on whether they comply with all R&M requirements by legal structure (n=407)

Legal structure	Stated compliance with R&M		Stated non-compliance with all R&M		Not clear		Total	
	Number	Rate	Number	Rate	Number	Rate	Number	Rate
Company limited by guarantee	14	30%	6	13%	26	57%	46	100%
Other Company	6	33%	4	22%	8	45%	18	100%
Incorporated association	51	26%	53	27%	94	47%	198	100%
Unincorporated association	6	8%	49	64%	22	28%	77	100%
Trust	29	45%	10	16%	25	39%	64	100%
Other	1	25%	1	25%	2	50%	4	100%
Total	107	26%	123	30%	177	44%	407	100%

3.3 Charities that stated compliance with all R&M requirements

3.3.1 Charities' statement on whether they comply with five key standards

Table 5 shows that²¹, out of the 107 charities that stated that they have applied R&M, 84 charities (79%) stated compliance with the five key standards. Out of the 101 charities that stated compliance with R&M (excluding non-government schools), 79 charities (78%) stated compliance with the five key standards.

Table 5 provides a comparison of the profile with mean, median and range between the charities which have stated to have complied with the five key standards and the remaining charities for the two samples. Descriptive statistics indicate that charities which stated compliance with the five key standards, on average, have larger total assets, total liabilities, revenues, income, expenses, and total number of employees compared to those that did not state compliance with the five key standards. Wilcoxon rank-sum tests show that, for the entire sample, charities which stated compliance with the five key standards have significantly greater median total assets ($p < 0.01$), total liabilities ($p < 0.05$), revenues ($p < 0.01$), income ($p < 0.01$), expenses ($p < 0.01$), and the number of employees ($p < 0.1$), compared to those which did not state compliance with the five key standards.

²¹ Most of the non-government schools in the sample are still transitioning to accrual accounting. Since this section focuses on identifying charities which have stated compliance with 5 key standards including AASB 101, which requires FS to be prepared using accrual basis of accounting, the results in this section have been reported for two samples: 1) full sample; and 2) subsample excluding non-government schools.



When eliminating the non-government schools from the sample, medians in total assets ($p < 0.01$), liabilities ($p < 0.1$), revenues ($p < 0.01$), income ($p < 0.01$), expenses ($p < 0.01$), and the number of employees ($p < 0.1$) are statistically different.

Table 5 Charities' disclosure on whether they comply with the five key standards among those that stated compliance with R&M

Size		Entire sample (n=107)				Excluding non-government schools (n=101)			
		Compliance with Five key standards stated		Compliance with Five key standards not stated ²²		Compliance with Five key standards stated		Compliance with Five key standards not stated	
Number	Rate	84	79%	23	21%	79	78%	22	22%
Total assets (\$)	Mean	8,898,245		2,669,032		8,334,997		2,631,381	
	Median	2,917,805***		601,558***		2,373,130***		503,090***	
	Min	113,026		22,962		113,026		22,962	
	Max	133,726,707		15,071,723		133,726,707		15,071,723	
Liabilities (\$)	Mean	1,286,971		168,617		1,046,303		146,593	
	Median	199,668**		80,081**		185,691*		74,980*	
	Min	0		0		0		0	
	Max	12,057,249		653,142		8,828,598		623,606	
Revenues (\$)	Mean	4,215,774		717,315		3,705,004		636,251	
	Median	1,414,646***		480,932***		1,200,494***		478,108***	
	Min	258,625		270,335		258,625		270,335	
	Max	32,973,152		2,500,719		32,973,152		1,943,801	
Income (\$)	Mean	4,280,003		770,936		3,762,894		692,309	
	Median	1,414,694***		509,851***		1,200,494***		495,392***	
	Min	-261,644		270,798		-261,644		270,798	
	Max	34,185,734		2,576,124		34,185,734		2,576,124	
Expenses (\$)	Mean	3,772,768		634,655		3,238,597		554,183	
	Median	1,115,012***		475,780***		936,563***		470,624***	
	Min	828		189,277		828		189,277	
	Max	32,537,205		2,405,050		32,537,205		2,062,257	
Employee numbers	Mean	30		6		25		5	
	Median	6*		3*		4*		2*	
	Min	0		0		0		0	
	Max	299		32		299		32	

*, ** and *** indicate statistical significance at the 0.1, 0.05 and 0.01 levels, respectively, two tailed.

