Appendices to Charity Discussion Paper

Appendix A	Definition of a charity - to clarify the scope to the Discussion Paper – *Improving financial reporting for Australian Charities*
Appendix B	What are the issues with the current financial reporting framework for charities – expansion of issues identified in the Charity Discussion Paper;
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 Australian Charities and Not-for-profits Commission (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.

Contents

APPENDIX A

A. Definition of 'charity'

A1. The scope of the Discussion Paper – *Improving financial reporting for Australian charities* is limited to financial reporting requirements applicable to charities registered with Australian Charities and Not-for-profits Commission (ACNC) (including charities that are also registered with Australian Securities and Investment Commission (ASIC), Office of the Registrar of Indigenous Corporation (ORIC) or state/territory regulators).

A2. For the purpose of the Charity Discussion Paper, the definition of a 'charity' is that used by ACNC, taken from the *Charities Act 2013* (Cth) section 5. According to the definition, to be a charity an organisation must:

(a) be a Not-For-Profit (NFP) entity;

(b) have only charitable purposes that are for the public benefit, or incidental or ancillary to, and in furtherance or in aid of, such purpose;

(c) not have disqualifying purposes[1]; and

(d) not be an individual, a political party or a government entity.

A3. The concept of 'charitable purpose' used in the definition of charity has changed over time and has been developed by courts and parliament. Under section 12 of *the Charities Act 2013* (Cth), 'charitable purpose' has a special legal meaning, developed over the years by the courts and parliament. The courts have recognised many different charitable purposes, and as society changes new charitable purposes are accepted. *The Charities Act 2013* (Cth) currently lists the following twelve charitable purposes:

(e) advancing health;

(f) advancing education;

(g) advancing social or public welfare;

(h) advancing religion;

(i) advancing culture;

(j) promoting reconciliation, mutual respect and tolerance between groups of individuals that are in Australia;

(k) promoting or protecting human rights;

1 Some purposes that are defined as disqualifying purposes under section 11 of the *Charities Act 2013* (Cth) from being charitable, such as the purposes of engaging in or promoting activities that are unlawful or against public policy, or promoting or opposing a political party or a candidate for political office.

(l) advancing the security or safety of Australia or the Australian public;

(m) preventing or relieving the suffering of animals;

(n) advancing the natural environment;

(o) promoting or opposing a change to any matter established by law, policy or practice in the Commonwealth, a State, a Territory or another country (where that change furthers or opposes one or more of the purposes above); and

(p) other similar purposes 'beneficial to the general public' (a general category).

A4. It is optional for charities to register with the ACNC. from the Charity Discussion Paper's perspective, a potential benefit of charities registering with the ACNC is that they are subject to regulations drafted with the particular needs of the charity sector in mind from both users' and preparers' perspectives and from both macro (sector) and micro (entity) perspectives.

A5. Accordingly, charities that elect not to register with the ACNC might be subject to non-sector-specific regulations. For example, a charity that structures itself as a proprietary company and elects to not register with the ACNC is subject to the *Corporations Act 2001* and regulations instead, which, for such an entity, differ substantially from the ACNC regulations, including in relation to the reporting thresholds (see Appendix A3 of *AASB Research Report No 5 Financial Reporting Requirements Applicable to Charities* (October 2017)). In contrast, a charity that structures itself as a proprietary company and elects to register with the ACNC is subject to the ACNC regulations (including reporting thresholds), compliance with which is accepted by ASIC as compliance with ASIC's reporting requirements.

A6. The financial reporting framework applicable to charities that elect not to register with the ACNC will be considered through other Australian Accounting Standards Board (AASB) Research Reports and Discussion Papers as part of the broader framework project in due course, at the same time the applicable reporting framework is considered for non-charities. Other types of entities affected by the current Australian financial reporting framework excluded from the scope of the Discussion Paper include not-for-profit entities that are not charities, for-profit entities, and public sector entities.

APPENDIX B:

B. What's wrong with the current financial reporting framework?

B1. A number of publications have documented issues with, and therefore evidence supporting significant criticisms of, the current Australian financial reporting framework as it applies to charities.

B2. The issues these publications have identified are summarised below (although repetition of issues found has been minimised):

(a) Research into Commonwealth Regulatory and Reporting Burdens on the Charity Sector *A report prepared for the Australian Charities and Not-for-profits Commission* (2014) particularly identified:

(i) unnecessary duplication of financial reporting, through obligations to multiple regulators with different requirements; and

(ii) the current reporting requirements are costly to implement. The report estimates the average Commonwealth burden on charities is approximately $108,000 per annum (large charities bear the brunt of the burden). The burden can be broadly categorised into obligations from funding agreements and obligations from legislative requirements. Based on the results of a survey conducted as part of the research, there is a general view in the sector that regulatory and reporting obligations affect the ability of charities to achieve their charitable outcomes;

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

(i) entities are effectively being given a choice of preparing general purpose financial statements (GPFSs) or special purpose financial statements (SPFSs) (see also Appendix C of this Paper);

(ii) there are significant differences in the quality of SPFSs, due to different minimum requirements and entities adopting different interpretations of those requirements (para. 16); and

(iii) there is an insufficient focus on identifying users and user needs (e.g. some users might be more interested in service performance reporting than financial reporting, and in information about related party relationships and transactions);

(c) University of New South Wales (UNSW) Australia Report prepared for the AASB and Australian Auditing Standards Board (AUASB) on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Sized Charities in 2014-2015 (Yang Y., Simnett R. and Carson E.) (2017) noted:

(i) about 54.2% of large and 23.1% of medium charities produce GPFSs, and about 42% of large and 63% of medium charities produce SPFSs -and some do not state clearly whether they produce GPFSs or SPFSs (page 14); and

(ii) more than 87% of the variation in charities' financial reporting choice between GPFSs and SPFSs cannot be explained by the factors listed in Statement of Accounting Concepts SAC 1 Definition of the Reporting Entity as indicative of the existence of a reporting entity and therefore the need to prepare GPFSs (page 14) – see also paragraphs 31 and 32 of AASB Research Report No 5;

(d) The report entitled *Individual giving and volunteering*, which is part of the *Giving Australia 2016* report series[2], noted that:

(i) some 19.2% of respondents to a survey[3] did not give money to charities, a substantial proportion of which explained it as a lack of trust in the charity – "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" (page 26). Some 48.1% of non-givers indicated that better information on how the money will be spent would influence their future giving (page 27); and

(ii) some participants in focus groups[4] expressed the expectation that government has a role in monitoring the number of charities and setting conditions that lead to an optimal number in the sector. Suggestions for action included stronger monitoring and reporting of income and expenditure, to ensure viability (although several participants cautioned against creating more red tape as an unintended consequence of changing legislation or regulation without effective consultation and research) (page 133);

(e) The Report on the AASB Roundtable *Financial Reporting Framework – Not-for-Profit Private Sector Entities* held in Melbourne on 21 January 2016 noted:

(i) participants expressed concern over the quality of information that not-for-profit (NFP) private sector entities make publicly available, and noted there was scope for improving the application of reporting requirements to such entities (paragraph 5);

(ii) participants suggested that the existing financial reporting requirements might be too complex for many NFP private sector entities preparing GPFSs, with the result that financial statements nominally prepared in accordance with Australian Accounting Standards are not necessarily comparable across NFP private sector entities (paragraph 5); and

(iii) participants noted that many entities produce SPFSs, resulting in financial statements that are difficult to compare due to differing accounting policies and disclosures; and

---

2 McGregor-Lowndes, Myles, Marie Crittall, Denise Conroy and Robyn Keast with Christopher Baker, Jo Barraket and Wendy Scaife, 2017. *Individual giving and volunteering*. *Giving Australia 2016* report series commissioned by the Australian Government Department of Social Services. Brisbane, Queensland: The Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, Centre for Social Impact Swinburne, Swinburne University of Technology and the Centre for Corporate Public Affairs.

3 A quota sample of 6,201 Australians by age group (18 years plus) and gender across all states and territories was conducted.

4 Twenty-five focus groups were conducted, designed to include givers and volunteers from urban and regional areas across as many states and territories as possible and included online data collection where this was most appropriate.

(f) AASB Research Report No 5 identified a number of issues, including the following (which exclude those already noted above):

(iv) the underlying principle for a particular regulatory framework is not readily apparent;

(v) different regulators adopt different boundaries for circumscribing a charity (whether the registered entity or the consolidated group or some other basis), and accept different types of group accounts;

(vi) in relation to reporting thresholds, different regulators adopt different criteria,[5] with different levels of subjectivity involved 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 questionable;

(vii) criteria used may not be the most appropriate for the charity sector. For example, some overseas jurisdiction[6] use expenses rather than revenues as a more stable and appropriate reflection of a charity's operation and significance;

(viii) different approaches are adopted by different regulators in providing relief for expected temporary movements between levels of reporting from year to year;

(ix) in contrast with comparable overseas jurisdictions, only a limited number of GPFS Tiers (two) are available for charities. Despite a greater number of GPFS Tiers, some financial reporting frameworks adopted overseas are regarded as less complex than the Australian approach[7]. Furthermore, no other comparable jurisdiction permits entities to self-assess what their reporting requirements are when lodging publicly;

(x) there is insufficient guidance from regulators on the preparation of required information. For example, the Annual Information Statements (AISs)[8] to be

---

5 Some commentators question their appropriateness (e.g. some think the current reporting minimum threshold for charities of $250,000 set by ACNC is too high, others think it is too low)

6 For example, as documented in Appendix B of *AASB Research Report No 5 Financial Reporting Requirements Applicable to Charities* (October 2017), New Zealand consider the use of expenses as the criterion to define entity size is a more appropriate proxy for cost and benefit in the PBE context than revenue because PBE financial performance is typically driven by expenses rather than revenue.

7 For example, as documented in Appendix B of *AASB Research Report No 5 Financial Reporting Requirements Applicable to Charities* (October 2017), 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 IASB definition) or based 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. For example, if an entity falls into tier 1 it must prepare full GPFSs or if it falls into tier 4 it must prepare Simple Format Reporting – Cash. There is no requirement to separately determine whether a charity is a reporting entity to determine whether SPFSs or GPFSs are prepared.

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

(a) 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.

submitted by a charity to ACNC can be prepared on a cash basis if the charity's revenue is less than $250,000, but there is little guidance on the application of the cash basis and some AIS information requires accrual accounting;

(xi) there are differences in the level of assurance required by different regulators; and

(xii) there are differences in the qualifications of auditors or reviewers required by different regulators.

(xiii) the enforcement of financial reporting requirements is difficult due to the subjectivity of the underlying requirements, as identified by the Parliamentary Joint Standing Committee[9].

(b) '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.

The information required by the AIS is considered in this Paper on the basis that, if information is already being prepared by a charity to satisfy AIS requirements, then some of the options raised in this Paper would not be requesting additional information – see Appendix G of this Paper for a list of the AIS information requirements.

9 paragraph A3.18 of AASB Research Report No 5

APPENDIX C

C. The case for withdrawing the self-assessment of public reporting requirements (SPFSs)[10]

C1. A fundamental issue identified from paragraphs 23 of the Charity Discussion Paper pertinent to a review of the current Australian financial reporting framework applicable to charities registered with the ACNC is the suitability of charities self-assessing their reporting requirements and lodging SPFSs on the public record.

C2. A charity registered with the ACNC that is required to prepare and lodge financial statements currently self-assesses whether it is a 'reporting entity', and therefore whether it is required to prepare GPFSs in accordance with Australian Accounting Standards. If it determines itself to not be a reporting entity, the charity is able to prepare and lodge SPFSs to satisfy the reporting requirements. Consistent with the definition of 'reporting entity' in AASB 1053 *Application of Tiers of Australian Accounting Standards*, a non-reporting entity is an entity that has only users who can command whatever financial statements they require.

