



PHILANTHROPY
Australia

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6 September 2007

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Patrons
Sir Gustav Nossal AC CBE
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Dear Sir

ITC12 – Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities

Philanthropy Australia welcomes the opportunity to comment on the *Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities* set out in the Australian Accounting Standards Board (AASB) *Invitation to Comment ITC 12* issued in May 2007.

Philanthropy Australia is the national peak body for philanthropy and is a non-profit membership organisation. Our members are trusts and foundations, organisations, families and individuals who want to make a difference through their own philanthropy and to encourage others to become philanthropists. Philanthropy Australia supports the philanthropic endeavour of our members by, amongst other things, promoting strong and transparent governance standards in the philanthropic sector. Our response to ITC12 is one part of this activity.

The majority of Philanthropy Australia's members are involved in the provision of funds for charitable purposes to organisations we describe as *community benefit entities* - entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

When allocating their funds our members consider the financial viability and governance of the recipient, which can be assessed (in part) from the recipient's financial report. Philanthropy Australia's members are also acutely aware of the administrative burden placed on those *community benefit entities* that are *reporting entities* under Australia's current financial reporting regime. This is especially so of *community benefit entities* incorporated under the *Corporations Act 2001* as companies limited by guarantee.

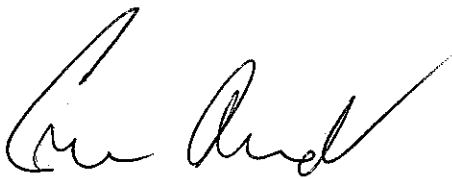
Our response to ITC12 is therefore based on a desire to achieve a balance between the information needs of our members and the burden placed on *community benefit entities* when providing that information. We believe these needs would be best met and the burden alleviated by a financial regime developed specifically for private sector not-for-profits – an Australian financial reporting regime for private sector not-for-profit entities.

In addition, we believe the introduction of an Australian financial reporting regime for private sector not-for-profit entities, or *community benefit entities*, will:

- enable greater emphasis to be placed on management's stewardship in not-for-profit financial reporting;
- enable the development of sector specific public accountability criteria that can be used in applying a sector specific differential reporting regime;
- facilitate the introduction of a harmonised not-for-profit reporting regime that can be adopted by all jurisdictions; and
- alleviate the confusion experienced by not-for-profits in the current reporting regime

We trust you find our response useful, and welcome the opportunity to discuss any aspect of the response with you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gina Anderson', with a large, sweeping flourish at the end.

Gina Anderson
Chief Executive Officer

Preliminary comments

Our response to ITC12 is based on a desire to achieve a balance between the information needed by Philanthropy Australia's members when allocating their funds and the burden placed on not-for-profit entities when providing that information. We believe these needs would be best met, and the burden alleviated, by a financial regime developed specifically for private sector not-for-profits - an Australian financial reporting regime for private sector not-for-profit entities.

Furthermore, we believe this not-for-profit financial reporting regime should apply to those entities covered by the general use of the term not-for-profit, entities we describe as *community benefit entities*.

These are entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

This not-for-profit financial reporting regime should not apply to public sector not-for-profits. The "public sector" – national governments, regional (state, provincial, territorial) governments, local (city, town) governments and related governmental entities (agencies, boards, commissions and enterprises) – should have its own financial reporting regime.

Meeting the needs of the primary users of not-for-profit financial reports

Philanthropy Australia's members are primary users of community benefit entities financial reports.

Our views on the financial reporting of not-for-profits have been best covered in a Paper posted on the AASB's website.¹ That Paper considers *"the most appropriate primary user group for not-for-profit entities is the funders and financial supporters. These may be described as the not-for-profit sector equivalent of investors."* In summary, that Paper notes:

- not-for-profit entities have a wider group of users of their financial statements than for-profit entities;
- these users want to know how resources were acquired and used, whether the ability to deliver goods and services has improved or deteriorated from the previous year and how well the goods and services were delivered; and
- those users who are present and potential funders and financial supporters are particularly interested in information about the utilisation of the resources provided to the not-for-profit that might be useful in making decisions about resources they may choose, or be required, to provide in the future.