²² The 26 reports include 1 report where compliance with the five key standards is unclear. The inferences remain unchanged after conducting univariate analyses by excluding this observation.



3.3.2 Accounting standards listed other than the five key standards

Table 6 shows that, among the 107 charities that stated compliance with all R&M, a total of 30 charities stated they also complied with other accounting standards. These accounting standards included AASB 1031 *Materiality* (27 times) (now withdrawn), AASB 110 *Events after the Reporting Period* (3 times), AASB 1053 *Application of Tiers of Australian Accounting Standards* (2 times), AASB 1057 *Application of Australian Accounting Standards* (2 times), AASB 116 *Property, Plant and Equipment* (2 times), and AASB 119 *Employee Benefits* (1 time).

Table 6 Other accounting standards listed by charities in Section 3.3

Additional accounting standards listed	Entire sample	
	Number	Rate
AASB 1031	22	20%
AASB 1057	2	2%
AASB 110 & 1031	2	2%
AASB 1031 & 1053	2	2%
AASB 116 & 119	1	1%
AASB 110, 116 & 1031	1	1%
Sub-total	30	28%
No other accounting standards listed	77	72%
Total	107	100%



3.4 Charities that stated non-compliance with all R&M requirements

3.4.1 R&M requirements that were not met

As shown in Table 4 in Section 3.2, there are 123 charities that stated non-compliance with all R&M requirements. Among them, 5 charities stated which accounting standards had not been met, as summarised in Table 7. These accounting standards include AASB 7 (4 times), AASB 124 (4 times), AASB 101 (3 times), AASB 116 (2 times), AASB 117 (2 times), AASB 119 (2 times), AASB 132 (2 times), AASB 107 (1 time), AASB 110 (1 time), AASB 112 (1 time), AASB 114 (1 time), AASB 123 (1 time), AASB 13 (1 time), AASB 137 (1 time), AASB 139 (1 time), and AASB 1004 (1 time).

Table 7 R&M accounting standards that were not met

	Number	Rate
AASB 139	1	0.8%
AASB 7, 13, 124, 132, 137	1	0.8%
AASB 7, 101, 119, 124, 1004	1	0.8%
AASB 7, 101, 112, 116, 117, 123, 124	1	0.8%
AASB 7, 101, 107, 110, 114, 116, 117, 119, 124, 132	1	0.8%
Sub-Total	5	4%
Total charities stated non-compliance with all R&M	123	100%

3.4.2 Charities that did not state compliance with the five key standards

Table 8 shows that, out of the 123 charities, 56 charities (46%) did not have a statement in their financial statements that the charity had complied with the regulations applicable to them, or stated compliance with each of the five key standards (i.e. AASB 101, AASB 107, AASB 108, AASB 1048, and AASB 1054). The remaining 67 charities (54%) stated that they complied with the five key standards.

Table 8 Charities that did not state compliance with the five key standards

	Entire sample	
	Number	Rate
Charities that did not state to have complied with the five key standards	56	46%
Charities that stated compliance with the five key standards	67	54%
Total: Charities that did not meet all R&M requirements	123	100%



3.4.3 Other accounting standards listed other than the five key standards

Table 9 shows that, out of the 123 charities that did not state compliance with the five key standards, a total of 44 charities stated they complied with other accounting standards. Other accounting standards listed included AASB 1031 *Materiality* (37 times) (now withdrawn), AASB 110 *Events after the Reporting Period* (24 times), AASB 112 *Income Taxes* (5 times), AASB 116 *Property, Plant and Equipment* (4 times), AASB 117 *Leases* (4 times), AASB 7 *Financial Instruments: Disclosures* (1 time), AASB 10 *Consolidated Financial Statements* (1 time), AASB 12 *Disclosure of Interests in Other Entities* (1 time), AASB 118 *Revenue* (1 time), AASB 124 *Related Party Disclosures* (1 time), AASB 132 *Financial Instruments: Presentation* (1 time), and AASB 136 *Impairment of Assets* (1 time). In addition, 2 charities stated their compliance with the following Australian Accounting Standards that were withdrawn in 2005: AAS 5 *Materiality* (2 times), AAS 8 *Events Occurring after Reporting Date* (2 times), and AAS 6 *Accounting Policies* (1 time).