How do we compare internationally?

C3. As identified in AASB Research Report No 5, of the seven countries considered in the Report, Australia is the only one that permits charities that prepare publicly available financial statements to self-assess whether they need to comply with all applicable requirements of accounting standards in preparing their financial reports. These judgments are readily open to challenge, leaving directors and management (and accountants/auditors) open to potential disputes or even legal liability.

C4. Internationally, if charities are required to publicly lodge financial reports they are typically required to prepare GPFSs in accordance with clearly prescribed and comprehensive authoritative accounting standards, thus significantly limiting the amount of judgement involved.

C5. The concepts of the reporting entity and GPFSs were introduced in Australia through the publication of Statement of Accounting Concept (SAC) 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* in 1990. Thereby, SAC 1 created a notion of differential reporting in Australia by distinguishing reporting entities from non-reporting entities.

C6. Internationally the notion of 'reporting entity' is used to define the boundary of what an entity should report, once it is required to prepare and lodge publicly financial statements. It is not used to identify who should report.[11] For e.g., internationally reporting entity is defined to include entities that it controls.

---

10 Refer also to paragraphs 31-38 of AASB Research Report No 5.

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

What are the issues with Special Purpose Financial Statements?

C7. SPFSs do not follow a comprehensive framework established by the AASB. Instead directors or others responsible for the preparation of financial statements determine the appropriate level of reporting and to what extent they comply with the recognition, measurement and disclosure requirements of the accounting standards. They may also be subject to legislation or regulation.

C8. For example, Regulatory Guide RG 85 *Reporting requirements for non-reporting entities* (July 2005) issued by ASIC expresses a view that all non-reporting entities lodging SPFSs with ASIC apply all recognition and measurement requirements – and comply with a handful of presentation and disclosure accounting standards (see Appendix A1.3 of AASB Research Report No 5). In comparison, ACNC has not issued an equivalent of RG 85, but requires the same handful of presentation and disclosure accounting standards to be complied with – it does not explicitly address compliance with all recognition and measurement requirements. However, section 60.10(3) of ACNC Regulations requires financial statements and notes give a 'true and fair view', and the determination is required by the directors as well as the auditors in their audit report. Arguably, it would be necessary to apply all recognition and measurement requirements in all applicable AASB accounting standards to satisfy a 'true and fair view' – but this is not a universally held view.

C9. 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 shortcomings of SPFSs include:

C10. The reporting entity concept is not well understood by preparers or users, requires significant judgement and is difficult to enforce. Empirical evidence suggests that the bases on which the assessment is made are not consistent (see, for example, AASB Research Report No 1. Significant time, effort and cost is spent on determining whether an entity should prepare GPFSs. Charities in particular should not be wasting scarce resources on determining what their reporting requirements are and exposing themselves to significantly more risk of being challenged for inappropriate judgements.

C11. Australian SPFSs requirements do not provide a level playing field because similar charities can, and do, provide very different information. Empirical evidence suggests that entities with similar economic circumstances are not consistently preparing GPFSs[12], which reduces comparability and transparency.

C12. The existence of charities that genuinely only have users who can command the financial statements they require (if such charities exist) raises the question of why the financial statements should be required to be publicly lodged. A requirement for such charities to lodge indicates an increased regulator burden with little benefit to users. Accordingly, regulators should only be requiring charities to publicly lodge financial reports that are GPFSs. [This could suggest that the current two Tiers of GPFSs

---

12 Refer to paragraphs 3.1.2 and 3.4.2 and Research Report No 1

contemplated in AASB 1053 [full GPFSs and RDR GPFSs] need to be expanded – see paragraph C16.(c) below).

C13. Even with the addition of regulatory requirements it is not clear users are being provided with relevant information. A particular criticism of SPFSs is the variability in recognition, measurement and disclosures that may be prepared by a charity. For example, empirical research suggests that related party disclosures are not made[13], despite them being one of the most common pieces of information required by users[14].

C14. In summary, SPFSs may have some advantages, such as the benefits to smaller charities through a reduced reporting burden. However, the reduced burden is questionable, as it may be such charities should not be preparing financial statements at all, and where they should be, sometimes comes at the cost of reduced usefulness of information to potential users.

If SPFS are removed what would replace them?

C15. One of the aims of this Appendix (and the Discussion Paper more generally) is to initiate a discussion about developing a framework that removes the current SPFSs approach and replaces it with a more appropriate reporting framework without putting significant additional burden on charities (indeed, reducing the regulatory burden on some charities).

C16. Removal of SPFSs for lodgement on the public record begs the question of what they should be replaced with. It is likely that the solution will require some combination of the following:

(a) reassessing the current financial reporting criteria and thresholds so some of those currently submitting SPFSs should not be required to submit anything or if they are, simpler reduced requirements;

(b) reassessing the current criteria and thresholds so some of those currently submitting SPFSs are required to submit something more useful (not necessarily more onerous, except perhaps for those with significant accountability obligations to the public); and

(c) developing additional Tiers of GPFSs that reflect proportionately the extent of public interest in a charity, i.e. the greater the interest the greater the recognition, measurement, presentation and disclosure requirements. Options for possible tiers are set out in Appendix D, including cash accounting and simplified/modified accrual accounting frameworks.

How did we get here – the reporting entity concept

C17. To understand how Australia has ended up where it currently is, it is worth considering how, in response to SAC 1, the minimum requirements for non-reporting entities

---

13 See, for example, page 44 of AASB Research Report No 1, which found that of its sample of 209 large proprietary companies that lodged SPFSs with ASIC and stated they had applied recognition and measurement requirements in accounting standards, approximately 80 per cent stated they did not follow the disclosures in AASB 124 *Related Parties*.

14 AASB Exposure Draft ED 277 *Reduced Disclosure Requirements for Tier 2 Entities*

lodging with ASIC[15] evolved and how the related application paragraphs contained in the corresponding AASB Standards evolved (see paragraphs 36-38 of AASB Research Report No 5). This section of this Appendix also provides an historical perspective to the discussion in paragraphs 30-38 of AASB Research Report No 5.

C18. The first AASB application paragraph with a scope beyond reporting entities was introduced in AASB 1034 *Financial Report Presentation and Disclosures* to be disclosed in Financial Reports issued in 1996. The issuance of AASB 1034 was part of a joint project between the Attorney-General's Department and the AASB to remove the financial reporting requirements of companies then contained in Schedule 5 of the company legislation and instead rely on AASB Standards. The aim of this was to avoid overlap/duplication of the requirements for the content of financial statements.

C19. Over the years, as more Standards were issued and the content of the Standards became more developed, along with the harmonisation with International Financial Reporting Standards (IFRS standards), the requirements within AASB 1034 were relocated to other standards. The remaining disclosures required by Schedule 5 that were not relocated into any other Standard are currently in AASB 1054 *Australian Specific Disclosures* (which has an application paragraph with a scope beyond reporting entities).

C20. In 2000 ASIC identified issues with financial statements lodged by non-reporting entities – in particular companies not complying with recognition and measurement requirements in accounting standards, regarded by ASIC as noncompliance with the Law. This led to ASIC issuing Information Release [IR 00/025] *Reporting requirements for non-reporting entities*, expressing the view that compliance with all recognition and measurement requirements was needed to enable directors to form a 'true and fair' view. ASIC replaced IR 00/025 with RG 85 after IFRS standards implementation in 2005.

C21. Despite IR 00/25 and RG 85, the AASB received feedback from stakeholders indicating that the high degree of subjectivity involved in determining whether an entity is a reporting entity resulted in entities who should have been preparing GPFSs preparing SPFSs, limiting the usefulness of financial statements to users. For example, the inconsistency between the reporting requirements under the Law and the reporting entity concept in accounting standards was raised as a concern in the Parliamentary Joint Statutory Committee on Corporations and Securities (PJCS), Report on Aspects of the Regulation of Proprietary Companies (2001) – see paragraph A3.18 of AASB Research Report No 5. It was the view of the PJSC that the complexity in determining reporting requirements brought about by the reporting entity concept had implications for the accountability to the public of entities and an adverse effect on the quality of the information that was being lodged on public registers.

C22. In response to the concerns being expressed about the reporting entity concept and SPFSs, AASB Exposure Draft ED 192 *Revised Differential Reporting Framework* (2010) included a proposal to withdraw the use of the reporting entity concept for differential reporting purposes.

15 Although the focus of this Paper is on charities regulated by ACNC (and ORIC and state/territory regulators) rather than ASIC, many of the current regulations applicable to charities have been strongly influenced by existing ASIC requirements and guidance.

C23. However, a decision to remove the reporting entity concept was deferred in response to the mixed views received from constituents on ED 192.[16] Although the view was expressed that the use of the reporting entity concept does not result in the intended outcomes and was not a robust criterion for differential reporting purposes, contrasting views received commented that there was no evidence that a major problem existed with the reporting entity concept.

C24. AASB Research Report No 1 provided evidence of a number of issues with the use of the reporting entity concept by entities and the quality of the SPFSs being prepared and made available to the public.

C25. Significantly, AASB Research Report No 1, after reviewing a sample of SPFSs, identified that a key issue was the substantial variation in the information disclosed. Research Report No 1 concluded that the quality of disclosures made by those lodging SPFSs varies and some appeared to be poor, impeding the usefulness of the SPFSs. This is a strong criticism of SPFSs, in that the information presented is not comparable with other financial statements due to the variability and that the lack of disclosures hampers usefulness of reports.

16 ED 192 also proposed introducing a second Tier of GPFSs (RDR GPFSs)

APPENDIX D

D. Factors that could be used to answer the 'who should publicly report' question

Introduction

D1. The objective of this Appendix is to help inform the discussion about possible ways of specifying which charities should be required to prepare GPFSs (however specified) and lodge them on a public register. The principles should be set so that it is clear financial statements are lodged only where there are users who cannot command the financial statements they need.

D2. Any framework that is developed to replace the current framework could mix and match from a range of possible:

(a) underlying principles that could underpin decisions about the 'who' question (the focus of this Appendix) and the 'what' question (the focus of Appendix E);

(b) criteria that could best reflect the chosen principle(s);

(c) thresholds that could best reflect the chosen criterion/criteria; and

(d) approaches that could best operationalise the chosen threshold(s).

D3. The possible alternative principles, criteria, thresholds or ways in which the thresholds might be operationalised identified in Appendix D are not an exhaustive list of factors that could underpin who should report. Furthermore, those that are listed are not necessarily mutually exclusive, and more than one principle could be selected to determine who should report.

D4. The advantages and disadvantages listed for each factor are also not exhaustive, but give some insight into the types of issues that should be considered in assessing their suitability for a revised framework in particular circumstances.

D5. Although this Appendix is presented separately from Appendix E, there is expected to be a significant relationship between the 'who' and the 'what' questions. In particular, a broad 'who' would mean more charities would be required to report and therefore it is likely that more Tiers of GPFSs (i.e. the 'what') would be required to help facilitate proportionate regulation. The inverse is also expected to be true, whereby a narrower 'who' would result in the need for fewer Tiers to be available to cater for fewer cohorts of charities.

D6. Furthermore, the decision about a minimum reporting threshold (e.g. only charities with revenue above $250,000 are required to prepare and lodge a financial report) might be based on a principle of cost-benefit determined by reference to a proxy for size. However, a decision then needs to be made whether all entities above that threshold would be required to present the same GPFSs. A decision could be made that a charity that is a recipient of government privilege should be subject to a more onerous Tier of GPFSs than other charities; but perhaps those other charities that have greater economic significance should be in turn be subject to a more onerous Tier of GPFSs than a charity that is less economically significant.

D7. This Section provides some background to each of the factors that could be used in a comprehensive improved framework. 'Options for comprehensive financial reporting frameworks for charities' provides a sample of such frameworks.