A financial reporting regime based on stewardship and accountability

The Paper concludes, *"In the case of not-for-profit entities, we consider that stewardship or the discharge of accountability is a significant aspect of the objective of financial reporting and should either be identified as a separate objective or recognised within a single objective."*

¹ "The IASB/FASB Conceptual Framework Project's Preliminary Views on an Improved Conceptual Framework for Financial Reporting: - The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information. Application to not-for-profit entities in the private and public sector." Available on the AASB's website at www.aasb.com.au/workprog/docs/Monitoring_group_report.pdf

Paragraph BC28 of ITC12 indicates that the AASB concurs with this view – “*The AASB considers that the purpose of not-for-profit entities preparing financial reports is largely to discharge their duty of stewardship and accountability.*”

The Draft IFRS for SMEs specifies that, “*The objective of financial statements of a small or medium-sized entity is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs. **In meeting that objective, financial statements also show the results of management's stewardship of the resources entrusted to it.***” (Emphasis added).

We are pleased to see reference to *management's stewardship*, but would prefer the results of management's stewardship to be the primary objective of financial reporting by not-for-profits, rather than an incidental or secondary objective of the preparation of financial reports.

Public accountability in the private not-for-profit sector

Philanthropy Australia thinks it is unfortunate that the application of the concept of public accountability has been restricted to for-profit entities in the proposed revised differential reporting regime.

It could be inferred from this restriction that only for-profit entities are required to be publicly accountable, an inference that is supported by the decision chart on page xxviii of ITC12.

This rather clumsy application of the public accountability concept has led Philanthropy Australia to conclude that there is a need for an Australian financial reporting regime for private sector not-for-profit entities that allows for differential financial reporting based on assets, revenue and the level of public accountability expected of the not-for-profit.

We emphasise that we recommend a separate not-for-profit financial reporting regime, not the inclusion of specific ‘not-for-profit’ paragraphs in Accounting Standards developed on a sector neutral basis. This includes any *IFRS for Small and Medium-sized Entities*.

We expand on this suggestion in our response to *Specific Matter for Comment (f)(v)*.

Specific Matter for Comment (a)

Do you agree with changing the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial reports'?

Philanthropy Australia supports the broad thrust of the proposed revised differential reporting regime that has general purpose financial reports – GPFRs – as its application focus.

This support is engendered by Philanthropy Australia's wish to see a simpler, harmonised financial reporting regime for the not-for-profit sector.

Paramount amongst our concerns regarding Australia's current differential reporting regime is a degree of confusion amongst private sector not-for-profits regarding the application of that regime (do we prepare GPFRs or Special Purpose Financial Reports – SPFRs) and the resultant inconsistency in financial reporting. We are looking for an industry specific reporting regime to remove that confusion.

We are also looking for a regime that will be adopted by all jurisdictions. Please refer to our response to *Specific Matter for Comment (o)* in this regard.

Specific Matter for Comment (c)

Do you support the proposal to apply the IASB's definition of a publicly accountable entity to differentiate between for-profit entities that apply Australian equivalents to IFRSs and for-profit entities that apply an Australian equivalent to the IFRS for SMEs?

As noted in our Preliminary Comments, Philanthropy Australia thinks it is unfortunate that the application of the concept of public accountability has been restricted to for-profit entities in the proposed revised differential reporting regime.

Private sector not-for-profit entities have a different group of stakeholders and attributes that render them publicly accountable. The following matrix provides an indication of the degree of public accountability that can be ascribed to a not-for-profit entity based on its operations. This matrix has been used as a starting point in developing our proposed three tier private sector financial reporting regime outlined in *Specific Matter for Comment (f)(v)* but is not directly comparable or relatable to the tables in *Specific Matter for Comment (f)(v)*.

The public accountability matrix

		Level of Public Accountability (High, Medium, Low)	
Source of funds	Public appeals for donations		High
	Solicits for & receives bequests		High
	Government grants		High
	Grants from foundations	Medium	
	Sponsorships	Medium	
Membership	One individual, family or corporation	Low	
	Widespread geographically		High
	Management and membership separate		High
	Majority of members actively involved in day-to-day management	Low	
Volunteers & employees	High level of reliance on volunteers to achieve objectives; few if any employees		High
	Objectives achieved by employees; little volunteer involvement	Medium	
Other	Many stakeholders		High
	Few stakeholders other than members	Low to Medium	
	Income tax exemption	Low to Medium	
	Operate Australia wide and/or internationally		High
	Operate in limited geographic area (one suburb or country town)	Low to Medium	
	Significant community impact		High
	Impact limited to a specific community or one group within a community	Low to Medium	
	Represents a number of communities or affiliated bodies		High

Specific Matter for Comment (e)

Since the IASB's ED of A Proposed IFRS for SMEs has been developed with only for-profit entities in mind, do you agree it is appropriate to adopt the forthcoming IASB's IFRS for SMEs (after inclusion of Aus paragraphs similar to those included in Australian equivalents to IFRSs) in a differential reporting regime in respect of not-for-profit private sector entities and public sector entities?