Table 9 Other accounting standards listed other than the five key standards

Other accounting standards listed	Entire sample	
	Number	Rate
AASB 1031	15	12%
AASB 110	3	2%
AASB 110 & 1031	13	11%
AASB 110 & 116	1	1%
AASB 10, 12 & 1031	1	1%
AASB 110, 112 & 1031	2	2%
AASB 116, 136 & 1031	1	1%
AASB 110, 118 & 1031	1	1%
AASB 110, 112, 117 & 1031	3	2%
AASB 110, 116, 117 & 1031	1	1%
AASB 7, 116, 124 & 132	1	1%
AAS 5 & 8	1	1%
AAS 5, 6 & 8	1	1%
Sub-total	44	36%
No other accounting standards listed	79	64%
Total: Charities that did not meet all R&M requirements	123	100%



3.5 Charities that are not preparing consolidated financial statements

Based on the coding results, 13 charities (out of 407) made reference in their financial statements that the charity was a parent charity. Twelve of the 13 charities prepared consolidated financial statements. In other words, only one parent charity (7.69%) did not prepare consolidated financial statements. It was an incorporated association operating in Western Australia whose main activity was other education. Table 10 summarises the size of this charity. This one charity identified as a parent charity, did not include a statement that it applied the AASB 10 exemption.

Table 10 The size of the parent charity which had not prepared consolidated financial statements (n=1)

Total assets (\$)	4,029,990
Liabilities (\$)	1,185,458
Revenues (\$)	2,996,438
Income (\$)	2,996,438
Expenses (\$)	2,117,084
Employee numbers	28

3.6 Charities with reference to the additional disclosures²³

Table 11 summarises charities' application of disclosure standards relating to the additional disclosures (i.e. Related Party Disclosures, Impairment of Assets, and Revenue disclosures). Overall, out of a total of 407 charities sampled, results suggest:

- 83% of charities had line items of revenue disclosing separate sources of revenue and/or any significant accounting policy note on revenue;
- Around 43% of charities had reference to the words 'impairment', 'decline/reduction in value', or 'recoverable amount' that indicates an impairment had been considered during the year; and
- About 14% had notes regarding related party disclosures.

²³ This section is based on observations that charities have made references to the additional disclosures, but no assessment was made on whether the charity has materially complied with the disclosure.



Table 11 Charities referencing the additional disclosures (n=407)

The additional disclosures		Stated compliance with R&M		Stated non-compliance with all R&M		Not clear		Total	
		Number	Rate	Number	Rate	Number	Rate	Number	Rate
Revenue	Notes observed ²⁴	104	97%	77	63%	157	89%	338	83%
	No notes observed ²⁵	3	3%	46	37%	18	10%	67	16%
	Unclear	0	0%	0	0%	2	1%	2	0%
	Total	107	100%	123	100%	177	100%	407	100%
Impairment of Assets	Notes observed	61	57%	31	25%	82	46%	174	43%
	No notes observed	45	42%	92	75%	90	51%	227	56%
	Unclear	1	1%	0	0%	5	3%	6	1%
	Total	107	100%	123	100%	177	100%	407	100%
Related Party Disclosures	Notes observed	24	22%	10	8%	24	14%	58	14%
	No notes observed	83	78%	113	92%	151	85%	347	85%
	Unclear	0	0%	0	0%	2	1%	2	0%
	Total	107	100%	123	100%	177	100%	407	100%

²⁴ Reference to the additional disclosure standards is observed in the financial statements.

²⁵ Reference to the additional disclosure standards is not observed in the financial statements.