1. Principles that could underpin decisions about the 'who' question

D8. When determining whether an entity is likely to have general purpose users who cannot command for themselves the financial statements they require, there are two key considerations as set out in SAC 1:

(a) The current or potential general purpose external users for an entity. For charities these include donors, creditors and beneficiaries. The greater the number of users the more likely the need for general purpose financial statements ('specific public interest)

(b) Entities with economic significance such that the general public has an expectation that they will report publicly GPFSs (public interest). For charities these might be those of such economic or social significance that their failure would have significant implications for the economy, or tax exemptions provided by society are so significant that the public needs information to be able to assess whether the benefits outweigh the costs of providing the exemption. The greater the public interest, as represented by economic or social impact, the more likely the need for general purpose financial statements ('general public interest').

Another consideration is whether certain types of charities based on their operations (such as operating in a high risk country) have a greater public interest. For example charities registered as a Public Benevolent Institution receiving specific charitable tax concessions, or charities that carry out activities that may be at a higher risk of abusing individuals or organisations that may be inadvertently raising funds to finance or support terrorism activities[17] may have more significant public interest in their financial statements.

The above factors may be an effective way to apply differential regulation for Australian registered charities. Differential regulation is the segmenting of the population of charities by the regulator to balance the costs to preparers with user needs.[18] The focus of regulator actions can be directed to those charities which have a higher level of public interest.

D9. Either or both of these key considerations could be used to determine an appropriate principle for determining who needs to prepare and lodge GPFS. The IASB has also identified a principle of public accountability to determine who should prepare full GPFS. In addition regulators will also adopt a cost/benefit overlay to ensure that the regulatory burden is appropriate.

---

17 ACNC website provides further guidance and tools to help charities reduce the risk of terrorism, fraud and other forms of abuse, www.acnc.gov.au/protect

18 Cordery, Carolyn J., Dalice Sim, and Tony Zijl. "Differentiated regulation: the case of charities."

D10. The following discussion considers each of these possible principles in turn.

1.1 Number of current or potential general purpose users

Overview

D11. Under this principle, where a charity has sufficient numbers of general purpose users, they would have an obligation to lodge GPFSs on the public record. This principle reflects a view that there exist users or potential users of financial information who are not in a position to demand information tailored to their particular information needs and therefore regulators should require GPFSs to satisfy their needs.

D12. The types and needs of users in the not-for-profit sector differ from users in the for-profit sector. The AASB's Framework for the Preparation and Presentation of Financial Statements (the Conceptual Framework) Paragraph AusOB2.1 identifies the following types of users for charities:

- Existing or potential resource providers (such as lenders and other creditors, donors, members and taxpayers);
- recipients of goods and services (such as beneficiaries, members of the community); and
- parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament).

D13. The types of decisions that these users make also differ from for-profit users. For example, parliaments decide on behalf of constituents whether to fund particular programs for delivery by an entity, donors decide whether to donate resources to an entity, and recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative supplies.

D14. Paragraph AusOB3.1 of the Framework clarifies that users of NFP entity financial information are not concerned with obtaining a financial return on an investment. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial). Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future.

Relative merits of the principle

Advantages

- Focuses on the needs of users and whether they exist or could potentially exist for an entity.
- Easy to explain why need to lodge general purpose financial statements
- Consistent with the Conceptual Framework

Disadvantages

D15. Not clear what a 'sufficient number of users' would be to require GPFSs. On one level users could be expected to be all taxpayers given the significant tax exemptions provided to charities, resulting in all charities having 'sufficient' general purpose users. However, could be restricted to the number of individually identifiable general purpose users (those that have become members, donated, currently employed or volunteer, or directly receive funds or other resources) and this used in conjunction with the other principle of economic or social significance. The *Corporation Act 2001* defines proprietary companies as a small or large proprietary company.[19] The *Corporation Act 2001* identifies entities with more than 50 'investors' as warranting more onerous obligations than those below, and those entities with more than 100 members are generally considered disclosing entities[20] with more onerous obligations. Charities do not always have the equivalent of members, and could easily have more than 100 donors and volunteers.

D16. If restricting to individually identifiable users, the perception is still that most of the users would not specifically look at financial statements for their information regarding the charity (e.g. the argument that a donor who makes a $2 donation is not going to look at the financials, but has an expectation that somebody else will) – therefore a regulator needs to stand in their place.

D17. The exempt proprietary classification system for corporate entities was based on this concept (financial statements where prepared and lodged only if there are external investors). However, regulators moved away from this concept as investors are not the only user of financial statements.

D18. Difficult for a regulator to enforce, and may change significantly depending on a charities activities.

D19. The principle itself does not provide guidance on whether there should be different GPFSs Tiers and what those Tiers should be

1.2 Public Interest

Overview

D20. Under this principle, where a charity is deemed to have 'public interest' the charity would have an obligation to lodge GPFSs on the public record.

D21. A charity would be considered to be of public interest if:

(a) the public at large has an interest in the charity, given the economic and social significance of the charity and/or the level of benefits provided to the charity by way of grant, donations and/or tax benefit; and

---

19 Section 45A *Corporations Act 2001* defines 'propriety company' as small or large.

20 A 'disclosing entity' is defined in section 111A of the *Corporations Act 2001*.

(b) the interest of the public can be satisfied through information prescribed within the scope of a GPFSs (see Appendix E of this Paper for a discussion of possible GPFSs Tiers).

D22. Under this principle, the public rather than any particular interest group is the targeted potential user of GPFSs. For example, if a charity receives no government funding or tax exemptions or other benefits there is unlikely to be any public interest. However, if a charity has received government funding, tax benefits or public donations, the public are likely to be interested in the charity.

D23. However, the public might have a less direct interest in the charity. For example, even in the absence of public funding of a charity, a charity's activities might be so pervasive and the public so dependent on them (for example, if the charity were to cease operating there would be a significant adverse social or economic impact on the public) there is a public interest in the charity.

D24. The interest could arise from the charity receiving public money, certain privileges or a general interest in how the charity performs, and relate to any matter that could be satisfied through information (e.g. financial viability, service performance, budget to actual comparisons) that could be prescribed within the scope of GPFSs.

D25. A higher level of public interest may arise from factors as described in paragraph D8(b) such as the country that the charity may undertake their activities may expose the charity to a higher risk, thereby representing a higher level of public interest.

Relative merits of the principle

Advantages

- Explicitly acknowledges the public's interest in the activities in the charity sector, regardless of whether money has been given by that user.
- Explicitly acknowledges stewardship responsibilities of charities. Consistent with general perception that should be accountable to the public more broadly.
- Avoids the need to identify a 'sufficient' number of identifiable general purpose users. For charities, if the broader view of general purpose users is adopted will result in the same outcome.
- Principle is easily understood by the sector. You receive a privilege you need to report something.
- Consistent with the Conceptual Framework.
- Consistent with broader regulatory best practice frameworks in that regulators should only regulate if there is a significant public interest[21]
- Can draw upon materials from other countries identified in Research Report No. 5 – e.g. the South African Public Interest Score model or New Zealand Public Accountability).

---

21 Cordery, Carolyn J., Dalice Sim, and Tony Zijl. "Differentiated regulation: the case of charities."

- Consistent with the ACNC's object to maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency that everybody should report.

Disadvantages

- It is likely to be the broadest principle as, un-moderated, it would be expected to lead to virtually all, if not all, charities having an obligation to prepare GPFSs. Accordingly, to the extent differential reporting is appropriate, it would need to be effected through specification of what should be reported (i.e. through different/proportionate Tiers of GPFSs).
- Might be seen as a basis for imposing additional reporting requirements on charities by virtue of the nature of their status as charities. However, many for-profit entities are also recipients of public money and therefore should also be subject to an equivalent standard of accountability – if not, there is an un-level playing field.
- Maybe confused with the principle of public interest entities used for ethical considerations by the Accounting Professional and Ethical Standards Board.
- Difficult to determine criteria that would represent public interest that can be easily regulated (see section 2)
- The principle itself does not provide guidance on whether there should be different GPFSs Tiers and what those Tiers should be

1.3 'Public Accountability' (as defined by IFRS)

Overview

D26. Under this principle, where a charity has 'public accountability' (as defined by IFRS) the charity would have an obligation to lodge GPFSs on the public record.

D27. A charity would have public accountability if (as defined by IFRS):

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.

D28. The IFRS definition of public accountability was drafted with a for-profit focus, meaning this principle would require commentary accompanying the definition to provide clarification of the definition in a charities context (see paragraphs B8 and B9 of the Research Report No 5).

Relative merits of the principle

Advantages

- The IASB definition is available and can be leveraged off, avoiding the need to draft something new.

- Precedent of use in South Africa for their public interest scorecard
- This principle can be easily combined with other principles

Disadvantages

- Excludes charities that have not received ‘public’ money
- On its own, it may be too narrow to capture an appropriate group of charities[22].
- The AASB has previously found this criteria to be difficult to apply in a NFP context.
- The for-profit focus of the terminology may be confusing in a NFP context
- The subjectivity of the definition may result in charities intended to be captured not being captured.

1.4 Cost-benefit

Overview

D29. Under this principle, where an assessment (by regulators rather than preparers) is made that the benefits (typically to users) of GPFSs would outweigh the costs (typically to preparers) a charity would have an obligation to lodge GPFSs on the public record. Typically a tiered approach would reflect:

- smaller charities have limited resources and their associated financial reporting obligations should be commensurate.
- The greater the level of specific or general public interest the greater the level of reporting requirements.

D30. The Conceptual Framework, paragraphs QC35-QC39 discuss the balancing of cost and benefits, noting that cost is a pervasive constraint on the financial information that can be provided by GPFSs and that it is important that the costs are justified by the benefits.

D31. In determining who should report, the benefits and the costs of reporting by charities should be weighed up, and reporting only required by charities where it is assessed that the cost of preparing a GPFS is outweighed by the benefits.

Relative merits of the principle

Advantages

- Guidance exists in the Conceptual Framework
- The same principle can also be applied to the ‘what’ question – ensuring internal consistency of a revised framework that applies the same principle to both the ‘who’ and the ‘what’ questions

---

22 AASB 1053 *Application of Tiers of Accounting Standards* BC 56

- Consistent with transaction neutral principle.

Disadvantages

- The determination of cost is subjective. The determination of cost by one cohort of charities may not be considered a cost to another cohort, meaning that a single determination of cost may not be applicable to all situations
- Although determination of cost is subjective, the determination of benefits is even more so. Costs can often be more readily quantified – and those with concerns about cost are often more vocal/organised than those who stand to benefit the most from high quality financial reporting. Therefore, those with concerns about cost might be able to have a greater influence on those making decisions about who should report
- May not give sufficient focus to the general public interest in charities

2. Criteria that reflect the principle(s) underpinning decisions about the 'who' question

Introduction

D32. A principle is unlikely to be specific enough as a practical basis for identifying who should prepare and submit GPFSs on the public record. The following considers the types of criteria and thresholds that could reflect the different principles listed in the 'Options for Comprehensive Financial Reporting Frameworks for Charities' above – as a way of putting a greater level of objectivity into answering the 'who' question. The aim would be to identify a criterion/criteria that is consistent with the chosen principle(s), and a threshold(s) that is consistent with the chosen criterion/criteria.

D33. It is not necessarily the case that only one criterion should be used. However, a multiple criterion approach could add to complexity. An approach based on the South African Public Interest Score (see paragraph B61 of Research Report No 5) could be considered as a way of reducing complexity where a number of criteria are used.

D34. 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.

2.1 Number of current or potential external general purpose users

D35. To apply the principle of number of current or potential external general purpose users the criterion is likely to be based on measuring the number of individual users.