Philanthropy Australia does not agree that it is appropriate to adopt the forthcoming IASB's IFRS for SMEs in a differential reporting regime of not-for-profit private sector entities.

We reiterate, Philanthropy Australia recommends a separate not-for-profit financial reporting regime.

Furthermore, we believe there should be separate financial reporting regimes for not-for-profit private and public sector entities. The development of a not-for-profit financial reporting regime that covers both private and public sector not-for-profit entities on the basis of a limited definition a not-for-profit entity adds to the financial reporting confusion that currently exists in this sector. These entities have discrete financial reporting requirements as evidenced by the development of Accounting Standards AAS27, Financial Reporting by Local Governments, AAS29 Financial Reporting by Government Departments and AAS31 Financial Reporting by Governments.

Specific Matter for Comment (f)(i)

In respect of not-for-profit private sector entities, is there a need for differential reporting in the not-for-profit private sector? If yes, do you agree with using size thresholds to distinguish between not-for-profit private sector entities that should apply Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs (which would include Aus paragraphs similar to those included in Australian equivalent to IFRSs)?

Philanthropy Australia believes there is a need for differential reporting in the not-for-profit private sector. The basis of this need is expressed in paragraphs BC38 and BC39 of ITC12. In addition, we believe that a differential financial reporting regime would be more acceptable to the States as the basis for a harmonised not-for-profit financial reporting regime.

Consistent with our earlier comments, we believe there should be an Australian financial reporting regime for private sector not-for-profit entities that includes three tiers of reporting based on assets, revenue and an entity's level of public accountability.

Specific Matter for Comment (f)(ii)

In respect of not-for-profit private sector entities, do you agree with the proposed size thresholds? If you do not agree, what do you consider to be the appropriate size thresholds and why?

Philanthropy Australia does not agree with the proposed size thresholds. We believe there is a need for a third category of private sector not-for-profits based on the revenue and assets of the entity and the entity's level of public accountability.

More detailed comments can be found in our response to *Specific Matter for Comment (f)(v)*.

Specific Matter for Comment (f)(iii)

In respect of not-for-profit private sector entities, not-for-profit entities that meet the thresholds of \$25m revenue and \$12.5m assets would prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. In contrast, non-publicly accountable for-profit entities would only be required to apply the Australian equivalents to IFRSs when they meet the thresholds of \$500m revenue and \$250m assets. The AASB has justified this difference based on the higher degree of public interest in the activities of not-for-profit entities. Do you agree?

Generally, Philanthropy Australia agrees with the basis of the difference between the 'reporting thresholds' that are proposed for not-for-profit private sector entities and non-publicly accountable for-profits entities. We support the rationale for this basis as canvassed in paragraphs BC23, BC36 and BC37 of ITC12.

Specific Matter for Comment (f)(iv)

Both private sector not-for-profit entities and public sector entities that meet the thresholds of \$25m revenue and \$12.5m assets would need to prepare their general purpose financial reports in accordance with the Australian equivalents to IFRSs. The AASB has justified the common size thresholds for both types of entities based on a view that there is an equivalent degree of public interest in the activities of these two types of entities. Do you agree?

Philanthropy Australia agrees with the AASB's justification for common size thresholds for both private sector not-for-profit entities and public sector entities.

Specific Matter for Comment (f)(v)

Do you think a third tier of simpler reporting requirements should be added to cater for smaller not-for-profit private sector entities that prepare general purpose financial reports? If so, what should those simpler reporting requirements be and how would the category of entities applying those requirements be identified?

How would your answer to this question differ if the forthcoming IFRS for SMEs has fewer disclosures than the ED of A Proposed IFRS for SMEs?

It is Philanthropy Australia's strong opinion that a third tier of simpler reporting requirements should be added to cater for smaller not-for-profit private sector entities that prepare GPFRs. This opinion has been reached for the following reasons.

Firstly, as noted in paragraph BC38 of ITC12, *"there are small not-for-profit entities that often have simple structures and fewer users, where the cost of external reporting may be significant, and imposing significant reporting requirements is unlikely to be in the public interest."*

Secondly as noted in our response to *Specific Matters for Comment (a) and (o)*, we are looking for a regime that will be adopted by all jurisdictions. This is more likely to occur if the proposed reporting regime caters for the broad spectrum of private sector not-for-profit entities.