4. Additional Analysis: Factors influencing choice of GPFS vs SPFS by large charities for 2014 and 2015 reporting years

Yang and Simnett (2019) examined a total of 7,637 charities for the reporting years 2014 and 2015, which represented all large charities registered with the ACNC (excluding religious and educational charities). They extended Carey, Potter and Tanewski's (2014) model and examined factors identified in SAC 1²⁶ that are associated with large charities' financial reporting framework choice. They found charities that 1) have a larger asset base, 2) receive greater donation income, 3) generate more trading revenue, 4) have greater liabilities; and 5) have more diverse revenue sources, are more likely to prepare GPFS, consistent with the predictions. On the other hand, there was no significant association between the reporting choice and the status of deductible gift recipients (DGR), the range of beneficiary groups, or the number of employees. Of concern, however, was that the model only explained just over 12% of the variance in the dependent variable over the entire sample. In other words, around 88% of the variation in charities' financial reporting choice could not be explained by the model containing the eight measures of the three indicative factors from SAC 1. Further, they find significant variation across different industry sectors and types of audit providers in factors explaining charities' decisions to produce GPFS versus SPFS. These results suggest that factors identified in SAC 1 did not consistently explain charities' reporting choice over whether to prepare GPFS or SPFS.

²⁶ Both the ACNC Act and Australian Accounting Standards require entities to prepare GPFS if they are a reporting entity, which is defined in SAC 1 as where it is reasonable to expect the existence of users dependent on GPFS for information. SAC 1 lays out three indicative factors that are relevant in determining whether an entity is a reporting entity, which leads to the reporting choice between GPFS and SPFS. The three factors are: 1) the spread of ownership/membership of the entity; 2) the economic or political importance of the entity and the potential for its activities to significantly impact the welfare of external parties; and 3) the financial characteristics of the entity such as size and its relative level of indebtedness to external parties.



5. Summary

In summary, this report examines a sample of SPFS lodged with the ACNC by large and medium-sized charities for the reporting period 2016. It provides findings regarding the extent to which charities producing SPFS are:

- complying with the R&M requirements;
- complying with the disclosure requirements of five key standards (i.e. AASB 101, AASB 107, AASB 108, AASB 1048, and AASB 1054); and
- referencing additional disclosures (related party disclosures, revenue and impairment of assets).

Results suggest that 26% of SPFS (i.e. 107 out of 407) stated compliance with all R&M requirements, while 30% did not. The remaining 44% did not have a clear statement. For the 342 charities (excluding non-government schools), the proportion of those with stated compliance with R&M requirements was 30%.

Wilcoxon rank-sum tests show that, between those that stated compliance with all R&M and those that did not, there are no significant differences for the median values of total revenues and income. In general, charities which stated compliance with all R&M requirements have significantly greater total assets, and total liabilities, but a lower number of employees, compared to those that stated non-compliance with all R&M, at the 5% level. For the subsample excluding non-government schools, no significant differences in size indicators are identified at the 10% level.

For the 107 charities that stated compliance with all R&M requirements, about 79% stated compliance with the five key standards (i.e. AASB 101, AASB 107, AASB 108, AASB 1048, and AASB 1054). Wilcoxon rank-sum tests show that these charities, on average, had significantly greater assets, liabilities, revenues, income, expenses, and employee numbers, compared to those who did not state they complied with the five key standards. These findings are robust to the exclusion of non-government schools. In addition to these five key standards, a number of other accounting standards were listed including some that had been withdrawn (AASB 1031, AASB 110, AASB 1057, AASB 1053, AASB 116, and AASB 119).

For the 123 charities that stated non-compliance with all R&M requirements, around 46% of them did not state they complied with the five key standards. Other accounting standards listed included ones that were withdrawn in 2005 (AAS 5, 6 and 8) with the adoption of IFRS as well as others (AASB 1031 (now withdrawn), AASB 110, AASB 112, AASB 116, AASB 117, AASB 7, AASB 10, AASB 12, AASB 118, AASB 124, AASB 132, and AASB 136).



In addition, out of the 13 parent charities in the sample, 1 charity did not prepare consolidated financial statements. There was no statement that the charity had applied the AASB 10 exemption.