Possible consistent thresholds

D36. The number of external users could be measured by the number of individual users (including any or all of the following)

- number of employees

- number of volunteers
- number of donors
- number of beneficiaries
- number of members
- other

Relative merits of the criterion

Advantages

- Partially consistent with the Conceptual Framework.
- Disadvantages
- Difficulty in determining user groups in the not-for-profit sector. Perception that these users are not looking at financial statements for their information.
- Subjective criterion which may allow charities to avoid reporting requirements.
- Does not reflect the broader public interest element of the Conceptual Framework

2.2 Public interest

D37. To apply the principle of public interest, the following criterion might be used as surrogates, either alone, or in combination:

(a) Economic significance

(b) Social significance

(c) Charities registered with the ACNC

(d) Legal structure

2.3 Economic significance

Overview

D38. The criterion of economic significance is likely to be measured by economic impact on the community as a whole if the charity no longer operated. As this measure is not readily determinable, a surrogate measure is needed. Size is typically used as a proxy. However, consideration of specific factors such as location of operation [regional or metropolitan], jobs provided by the charity, the service provided to direct beneficiaries might also be relevant.

Possible consistent criteria

D39. Economic significance could be measured by one or a combination of more than one of the following, designed to reflect how much government would otherwise have to provide if the charity was not able to:

- Revenue (donations and grants versus all sources of revenue, determined on a cash or accrual accounting basis)
- Expenses (cash expenditure v expenses determined by accrual accounting)
- Total Assets (determined on a valuation basis at assessment date, versus determined in accordance with accounting standards)
- Total Liabilities (determined on a valuation basis at assessment date, versus determined in accordance with accounting standards)
- Employee benefits (salaries paid versus determined in accordance with accounting standards)
- Number of beneficiaries (those dependent on the goods or services provided by the charity)

D40. A key consideration in determining economic significance is the basis on which the assessment is made – consolidated group, individual 'registered' entity or a segment of a group or registered entity. Consideration of consolidated group vs individual reporting will be the subject of a separate AASB Research Paper.

D41. Consideration needs to be given to the level of subjectivity that would be appropriate, particularly the extent to which an understanding of accounting standards would be required to determine the amount. For example, thresholds of revenue, expenses, assets and liabilities might entail the application of relevant recognition and measurement requirements in accounting standards.

D42. Information required might already be determined for other purposes and therefore not entail significant effort.

D43. The Conceptual framework identifies revenues, assets, liabilities and employee numbers as possible measures of economic significance. The current ACNC requirements are based on revenues only. The current Corporations Act test[23] for small/large proprietary companies is based on revenues, assets and number of employees.

D44. Revenues may not be the most appropriate measure for a charity. Revenues may be lumpy, depending on when and in what form donations and grants are received and a charity has less control over them.

D45. Expenses are likely to be a more consistent and appropriate representation of a charity's activities and economic impact as a charity is likely to have more control over them. However, Expenses may also be lumpy, as may depend on what revenues are obtained

---

23 The *Corporations Act 2001* defines small and large propriety companies under section 45A.

each year. Expenses may also provide a proxy for how much government might otherwise have to pay should a charity no longer operate. Expenses maybe more straightforward to determine than revenues as they typically have less accounting issues in the charity sector.

D46. Total assets are likely to be understated given the value of brand name and reputation that are not current captured currently in either financial reporting or other reporting, and unlikely to be an appropriate measure of economic significance.

D47. Total liabilities are unlikely to be an appropriate measure of economic significance as most charities avoid external debt and rely on donations and grants, which might give rise to a performance obligation, but generally are not liabilities.

D48. Employee benefits or numbers, given the large value of volunteer services that are not captured currently in either financial reporting or other reporting, and considering that often employees are prepared to accept salaries less than may be achievable in the private sector for altruistic purposes are unlikely to be appropriate measures of economic significance of a charity.

D49. Number of beneficiaries, whilst important to charities, looks at only one group of potential users of charity financial information. Additionally information on number of beneficiaries is not currently reported and may be difficult to capture.

Relative merits of the criterion

Advantages

- Only charities assessed as having an economic impact required to report
- If specified in an objective way, it should be operationally easy to draw a line between who reports and who does not

Disadvantages

- Need to determine what the best proxy is; revenue, expenses, or combination thereof. Difficult to determine what the right combination of measurements should be and what levels of reporting are required.
- Charities may ‘game’ the system to avoid being classified as economically significant.
- May require updating to shift what is determined to be economically significant as macro-economic circumstances change (maintenance of threshold).
- May be difficult for smaller entities to determine whether they meet a criteria, if they are based on accounting standard concepts. It maybe that at lower levels criteria is based on a cash based criteria rather than an accrual expense criteria.

2.4 Social significance

Overview

D50. This criterion focuses on the importance of the charity to the sector and to the public in terms of its social impact (as distinct from its economic impact). This can be thought about as the non-financial impact of a charity no longer operating.

D51. Economic significance represents the cost to the government to replace the service provided by the charity whereas the social significance is the intangible factors that beneficiaries and other stakeholders take into account. Social significance includes the society’s attitude based on life factors such as health, safety or recreation, and the overall benefits can result in both social impact on the society as well as economic impact. For example, two charities may support the homelessness but if one charity supports homelessness specific to the lesbian, gay, bisexual, transgender and intersex group community, this may have specific social impact for that particular societal group compared to the other charity.

D52. Social significance can also impact on a donor’s attitude and their personal attachment to a charity. For example a member of the public regularly donates to the same charity, but if that same charity no longer operates, it may be unlikely that the donor would donate to another charity. This is supported by research undertaken by the ACNC in 2015[24] on public confidence and trust in charities. The ACNC research found that donors tend to

24 ACNC has a research on 2015 public trust and confidence survey report http://www.acnc.gov.au/trustandconfidence

support charities that they trust and that trust was driven by a number of factors which included personal connection, endorsement by a trusted source and good reputation.

D53. Social importance may be reflected by a number of factors, such as the number of beneficiaries of a charity's services.

Possible consistent thresholds

D54. The same thresholds listed under 'economic significance' above could be chosen for 'social significance', and the same associated issues would need to be considered.

Relative merits of the criterion

Advantages

- Only charities which would have a social impact in their respective community are required to report
- Reflects the importance of the charity's purpose and social impact to the public

Disadvantages

- Subjective – and particular more subjective than the 'size' criterion. Difficult to distinguish from economic significance.
- No clear definition

2.5 Recipient of any privileges from government

Overview

D55. Under this criterion the need to lodge GPFS is dependent on whether a charity receives any privileges from government, independent of corporate structure.

Possible consistent thresholds

D56. Receipt of privileges from government could be measured by one, or a combination of more than one, of the following, designed to reflect the level of interest the general public may have in assessing the benefits provided:

- deductible gift recipient
- limited liability for any debts in the event that the charity should fail
- government funding
- liquor licence
- gaming licence
- other

Relative merits of the criterion

Advantages

- Operationally simple and objective, capturing charities who receive a government privilege
- All charities registered with the ACNC are eligible to apply for some forms of government privilege, however they do not automatically receive them when registered. This would mean only entities that have gone the extra step to apply for privilege would be captured.

Disadvantages

- May scope in a large number of charities and therefore give rise to the need for additional Tiers of reporting.
- Charities may have applied for privileges when registering with the ACNC but never used them – a decision would need to be made whether the criterion would be better expressed as ‘eligible for privileges’ rather than ‘recipient of privileges’

2.6 Legal Structure

D57. Charities operate under many legal structures, such as:

- company limited by guarantee
- proprietary company
- indigenous corporation
- incorporated association
- co-operative
- unincorporated structures
- other

D58. For legal structure to be a valid criteria under the public interest principle there would need to be evidence that charities received different public benefits or would generate different levels of economic or social significance based on the different types of legal structure. As this is not evident, and this would be inconsistent with basic principles of considering substance rather than form when determining regulatory requirements, this criterion is not discussed further.

2.7 Charity

Overview

D59. Under this criterion the very fact an entity is a charity registered with the ACNC would be sufficient to trigger lodgement of GPFS.

Relative merits of the criterion

Advantages

- Operationally simple, all charities registered with the ACNC prepare some form of GPFS
- Consistent with the broad notion of accountability that charities are perceived to have to the public

Disadvantages

- Broad criteria, may require additional tiers of reporting to support it to ensure financial reporting requirements are proportionate to meet the cost/benefits considerations.

3 How to operationalise the chosen criteria(s) with thresholds

D60. Regardless of which criteria, or combination of criteria are selected, in order to apply the cost-benefit principle there will need to be tiers either distinguishing between:

(a) Those that need to publicly lodge GPFS versus those that have no reporting requirements and/or

(b) For those that need to lodge GPFS the appropriate form of GPFS, requiring an appropriate tiering of GPFS reporting.

D61. The appropriate number of tiers will need to be determined and these ‘tiers’ will require appropriate thresholds and matching with the type of GPFS reporting and assurance requirements. For example:

(a) if ‘charity’ is selected as the criterion, all charities registered with the ACNC would be required to lodge GPFSs. If four tiers are considered appropriate, the thresholds applied may be based on level of expenses, that determine which charities need prepare:

- a cash flow statement (tier 1 expenses < A),
- GPFS Modified Accrual (tier 2 expenses <B>A)
- GPFS Reduced Disclosure (tier 3 expenses <C>B)
- GPFS Full (tier 4 expenses >C)

D62. Tiers and thresholds will need to be operationalised in a way that ensures the framework is simple and clear and internally consistent. Tiers and thresholds will also need to work in conjunction with the types of GPFS reporting identified in Appendix E and the levels of assurance in Appendix F. Tiers and thresholds should be objective and transparent, so that it is easy to identify when changes should be made. Tiers should be proportionate with the greater the level of public interest, the greater the level of reporting.

D63. The maximum possible tiers of GPFS and therefore tiers for who should publicly lodge GPFS to select from are:

(a) No financial reporting

(b) Cash flow statement (possibly including service performance report)

(c) Modified accrual (some recognition and measurement modifications to reflect size and nature of charity)

(d) Reduced disclosure (some disclosure modifications to reflect size and nature of charity)

(e) Full recognition, measurement and disclosure.

D64. The more tiers selected the more complicated the framework is to understand and maintain. For example New Zealand has four tiers which would require the regulator to understand all four tiers and professionals in the sector to know all four tiers and education to cover all four tiers.

D65. When determining thresholds to determine tiers, options include:

(a) using percentiles of the population. For example, if there are 4 tiers, each tier is based on a quartile of the population. However, there might be concerns about:

(i) gaming around a bright line
(ii) the need to monitor and maintain the line over time[25].

(b) where there is a clear clustering use this to determine the thresholds. For example, if there are 2 tiers, the threshold is the median.

(c) Setting a percentage of entities that should not lodge GPFS based on cost benefit considerations

(d) A percentage of an external factor such as Gross Domestic Product (GDP)

D66. As noted in paragraph X above, there is also the question of how the boundary of the entity should be circumscribed in assessing a threshold. Options include:

(a) individual 'registered' entity level; or

(b) consolidated entity level.

D67. Substance over form favours (b), and is consistent with current AASB requirements – AASB 10 Consolidated Financial Statements. Paragraphs A1.13-A1.22 of Research Report No 5 outline the current ACNC requirements. The Report also summarises the ORIC requirements (paragraph A1.33).

25 For example, the Explanatory Memorandum accompanying the most recent amendment to the proprietary company financial reporting requirements explains that the amendments were made to monetary thresholds, which had not been updated since 1995, because they became too low a level to determine economic significance and had led to an increasing number of non-economically significant entities being subject to the reporting requirements (see Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007 Explanatory Memorandum).

Moving between tiers

D68. Another issue to be resolved in operationalising any chosen threshold is charities moving in and out of being required to prepared GPFSs (and different Tiers of GPFSs). In Australia, unusual or one-off events that mean a charity exceeds a tier threshold require the entity to adopt the new tier requirements unless they have applied for and been granted by the regulator a specific exemption.