This report also summarises charities' references to the additional disclosures of related parties, revenue and impairment of assets.



References

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Appendix 1 Research instructions

The Researcher will need to produce a Report and provide the excel spreadsheet that addresses and provides the following observations with respect to charities preparing SPFS:

Critical observations

1. The profile in terms of size²⁷ of the charities preparing SPFS with mean, median and range (min and max) for each of total assets, liabilities, revenues, income, expenses, employee numbers, legal structure, state/territory which the charity is based and the main activity of the charity (“profile”).
2. The proportion of charities sampled that state application of all applicable R&M requirements of the AAS (including their profile, with mean, median and range (min and max)).

(if “1” is observed under ‘state application of R&M’ in the spreadsheet, then the charity sampled has met R&M. If 0 is observed, the charity has clearly not met R&M. For those charities assessed as ‘0’, identify (if any) which accounting standards that were not met.)

For the proportion of charities that met R&M (1)

3. The proportion of charities sampled that complied with the five key standards (i.e. AASB 101, AASB 107, AASB 108, AASB 1048 and AASB 1054) (including their profile with mean, median and range (min and max)).

(If “1” is observed for statement of compliance with the regulations applicable to them or “1” listed for all of the five key standards, then the observation would be that the charity sampled has complied with the five key standards).

4. Please identify any other accounting standards listed by the proportion of charities in step 3 above, other than the five key standards.

For the proportion of charities that state they did not meet R&M (0)

5. For the proportion of charities that made a statement that they do not meet R&M (per step 2 above) please calculate the mean, median and range (min and max) in terms of profile.
6. For the proportion of charities that made a statement that they do not meet R&M (per step 2 above), please calculate the proportion of charities that have not complied with the five key standards.

²⁷ Size of charity refers to total assets, total liabilities, total income, total revenue, total expenses and employee numbers



(If “0” is observed for statement of compliance with the regulations applicable to them or “0” listed for all of the five key standards, then the observation would be that the charity sampled has not complied with all the five key standards. Please identify any other accounting standards listed by the proportion of charities in step 6 above, other than the five key standards that have been stated to have complied with, and how many charities stated compliance with each extra standard.)

For all charities sampled

7. The proportion of charities sampled that are not preparing consolidated financial statements (including their size). This should only be concluded if the financial statements do not contain any reference to it being consolidated financial statements and there is reference in the financial statements that the charity sampled:
- is a parent charity; or
 - controls any subsidiaries; or
 - applied the exemption in AASB 10 and not prepared consolidated financial statements

(If “1” is observed on each of the above then the observation would be that the charity sampled is not preparing consolidated financial statements. Otherwise no conclusion can be drawn that the charity is required to but has not prepared consolidated financial statements)

8. For the proportion of charities identified as a parent charity and have not prepared consolidated financial statements (per step 7 above), how many charities have applied the AASB 10 exemption and not prepared consolidated financial statements. This should only be concluded if the financial statements include a statement that the charity sampled has applied the AASB 10 exemption.

Non-critical observations

For all charities sampled

9. The proportion of charities sampled that are complying with each of the additional disclosure requirements being; related parties, revenue and impairment.

(If “1” is observed in any of the additional disclosures standards, then the observation would be that they have disclosed some information required by the additional disclosure standards.)

This will be determined by observing the 2015/16 financial statements lodged with the ACNC using the data spreadsheet template provided by the AASB using the instructions listed under Methodology.



Appendix 2 Reconciling number of charities stating that they prepare GPFS to the ACNC (identified from the AIS)

Yang and Simnett (2019) examined a total of 7,637 charities for the reporting years 2014 and 2015, which represented all large charities (annual revenue above \$1 million) registered with the ACNC (excluding religious and educational charities). The financial reporting framework choice for each charity is manually coded according to the auditor's assessment in the audit reports. The table below reconciles the number of charities that stated their financial reporting framework choice to the ACNC (as identified from the AIS) with the number of charities that prepared a different type of financial statements (as identified from the audit reports).

	Declared on the AIS	Identified from the audit reports as error	Error rate
SPFS	2,087	18	0.86%
GPFS	5,493	1,243	22.63%
Not disclosed	57	-	-
Total	7,637	1,261	16.51%

Results indicate that, a total of 5,493 charities stated that they had prepared GPFS in the AIS. Among them, 1,243 charities (22.63%) prepared SPFS based on what had been identified from the audit reports. As for the 2,087 charities that state they prepared SPFS in the AIS, 18 of them (0.86%) prepared GPFS according to the audit reports. The overall error rate is 16.51%. The research in this research report needs to be considered with the above limitation.



Appendix 3 Sample selection and coding procedure

Sample selection procedure and the sample size is determined in accordance with the approach outlined by Israel (1992). Based on Israel (1992, p. 3), sample size for $\pm 5\%$ precision levels where confidence level is 95% would be 370 when the population is 5,000, and 375 when the population is 6,000²⁸. Given the population of SPFS is 5,675, a random sample of minimum 375 charities needed to be selected. To further compensate for identified misspecification of self-claimed SPFS and potential missing observations²⁹, a random sample of 440 charities was selected and examined. This approach and sample size were approved by the AASB before undertaking the research.

The coding rules were provided by the AASB. To ensure the accuracy, the first 10 samples were completed, and the results were sent back to the AASB to assess the accuracy before proceeding with the research. In addition, the first-round coding results of the entire sample were sent to the AASB, who checked all coding of whether charities applied all R&M requirements of AAS, whether charities applied the mandatory disclosure standards, and the coding of the group reports. This report was prepared based on the coding results after reconciling any differences from this double coding process.

²⁸ The precision level represents the range in which the true value of the population is estimated to be $\pm 5\%$. As described in Israel (1992, p.1), “if a researcher finds that 60% of farmers in the sample have adopted a recommended practice with a precision rate of $\pm 5\%$, then he or she can conclude that between 55% and 65% of farmers in the population have adopted the practice”. A 95% confidence level implies that 95 out of 100 samples will have the true population value within the range of precision ($\pm 5\%$).

²⁹ The reasons for missing observations are summarised in Table 2. These findings are consistent with Yang (2018).



Appendix 4 Pearson’s correlations

The following table provides Pearson’s correlations for the sample using the natural logarithm of each size variable to normalise the distribution of the data. The univariate results suggest significantly positive relationships among the size variables. For example, the assets variable is positively correlated with liabilities ($r = 0.4867$, $p < 0.0000$), revenue ($r = 0.6245$, $p < 0.0000$), gross income ($r = 0.6181$, $p < 0.0000$), expenses ($r = 0.4905$, $p < 0.0000$), and the number of employees ($r = 0.3987$, $p < 0.0000$). In addition, the revenue variable is found to be highly correlated with the income variable ($r = 0.9840$, $p < 0.0000$), which is reasonable as 282 out of the 407 charities (69%) reported their revenue being identical to their reported income. On basis of this, multivariate regression approaches seem inappropriate given the potential concern for multicollinearity.

	<i>LnAssets</i> Pearson’s r <i>p-value</i>	<i>LnLiabilities</i> Pearson’s r <i>p-value</i>	<i>LnRevenues</i> Pearson’s r <i>p-value</i>	<i>LnIncome</i> Pearson’s r <i>p-value</i>	<i>LnExpenses</i> Pearson’s r <i>p-value</i>	<i>LnEmployee numbers</i> Pearson’s r <i>p-value</i>
<i>LnAssets</i>	1.0000					
<i>LnLiabilities</i>	0.4867 0.0000	1.0000				
<i>LnRevenues</i>	0.6245 0.0000	0.6303 0.0000	1.0000			
<i>LnIncome</i>	0.6181 0.0000	0.6288 0.0000	0.9840 0.0000	1.0000		
<i>LnExpenses</i>	0.4905 0.0000	0.6145 0.0000	0.8588 0.0000	0.8418 0.0000	1.0000	
<i>LnEmployee numbers</i>	0.3987 0.0000	0.6149 0.0000	0.7925 0.0000	0.7538 0.0000	0.8270 0.0000	1.0000