D69. Internationally, there is generally a requirement to have exceeded the relevant threshold for at least 2 years before being required to move between tiers. This would seem to be a more appropriate requirement and avoid the need for regulators to continually exercise discretion in requiring movement between tiers.

APPENDIX E

E. Possible types of GPFSs

Introduction

E1. As noted above, many of the issues relevant to answering the 'what' question are the same issues relevant to answering the 'who' question. Indeed, the two issues are inextricably linked – what should be reported is an integral part of who is to report. Accordingly, this Appendix identifies possible types of GPFS that might be publicly lodged.

E2. Appendix F also addresses assurance issues, as the determination of what to report is often interrelated with the level of assurance to be provided. The types of engagements and level of assurance available is discussed further in Appendix F.

1 Full recognition, measurement and disclosure

Overview

E3. This is Tier 1 under AASB 1053, which specifies full recognition, measurement, presentation and disclosure requirements including the consolidation of subsidiaries.

E4. Presently, no charities are required to prepare full GPFSs by regulators or by the AASB (through the application of AASB 1053), however, many charities choose to prepare and lodge full GPFSs.

E5. When considering this option, the AASB/regulator would need to determine whether certain charities should be required to prepare full GPFSs, and through either legislation or amendments to AASB 1053, override the specification in paragraph 13(a), that all NFP private sector entities (that are reporting entities) prepare Tier 2: RDR GPFS as a minimum.

Relative merits of the Tier

Advantages

- Already established Tier, which is maintained by the AASB.
- Includes modifications through Aus paragraphs that take into account NFP specific issues in a transaction neutral way.
- A number of charities already prepare full GPFSs at their own discretion.
- Perceived transparency benefits through maximum disclosure.
- Comparability with private sector entities that have the most public interest and or general purpose users

Disadvantages

- Users of financial statements may not be sophisticated enough to understand them.

- Preparers may not be sophisticated enough to be able to prepare them.
- Costs of preparing full GPFSs may outweigh the benefits in the NFP sector.

Audit and assurance considerations

E6. Given this tier provides the highest level of disclosure, it is likely that the most appropriate type of engagement would be an audit which provides the highest level of assurance (reasonable).

E7. Other engagement types such as a review or agreed-upon-procedures may not be appropriate for this tier given the reduction in the scope and nature of the work and the level of assurance provided (limited or none). An engagement which does not provide the highest level of assurance, may not appropriately reflect that these charities have the highest level of public interest in them which requires the preparation of full financial statements

2 Full recognition and measure and reduced disclosure

Overview

E8. This is currently Tier 2 under AASB 1053, which specifies full recognition, measurement and presentation with reduced disclosure requirements and includes consolidation of subsidiaries.

E9. The AASB (through the application of AASB 1053) sets RDR GPFSs as the minimum for not-for-profit private sector entities that are reporting entities. A number of charities who have assessed themselves to be reporting entities prepare and lodge RDR GPFSs.

Relative merits of the Tier

Advantages

- Already established Tier that is maintained by the AASB.
- Includes modifications through Aus paragraphs that take into account NFP specific issues in a transaction neutral way.
- A number of charities are already required to prepare RDR GPFSs.
- Perceived transparency and comparability benefits through a higher specified level of disclosure, than SPFSs and clearly specified recognition and measurement requirements.

Disadvantages

- Users of financial statements may not be sophisticated enough to understand them.
- Preparers may not be sophisticated enough to be able to prepare them.
- Cost of preparing GPFS – RDR may outweigh the benefit for certain groups of charities.

- The current RDR is not sufficiently distinct enough from full GPFS to make preparing RDR a worthwhile reduction.

Audit and assurance considerations

E10. Given the similarities with the full GPFS tier, it is likely that the most appropriate type of engagement would be an audit which provides the highest level of assurance (reasonable) to appropriately reflect the highest level of public interest in the type of entity required to prepare full GPFSs.

E11. Other engagement types such as a review (limited assurance) may not be appropriate for this tier given the reduction in the scope and nature of the work that would be performed by the auditor or assurance practitioner.

3 Simplified recognition, measurement and disclosure

Overview

E12. This would be a new Tier of GPFSs, which specifies some recognition and measurement concessions and further disclosure reductions, when compared to Tier 2. This Tier may include the consolidation of subsidiaries. As this is not a current Tier, presently no charities prepare and lodge this form of GPFS. The requirements for this Tier would be located in one comprehensive standard, rather than multiple standards.

E13. When considering this option, the AASB (in consultation with the regulator and other stakeholders through due process) would need to determine the modifications to be made to recognition, measurement and disclosure requirements to ensure a balancing of cost-benefit.

E14. This paper does not fully explore this option and a separate AASB Staff Paper will be prepared in due course. For illustrative purposes, this Tier may represent a NFP version of IFRS for Small and Medium-Sized Entities (IFRS for SMEs), approaches adopted in different jurisdictions such as New Zealand, United Kingdom or South Africa.

E15. IFRS for SMEs has been prepared with a for-profit focus so would require the AASB to address the appropriateness of IFRS for SMEs in an NFP context. The NZ Tier 3 model is a separate suite of standards 59 pages in total, split into sections covering accounting for; revenue, expenses, assets, liabilities and accumulated funds as well as providing disclosures and illustrative examples.

Relative merits of the Tier

Advantages

- Already established framework in the UK (Statement of Recommended Practices), IASB (for-profit) and New Zealand which can be leveraged.
- Potential for transition costs to be reduced for preparers moving from SPFSs.
- May result in improved consistency and comparability of reporting by charities through establishing a comprehensive framework of recognition, measurement, presentation and disclosure requirements for entities that traditionally have done SPFSs.

- Perceived improvement in transparency of the sector by users and general public as there is a higher threshold of disclosure than is currently required of SPFSs.
- May result in more understandable reports for less sophisticated users; however IFRS for SMEs is based on the same principle as full IFRS, in that users considered are expected to have reasonable knowledge of business and economic activities.
- May result in a long-term cost reduction for less sophisticated preparers, although it is expected that there would be short-term transition costs. Location of requirements in one standard likely to be easier to understand and implement.

Disadvantages

- Framework adopted from another jurisdiction may require significant more work for Australia specific circumstances (e.g. IFRS for SMEs has a for-profit entity focus so may require substantial rework to ensure that it is applicable to charities).
- Additional maintenance costs through the introduction of Standards which may differ from the current suite of AASB standards.
- May result in additional short-term costs during the transition period. These transition costs include educating preparers and users, the accounting profession and regulators.
- Implications for University courses and training of the profession through a new suite of standards being introduced which has not been taught before.

Audit and assurance considerations

E16. Given the focus on cost reduction in this Tier, it may be appropriate to offer a choice in relation to the type of engagement, allowing either an audit (reasonable assurance) or review engagement (limited assurance) to be performed.

E17. Other engagement types such as an assurance engagement (reasonable or limited assurance) may not be appropriate given that the report is on historical financial information. An agreed-upon procedures engagement (no assurance) is unlikely to be suitable given the nature of the subject matter.

4 Cash-based GPFSs

Overview

E18. This would be a new Tier of GPFSs, which specifies recognition, measurement, presentation and disclosure requirements on a simplified cash-basis. The requirements for this Tier would be located in one comprehensive standard, rather than multiple standards, and would likely include a template and linkage with the National standard chart of accounts (NSCOA)[26] which provides a common approach to how reporting

---

[26] The NSCOA is a data entry tool and data dictionary for charities and other NFP organisations. The NSOCA was originally developed by the Queensland University of Technology and was given to the ACNC to manage in June 2013. For more information visit www.acnc.gov.au/nscoa

information is defined and captured. The NSCOA definitions could be used to develop the templates and allow a consistent approach to preparing the simplified cash-based GPFSs.

E19. As this is not a current Tier of GPFS, no charity prepares and lodges financial statements on this basis. However the data required to be prepared by all charities to complete the AIS (which can be done on an accruals or cash-basis) would require preparation of a simple cash flow statement– see Appendix H of this Paper. In addition, many charities' constitutions and governing documents require some financial reporting, likely to be a minimum of a statement of income and expenditure.

E20. When considering this option, the AASB and relevant regulator(s) would need to determine which charities should be required to prepare cash-based GPFSs, either through legislation or amendments to AASB 1053 to introduce another tier.

E21. Similarly to the modified accrual-based GPFSs, an example is the NZ Tier 4, which is a complete suite, 31 pages in total. The principles for recognition and measurement are simple and in the terms of cash transactions. Disclosures such as commitments, guarantees and related party transactions are required, even under this simplified model, along with a service performance report

E22. Alternatives would be to require a cash flow statement only or a cash flow statement and a service performance report (see below).

Relative merits of the Tier

Advantages

- Already established framework in New Zealand, Canada and UK which can leveraged.
- Improve consistency and comparability of reporting by setting a framework for entities which traditionally have done SPFSs.
- Simple one-stop-shop for reporting by charities which fall into this category.
- Preparing financial statements on a cash-basis may be more understandable to preparers without an in-depth knowledge of accounting such as volunteers.
- The financial statements may be more understandable to less sophisticated users as all items are discussed in terms of cash.
- Assists charities to prepare the ACNC AIS. Effectively they currently need to prepare this in order to fill out the AIS, so would assist charities to more cost effectively meet their current requirements.

Disadvantages

- Additional Tier to be developed and maintained by AASB.
- Difficult transition period for some entities to understand reporting requirements, short term increase in costs.
- Implications for educating the profession.

Audit and assurance considerations

E23. Given the simplified nature of this tier, it may be appropriate to offer a choice in relation to the type of engagement, perhaps setting targeted procedures focusing on controls over cash as the minimum engagement required under this tier. This allows a charity to voluntarily choose to do a review or audit.

E24. The scope/content of the agreed-upon-procedures will need to be set out clearly by the regulator to allow the practitioner to prepare procedures which meet the requirements.

5 Other possible charity specific reporting issues to consider

E25. The following possible options may be considered as additions to the general purpose tiers above. For example, the combination of cash-based GPFSs with service performance information.

Service performance information

Overview

E26. Feedback to the AASB indicates that financial statements on their own are unlikely to provide all the information that a general purpose user requires. Service performance reporting of some form is often noted as important. A number of research[27] conducted overseas have indicated that users primarily prefer non-financial information when deciding where to make donations. One study indicated that the six highest ranked information types that are useful for contributors in assessing performance are non-financial information. This has resulted in an information gap between the financial reporting that is required to be lodged by charities and the information needs of users.[28] Further to this, experimental research being conducted in Australia around donors, has shown that the interest is for specific information in the form of narratives, pictures and stories that provide insight into how donations are being used[29].

E27. Presently, there is no Standard requiring service performance reporting, however a number of charities voluntarily disclose this information as part of their financial reporting package and the ACNC AIS requires some service performance information The AASB currently has a Service Performance Reporting project.

E28. It may be that the level of financial reporting can be reduced if service performance reporting is required. For example in NZ, the cash and modified accrual options require a form of service performance reporting.

---

27 Research reports "Charity accounting – an empirical study of the information needs of contributors to UK fund raising charities." and "Contributors to charities – A comparison of their information needs and the perceptions of such by the providers of information" by Hyndman, Noel. Research report "An Experimental Examination of US Individual Donors' Information Needs and Use" by McDowell E., L. Wei and P. Smith.

28 Hyndman, Noel. "Contributors to charities – A comparison of their information needs and the perceptions of such by the providers of information."

29 He, W. et al. Working paper "Donors Use of Information Disclosed by Charities"

E29. When considering this option, the AASB and relevant regulator would need to determine whether certain charities or all charities should be required to prepare and lodge on the public record service performance statements and the extent of this reporting. Proportionate service performance reporting matching the level of public interest is also likely to be needed.

Relative merits

Advantages

- Information tailored to what users want
- Reporting more meaningful for the charity.

Disadvantages

- Difficult to set Standards on Service Performance that enable the specifics of a charity's operations to be disclosed and still be comparable with other charities

Audit and assurance considerations

E30. Given the nature of the information, the most appropriate engagement type is an assurance engagement (reasonable or limited assurance). If cost is a focus, limited assurance could be permitted.

E31. An agreed-upon procedures engagement (no assurance) may be appropriate if the regulator clearly defines the outcomes required to ensure the procedures of the engagement meet the outcome.

Selected key financial indicators

Overview

E32. Feedback to the AASB indicates that financial statements on their own are unlikely to provide all the information that a general purpose user requires. Key financial indicator reporting of some form is often noted as important. Presently, as this is not a current reporting requirement charities do not prepare and lodge on the public record selected key indicators. However, many charities are likely to be already preparing sufficient information for their own purposes. Accordingly, this addition to a Tier may not be costly to prepare if the relevant information is being prepared as part of Chief Operating Decision Maker (CODM) information, however issues arise in relation to guidance about what should be prepared.

E33. When considering this option, the AASB/regulator would need to determine whether certain charities or all charities are required to prepare key financial indicators.

Relative merits of the Tier

Advantages

- Simple
- May already be prepared under AIS – see Appendix H of this Paper.

Disadvantages

- In the Board's Basis for Conclusions to AASB 1056 Superannuation Entities, the Board decided against requiring entities to disclose a management expense ratio, instead, the Board concluded that a better focus of the AASB is to facilitate the provision of information from which ratios can be calculated.
- Similarly to the CODM information, the key financial indicators may not be consistent across charities and therefore the information prepared would not be comparable reducing the usefulness of the information.

Audit and assurance considerations

E34. Depending on the size and accountability of the entity, as well as the nature of the subject matter being reported, it may be appropriate to allow for any type of engagement or level of assurance available in the AUASB standards, including:

- an audit (reasonable assurance) – Appendix F4;
- a review (limited assurance) – Appendix F11;
- an assurance engagement (reasonable or limited assurance) – Appendix F21; or
- an agreed-upon procedures engagement (no assurance) – Appendix F26.

APPENDIX F

F. Possible types of engagement and level of assurance that may be provided

Introduction

F1. The AUASB issues the following types of standards

- Australian Auditing Standards (ASAs);

  These standards apply to the audit of historical financial information. Whilst this is usually a financial report, the standards can also be applied to the audit of other historical financial information such as a grant acquittal, a statement of cash receipts and disbursements or summary financial statements.

- Standards on Review Engagements (ASRE's);

  These standards apply to a review of historical financial information and can be applied to the same subject matter covered by the ASA's.

- Standards on Assurance Engagements (ASAEs); and

  These standards are applied when providing assurance on subject matter other than historical financial information. Examples include the efficiency and/or effectiveness of an entity's activities, prospective financial information and the effectiveness of internal controls.

- Standards on Related Services (ASRS) (including Agreed-Upon Procedures)

  These standards are used when an assurance practitioner is engaged to provide a report of factual findings, as opposed to providing independent assurance. Examples of such engagements include compliance with management agreements, calculation of leave provisions and controls to meet contractual obligations.

F2. The assurance standards above (the first three of the types of standards) provide two levels of assurance on any particular subject matter, either reasonable assurance or limited assurance. For assurance services on historical financial information, a reasonable assurance engagement is termed an audit engagement and a limited assurance engagement is termed a review engagement. No assurance is provided when the engagement is an agreed-upon procedures engagement undertaken under ASRS.

F3. The level of assurance provided impacts the level of work required to be completed by the person conducting the engagement. In the case of the AUASB standards this is either an auditor or an assurance practitioner.

F4. In a reasonable assurance engagement, the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys the assurance practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

F5. In a limited assurance engagement, the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

1 Audit Engagement on the financial report of charities (ASA's)

Overview

F6. All of the ACNC charities classified as large are required to provide an audited financial report. ACNC charities classified as medium have the option to have their financial report either reviewed or audited. An audit is currently the most common form of assurance used by charities classified as medium, with 94% of such charities electing to have an audit (based on a sample of 494 medium charities included in research[30] conducted by Jenny Yang from the UNSW Business School)

F7. An audit is performed by an auditor who, based on the audit evidence obtained, forms an opinion as to whether the historical financial information (often in the form of a financial report) has been prepared in all material aspects with the applicable financial reporting framework.[31] An audit opinion provides reasonable assurance which is the highest level of assurance available in the AUASB standards.

F8. An audit also includes the consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.[32]

F9. If the subject matter is a general purpose financial report, the auditor also needs to evaluate whether in the view of the requirements of the financial reporting framework:[33]

(a) The financial report appropriately discloses the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner;

---

30 UNSW Australia Report *Report Prepared for the AASB and AUASB on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Sized Charities in 2014-2015* (Yang Y., Simnett R. and Carson E.) (2017).

31 ASA 700 Forming an Opinion and Reporting on a Financial Report, paragraph 10.

32 ASA 700, paragraph 12.

33 ASA 700, paragraph 13.

(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates made by management are reasonable;

(d) The information presented in the financial report is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:

- The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterised.

- The overall presentation of the financial report has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed.

(e) The financial report provides adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial report; and

(f) The terminology used in the financial report, including the title of each financial statement, is appropriate.

F10. If the subject matter is a special purpose financial report, the auditor shall obtain an understanding of:[34]

(a) The purpose for which the financial report is prepared;

(b) The intended users; and

(c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

F11. In addition to a financial report an audit opinion can also be provided on specific elements, accounts or items of a financial statement[35] as well on a summary financial statement.[36]

F12. Given the reasonable level of assurance provided by an audit, the level of work required to be performed by an auditor is significantly greater than other methods of providing assurance such as a review or assurance engagement.

34 ASA 800 Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Framework, paragraph 8.

35 ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

36 ASA 810 Engagements to Report on Summary Financial Statements.

Relative merits of an Audit

Advantages

- Conducted under well-established standards based on standards developed by the International Auditing and Assurance Standards Board (IAASB) and used throughout the world.
- Strengthens the credibility of the information contained in the financial report.
- Weaknesses in internal control may be identified providing insights into business risks, and relevant recommendations for improvements provided.
- Misstatements are more likely to be identified (whether through fraud or error), that can be addressed and corrected by the entity.

Disadvantages

- Costs of an audit may outweigh the benefits in the NFP sector.
- Preparers may not be sophisticated enough to be able to prepare reports that satisfy the appropriate financial reporting framework leading to a modified opinion.
- Auditors may have difficulty in applying their professional judgement in relation to whether the applicable financial reporting framework is acceptable.

2 Review Engagement (ASREs)

Overview

F13. Medium sized charities have the option to have their financial report either reviewed or audited. As outlined above, review engagements are rarely used by ACNC charities with 94% of charities electing to have their financial report audited and less than 5% of medium sized charities electing to have their financial report reviewed[37] (based on a sample of 494 medium charities included in research conducted by Jenny Yang from the UNSW Business School)

F14. A review is performed by an assurance practitioner who can also be the auditor of the entity (including the preceding reporting period). As a result, review engagements on a financial report are conducted under two different review standards, one of which requires additional work[38] if the assurance practitioner is not the auditor of the entity.

F15. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the financial information reported by the company is free from material misstatements. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may

37 About 1% of charities assurance reports were not available

38 ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity.

bring significant matters affecting the financial information to the assurance practitioner's attention but it does not provide all of the evidence that would be required in an audit.[39]

F16. The objective of a review engagement is to obtain limited assurance, primarily by performing enquiry and analytical procedures, about whether the financial statements as a whole are free from material misstatement, thereby enabling the assurance practitioner to express a conclusion on whether anything has come to the assurance practitioner's attention that causes the assurance practitioner to believe that financial statements are not prepared, in all material respects, in a accordance with an applicable financial reporting framework.[40] The framework can be either general (fair presentation or compliance) or special purpose.

F17. In order to accept a review engagement, the assurance practitioner shall determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable.[41]

F18. In addition to a financial report a review can also be performed on historical financial information other than a financial report.[42]

F19. A review conclusion provides limited assurance which is significantly less than the level assurance provided by an audit.

F20. Given the lower level of assurance provided by a review, the level of work required to be performed by an assurance practitioner should be significantly less than that required by an audit. The magnitude of the difference in the cost and time between an audit and review is influenced by a number of factors and is hard to quantify.

F21. Based on research conducted by Jenny Yang from the UNSW Business School included a sample of 494 medium sized charities, the average review fee is $2,519 compared to an average audit fee of $4,354. Despite this quantitative difference, it is important to note that the research stated:

"the overall cost differential level between audits and reviews is relatively low compared to the cost differential identified for audits and half-yearly reviews for listed companies. This might be due to the auditors still need to go through the entire process of understand the accounting practices and control systems when providing review services"[43]

F22. Whilst the savings in time and cost are hard to quantify without further research and consultation, a review should represent a lower burden on charities.

---

39 Explanatory Guide to the Review of a Financial Report – Company Limited by Guarantee, paragraph 14.

40 ASRE 2400, paragraph 14 / ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, paragraph 4.

41 ASRE 2400 & ASRE 2410 paragraph 30(a).

42 ASRE 2405 Review of Historical Financial Information Other than a Financial Report.

43 UNSW Australia Report Prepared for the AASB and AUASB on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Sized Charities in 2014-2015 (Yang Y., Simnett R. and Carson E.) (2017).

Relative merits of a Review Engagement

Advantages

- The cost and time for a review may be lower than that of an audit.
- Can be used as a transitional stage for a growing charity planning on being audited in future periods.
- Is flexible and targeted, allowing the assurance practitioner to focus their time and attention on things that matter based on the complexity of the financial report or the nature of the charity.

Disadvantages

- Users of financial reports may not be aware of the lower level of assurance provided by a review compared to an audit, leading to over reliance on the information provided.
- In some instances the cost differential between an audit and review may be marginal so performing an audit may more economical.

3 Assurance Engagement (ASAEs)

Overview

F23. Assurance engagements undertaken under ASAEs are used to provide assurance (either reasonable or limited) on subject matter which can be non-historical financial or non-financial information. These engagements are designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against a relevant criteria.[44]

F24. The term “subject matter information” is used to mean the outcome of the measurement or evaluation of an underlying subject matter against the criteria. It is the subject matter information about which the assurance practitioner gathers sufficient appropriate evidence as the basis for the assurance practitioner’s conclusion.

F25. Examples of subject matter information on which assurance of other than historical financial information can be provided relevant to charities include:

a. A statement about the effectiveness of internal control (outcome) over the collection of cash

b. Service performance setting out outcomes and outputs

c. A statement about compliance (outcome) results from evaluating the compliance of an entity (underlying subject matter) with, for example, law and regulation (criteria).

---

44 *Framework for Assurance Engagements*, paragraph 10.

F26. An assurance engagement is where an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion on a subject matter other than historical financial information. These engagements are designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against a relevant criteria.[45]

Note: As a financial report is based on historical financial information the application of ASAEs on this subject matter is not appropriate. This type of engagement is covered by the auditing (ASAs) or review (ASREs) standards.[46]

Relative merits of an Assurance Engagement

Advantages

- Allows assurance to be targeted to specific elements of a charity's performance or compliance legislative obligations.
- Can be used on financial and non-financial information, including the ability to provide assurance on information outside of the financial report.

Disadvantages

- Can be difficult to agree on the appropriate criteria to be used.
- Users may view the assurance as inferior as it is not an audit or review.

4 Agreed-Upon Procedures Engagement (ASRSs)

Overview

F27. An agreed-upon procedures engagement is one which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor.

F28. An agreed-upon procedures engagement is not an assurance engagement, even though similar procedures are performed, as the purpose of the procedures performed is not to obtain sufficient appropriate evidence on which to base a conclusion. In contrast, the sufficiency and appropriateness of the evidence obtained in an assurance engagement is based on the assurance practitioner's assessment of materiality and risk of material misstatement or non-compliance. As the assurance practitioner does not assess materiality or engagement risk to determine the evidence gathering procedures to be performed in an agreed-upon procedures engagement, the assurance practitioner is unable to determine whether the evidence is sufficient and appropriate to reduce risk to an acceptable level as a basis for a conclusion.[47]

---

45 *Framework for Assurance Engagements*, paragraph 10.

46 *Framework for Assurance Engagements*, paragraph 10.

47 ASRS 4400 Agreed-upon Procedure Engagements to Report Factual Findings, paragraph 6.

F29. An agreed-upon procedures engagement may be misunderstood as providing assurance, as the engagement is performed by an assurance practitioner and involves the conduct of the same or similar procedures to an assurance engagement. The Framework for Assurance Engagements states that the assurance practitioner should clearly distinguish a report on an engagement that is not an assurance engagement from an assurance report. This standard deals with the content of a report of factual findings in order to differentiate it from an assurance report.[48]

F30. A regulator or representative of a class of users, industry or the accounting profession may specify the agreed-upon procedures to be performed to meet the needs of a class of intended users. In these circumstances, the assurance practitioner shall be satisfied that the needs of the class of users for whom the engagement is intended have been appropriately considered and addressed.[49]

F31. Similar to an assurance engagement, as level of work required by the assurance practitioner varies based on the nature of the work performed, it is difficult to quantify the difference from an audit or review. Savings can potentially be achieved by the reduction in the scope of the engagement through the targeting of appropriate subject matter and criteria.

Advantages

- Offers flexibility, as the engagement can be tailored to different circumstances and focused on individual items of financial data.
- ASRS 4400 specifically mentions the ability of regulators to specify the type of agreed-upon procedures to be performed.

  Factual findings may be reported with respect to effective operation of financial reporting processes and controls.
- An annual agreed-upon procedures report can be included as a supplement to the financial report adding comfort to management and staff.

Disadvantages

- Given there is no assurance provided, users may view the assurance as inferior as it is not an audit or review.

5 Multi-scope Engagement

Overview

F32. A multi-scope engagement (MSE), is used when the terms of an engagement require the auditor to address one or more of the following matters:[50]

a. More than one subject matter.

48 ASRS 4400, paragraph 9.

49 ASRS 4400, paragraph 19.

50 GS 022 Grant Acquittals and Multi-Scope Engagements, paragraph 1.

b. More than one level of assurance.

c. An engagement comprising both assurance and agreed-upon procedures (where no assurance is provided).

F33. Engagements described in paragraph 36 necessitate compliance with the requirements of different reporting frameworks and different AUASB Standards and may therefore involve: [51]

a. Evaluation against different criteria, including reporting frameworks;

b. The auditor developing a tailored single-form multi-scope auditor's report; and/or

c. Reporting requirements prescribed by regulators or other relevant parties.

F34. Examples of a MSE include:[52]

(a) A grant acquittal[53] where the grant agreement might call for independent assurance over historical financial information, such as a statement of grant income and expenditure, as well as assurance over compliance with the terms of the grant agreement.

(b) A special purpose audit where management requests the auditor to audit the cash statement of the company's social club and the related internal controls, agree employee leave taken to employee records (an agreed-upon procedures engagements) and provide limited assurance as to whether leave balances are calculated in accordance with corporate policy.

F35. Ordinarily, the applicable AUASB Standard for a grant acquittal is easily identified. For example, the relevant AUASB Standards for the examples listed at paragraph 38 are[54]:

(a) A statement of grant income and expenditure would be audited and reported on in accordance with ASA 805[55].

(b) A compliance statement would be audited and reported on in accordance with ASAE 3100[56].

(c) A statement on controls would be audited and reported on in accordance with the requirements of ASAE 3150[57.]

51 GS 022, paragraph 2.

52 GS 022, paragraph 12.

53 A "grant acquittal" is the term used where there is a requirement, generally arising pursuant to a grant agreement, to conduct an audit, a review or agreed-upon procedures and can relate to a single-subject matter or multiple subject matters.

54 GS 022, paragraph 10.

55 ASA 805.

56 ASAE 3100 Compliance Engagements.

57 ASAE 3150 Assurance Engagements on Controls.

F36. The auditor exercises professional judgement in appropriately applying the relevant AUASB Standards where the engagement mandate is to provide reasonable or limited assurance. The auditor applies their professional capabilities and competence in carrying out agreed-upon procedures.[58]

(a) Determines whether the subject matter is appropriate, including whether it is auditable;

(b) Determines whether the criteria are suitable including whether the reporting framework(s) is acceptable; and

(c) Obtains agreement from management that it accepts responsibility for: the preparation of the entity's reports (subject matter information), internal control and providing the auditor with information and access to personnel.

Advantages

- Adds an extra layer of flexibly in relation to the level(s) of assurance that can be provided when a charity is required to provide additional information beyond a financial report.
- Comprehensive guidance in relation to a MSE is available in GS 022 Grant Acquittals and Multi-Scope Engagements.

Disadvantages

- Reporting appropriately may cause particular difficulties when the auditor seeks to combine statements, opinions, conclusions and sometimes factual findings in a single tailored auditor's report.

6 Other possible audit and assurance issues to consider

Qualifications of Auditor or Assurance Practitioner

Overview

F37. The ACNC Act currently requires an audit to be conducted by a registered company auditor (within the meaning of the Corporations Act 2001).[59] If the financial report can be reviewed, the reviewer may be a member of any of the three Australian accounting professional bodies.

F38. This requirement is inconsistent with a number of state or territory regulators who have provisions in their legislation to allow for differing forms of accreditation such as another person approved by the commissioner or a member of CPA Australia, CA ANZ or IPA who hold a public practice certificate issued by one these bodies.

58 GS 022, paragraph 17.

59 Australian Charities and Not-for-profits Commission Act 2012, s60-30(1).

F39. These differences have created a number of challenges for large ACNC Charities who require an audit, with many in the sector calling for an easing of the accreditation requirement in relation to the auditor to potentially include:

(a) Members of CPA Australia, CA ANZ or IPA who hold a public practice certificate; or

(b) Members of CPA Australia, CA ANZ or IPA; or

(c) Other persons with appropriate qualifications approved by the ACNC Commissioner.

Relative merits

Advantages

- Will expand the pool of auditors able to provide an audit opinion on a financial report, potentially improving the availability and reducing the cost of audit services (especially for charities located in remote areas not serviced by a registered company auditor).

Disadvantages

- May have the potential to reduce audit quality due the less stringent requirements in relation to the level of certification.

APPENDIX G

G.Impact on the Sector

G1.To help illustrate the impact from changing the frameworks, the below detailed analysis has been completed. Each figure illustrates the anticipated reduction of burden in each option.

G2.Figure 1 **to** Figure 4 explore the implications of each framework on the sector in terms of possible reductions in reporting and possible increases in reporting. The detailed analysis of the burden in each situation is to help inform stakeholders in making a decision which balances the cost and benefit.

Option 1 – New Zealand PBE Model

	Current size				
New Tier	**Small**	**Medium**	**Large**	**Total**	**New reporting**
Tier 1	31,273	292	71	**31,636**	Cashflow statement
Tier 2	4,190	6,012	2,170	**12,372**	Simplified accrual
Tier 3	32	39	3,407	**3,478**	RDR GPFS
Tier 4	1	2	423	**426**	Full GPFS
	35,496	**6,345**	**6,071**	**47,912**	

	Currently reporting					
New Tier	**AIS only**	**Small**	**Transitional**	**SPFS**	**GPFS**	**Total**
Tier 1	22,723	5,228	77	2,713	895	**31,636**
Tier 2	2,519	1,687	1	2,967	5,198	**12,372**
Tier 3	20	15	-	995	2,448	**3,478**
Tier 4	-	1	-	52	373	**426**
	25,262	**6,931**	**78**	**6,727**	**8,914**	**47,912**

Reporting under new tier	**Reporting Relief**	**Increased Reporting**	**Comment**
Cashflow statement	3,685		Moved from SPFS or GPFS to AIS only.
Simplified accrual	8,166	2,519	Moved from SPFS or GPFS to GPFS Accrual.
RDR GPFS		1,015	Moved from SPFS to GPFS RDR.
Full GPFS		52	Moved from SPFS to Full GPFS.
	11,851	**3,586**	

Figure 1 – Reporting outcomes using the NZ PBE model

G3. Figure 1 shows the outcomes of applying the NZ PBE thresholds in an Australian context. The largest relief in reporting is seen within the Tier 2 (expenses <$2,000,000) where the entities which are currently preparing GPFSs or SPFSs and would be required to prepare simplified accrual financial statements.

G4. The additional reporting burden in this Option for Tier 2 is largely the result of changing from revenue to expenses which has resulted in a few charities being required to prepare and lodged simplified accrual financial statements. For Tiers 3 and 4, the reporting burden is the result of charities which are currently preparing and lodging special purpose financial statements being required to prepare either RDR (Tier 3) or Full GPFS (Tier 4).

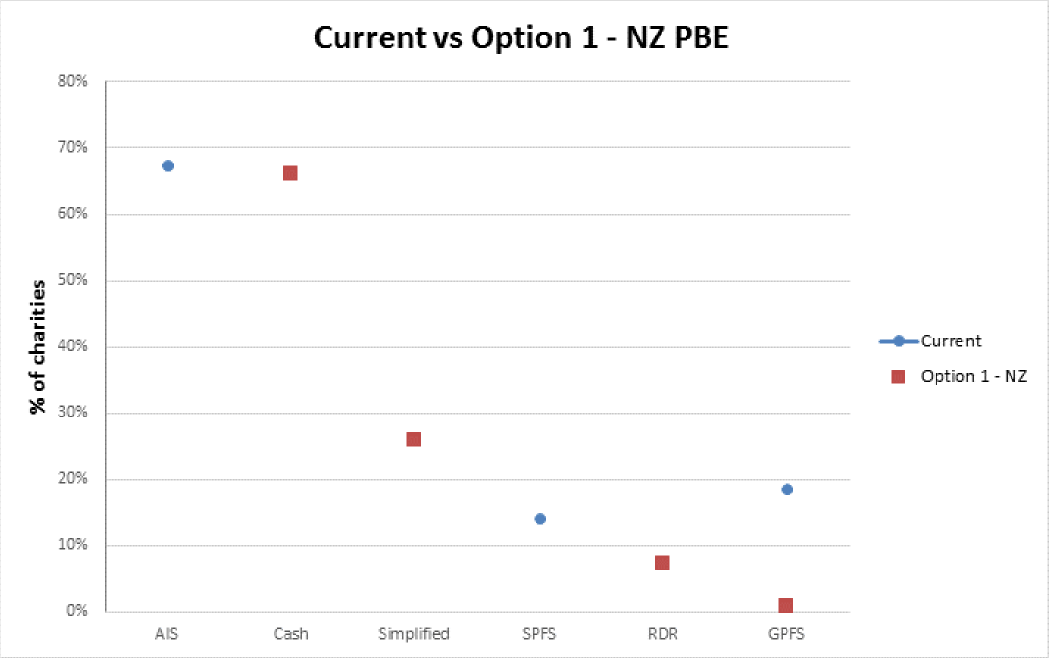

Figure 2 – Current Reporting vs Option 1 NZ PBE

G5. The above graph shows the outcome of NZ PBE thresholds in an Australian context with the biggest relief provided to those currently doing full GPFS would be reduced under the NZ PBE model.

Option 2 – Public Interest Model

	Current size				
New Tier	**Small**	**Medium**	**Large**	**Total**	**New reporting**
Tier 1	34,872	1,141	126	**36,139**	Cashflow statement
Tier 2	611	5,193	3,635	**9,439**	RDR GPFS
Tier 3	13	11	2,310	**2,334**	Full GPFS
	35,496	**6,345**	**6,071**	**47,912**	

	Currently reporting					
New Tier	**AIS only**	**Small**	**Transitional**	**SPFS**	**GPFS**	**Total**
Tier 1	25,004	6,617	77	3,072	1,369	**36,139**
Tier 2	247	305	1	3,128	5,758	**9,439**
Tier 3	11	9	-	527	1,787	**2,334**
	25,262	**6,931**	**78**	**6,727**	**8,914**	**47,912**

Reporting under new tier	**Reporting Relief**	**Increased Reporting**	**Comment**
Cashflow	4,518		Moved from SPFS or GPFS to AIS only.
RDR		3,376	Moved from SPFS to GPFS RDR.
Full GPFS		538	Moved from SPFS to Full GPFS.
	4,518	**3,914**	

Figure 3 – Reporting outcomes using the Top Quarter approach

G6. Figure 3 shows the outcome where the population of charities is split statistically based on expenses. The approach is 75% of the population reports a cash flow statement, the next 20% of the population prepares Full Recognition, Measurement with Reduced Disclosure Requirements, and the final 5% prepares full GPFS. Based on the estimated reporting relief and estimated reporting burden, this option represents the most balanced impact on the sector.

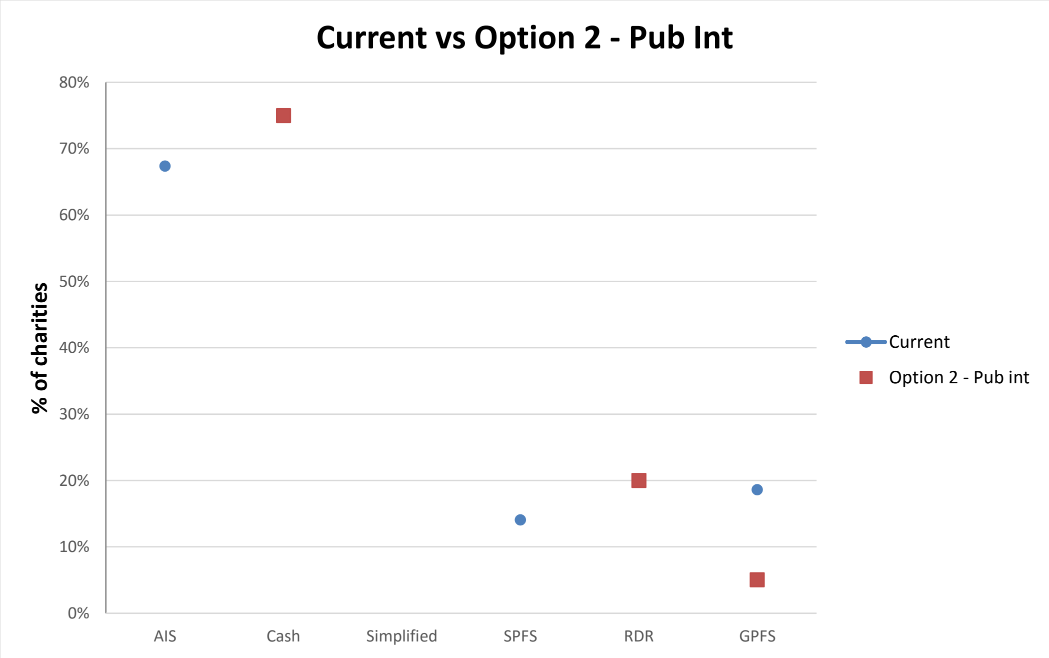

Figure 4 – Current Reporting vs Option 2 Public Interest

G7. Similarly to Figure 2, Figure 4 shows as the level of reporting increases, the percentage of the population reporting that particular Tier decreases. As this option has been determined statistically, the visual representation of reporting is linear.

Option 3 – Public Interest Model (Expenses plus Public Money)

	Currently reporting				
New Tier	**Small**	**Medium**	**Large**	**Total**	**New reporting**
Tier 1	13,119	2	3	**13,124**	Cashflow statement
Tier 2	5,502	12	3	**5,517**	Simplified accrual
Tier 3	13,602	321	30	**13,953**	RDR GPFS
Tier 4	3,273	6,010	6,035	**15,318**	Full GPFS
	35,496	**6,345**	**6,071**	**47,912**	

	Currently reporting					
New Tier	**AIS only**	**Small**	**Transitional**	**SPFS**	**GPFS**	**Total**
Tier 1	9,376	386	77	2,517	768	**13,124**
Tier 2	4,316	1,174	-	14	13	**5,517**
Tier 3	9,624	3,994	-	171	164	**13,953**
Tier 4	1,946	1,377	1	4,025	7,969	**15,318**
	25,262	**6,931**	**78**	**6,727**	**8,914**	**47,912**

Reporting under new tier	**Reporting Relief**	**Increased Reporting**	**Comment**
Cashflow statement	3,362		Moved from SPFS or GPFS to AIS only.
Simplified accrual	27	4,316	Moved from AIS to GPFS Accrual.
RDR GPFS		9,795	Moved from AIS and SPFS to GPFS RDR
Full GPFS		5,972	Moved from AIS and SPFS to Full GPFS
	3,389	**20,083**	

Figure 5 – Reporting outcomes using Expenses plus Public Money

G8. Figure 5 shows the outcome of setting thresholds using expenses or public money (represented by grants, donations and bequests) split into quarters. In this framework, charities may be captured in higher tiers than they would otherwise report in using only one criterion.

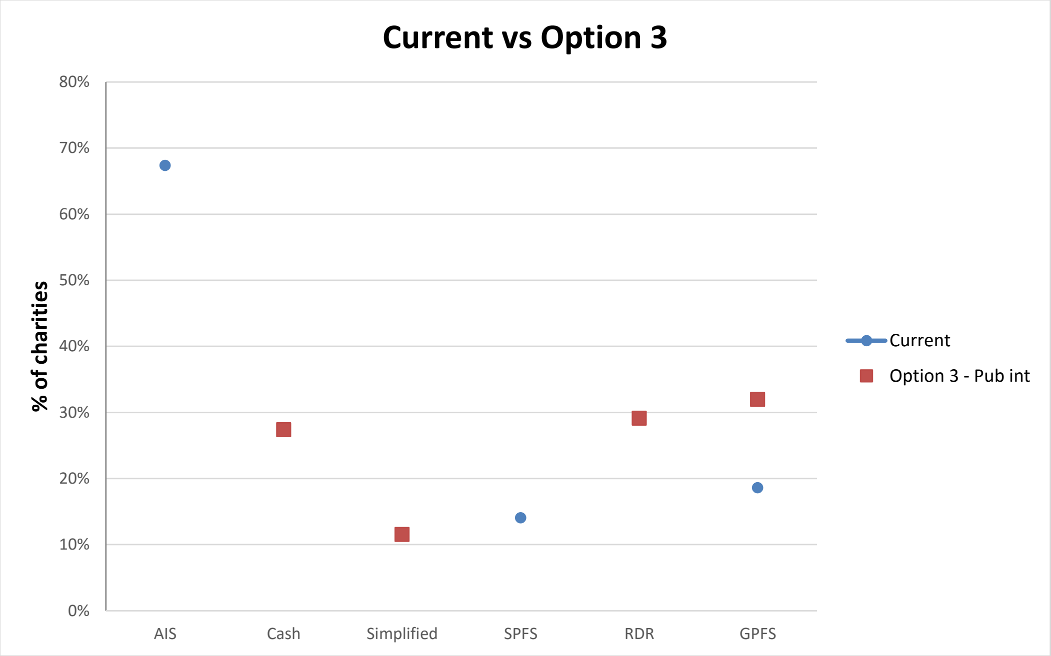

Figure 6 – Current Reporting vs Option 3 Public Interest (Expenses plus Public Money)

G9. As this model is based on Quartiles, the splits between each type of reporting should be relatively even. However, as the criteria used is not “and” but rather “or” the differing quartiles push some charities into higher or lower tiers which has resulted in greater than 30% of the population reporting Full GPFS.

APPENDIX H

H. Information reported by charities in the 2016 Annual Information Statement required by the ACNC

H1. The following table is provided for information purposes. In making decisions about whether to require charities to assess certain thresholds or make certain additional disclosures, it is useful to know what information charities currently collect and report to the ACNC.

Information	Small	Medium	Large
Charity information			
Charity size based on annual revenue	✓	✓	✓
What legislation are you incorporated under	✓	✓	✓
Is your charity Deductible Gift Recipient (applicable only to assess ‘Basic religions charity criteria)	✓	✓	✓
Has your charity received more than $100k in government grants in the current year or the previous two reporting periods (applicable only to access ‘Basic religious charity criteria)	✓	✓	✓
Describe your charity outcomes and activities	✓	✓	✓
How many paid employees	✓	✓	✓
How many unpaid volunteers	✓	✓	✓
Finance			
Cash or accrual	✓		
$ government grants	✓	✓	✓
$ donations and bequests	✓	✓	✓
$ other revenue/receipts	✓	✓	✓
$ other income	✓	✓	✓
$ employee expenses/payments	✓	✓	✓
$ interest expenses			✓
$ grants and donations made in Aus	✓	✓	✓
$ grants and donations made overseas	✓	✓	✓
$ other expenses/payments	✓	✓	✓
$ net surplus/deficit	✓	✓	✓
$ other comprehensive income		✓	✓
$ total current assets		✓	✓
$ non-current loans receivable			✓

Information	Small	Medium	Large
$ other non-current assets		✓	✓
$ total non-current assets		✓	✓
$ total assets	✓	✓	✓
$ current liabilities		✓	✓
$ non-current loans payable			✓
$ other non-current liabilities		✓	✓
$ total liabilities	✓	✓	✓
Did you prepare SPFS or GPFS		✓	✓
Is your financial statements consolidated		✓	✓
Audit or review report modified		✓	✓
Did you have related party transactions		✓	✓
Do you have documented policies or processes for related party transactions		✓	✓

Limitations on the ACNC 2015 AIS data

H2. The ACNC 2015 AIS data obtained from data.gov.au contains all registered and subsequently revoked charities which is submitted an AIS in 2015. The Charity Discussion Paper uses a data set downloaded on 16 August 2017, the dataset is continuously being updated with AIS submissions for 2015.

H3. The individual data set contained 47,798 AISs and the group set contained 114 AISs for a total population of 47,912 AISs.

H4. For charity size, a formula was run to ensure that the size aligned with the revenue reported for the year, the AIS size was not used due to charities incorrectly choosing size or requesting to remain in that threshold for the year.

H5. Data relating to the ACNC groups[60] have been included in the analysis. However some duplication may exist in the data where a charity within an ACNC group submits an individual AIS which has already been included in the Group AIS. This is not expected to make a material difference.

H6. The data element regarding grants and donations made for use in and outside of Australia have not been consistently applied by trust charities. The ACNC requires charities that made trust distribution from its equity and reserves to remove the distribution as an expense from the AIS[61], which may affect the analysis relating to operating expenses in the illustrative financial reporting framework.

H7. The ACNC has made available some transitional reporting arrangements that applies to some charities while they work with other government agencies to implement long-term streamlined reporting arrangements. One of these arrangements is available for non-government schools which reports to the Department of Education and Training (DET). The ACNC has agreed to accept the financial information those non-government schools submit to DET in place of the collecting it via the AIS. As such data relating to non-government schools are not available in data.gov.au and have not been included in the analysis.

---

60 The ACNC may approve two or more registered entities to submit a Group AIS that represents the financial information for the registered entities only and may not represent consolidated financial information as required by AASB10.

61 Link to reference on the ACNC website https://www.acnc.gov.au/ACNC/FAQs/FAQ_Errors.aspx