Philanthropy Australia offers the following suggestion in response to the AASB's request for a basis for identifying entities able to apply this 'third tier' of reporting requirements. Our suggestion is based on a combination of size thresholds and an assessment of an entity's level of public accountability. The Public Accountability Matrix as detailed in *Specific Matter for Comment (c)* would be used to make this assessment. It also assumes that an Australian financial reporting regime for private sector not-for-profit entities will be developed.

Our suggested size thresholds are based on information included in the Commonwealth Treasury's Discussion Paper of June 2007 entitled *'Financial Reporting by Unlisted Public Companies.'* Table 1 in that Discussion Paper (which is replicated in a modified form below) provided an analysis of companies limited by guarantee based on revenue and assets. The Discussion Paper also noted that, based on a Survey conducted by The University of Melbourne, almost all companies limited by guarantee have a not-for-profit motive. We believe this analysis is a reasonable proxy for the broader private not-for-profit sector and is therefore an appropriate basis for setting the reporting tiers to cover companies limited by guarantee, incorporated associations, entities established by Acts of Parliament and entities established by trusts and Royal Charter.

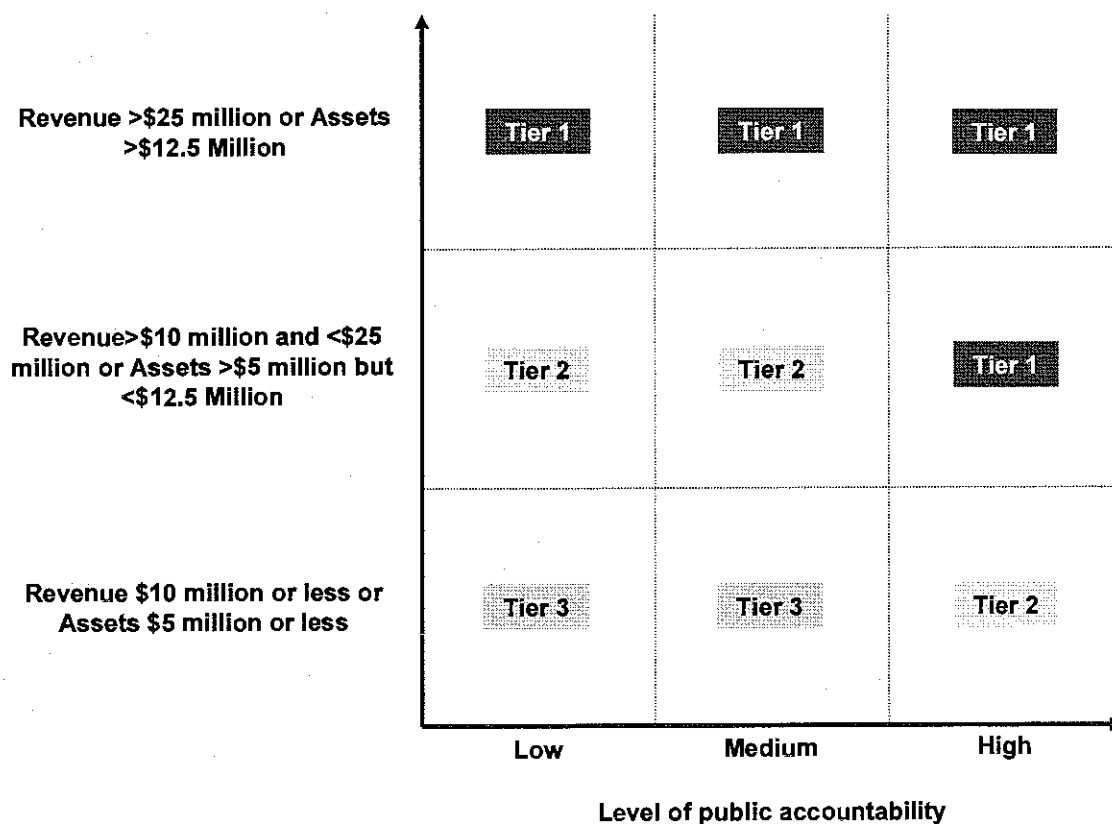
	Revenue (%)	Cumulative Total: Revenue (%)	Assets (%)	Cumulative Total: Assets (%)
Less than \$200,000	41	41	35	35
Between \$200,001 and \$500,000	13	54	10	45
Between \$500,001 and \$1,000,000	14	68	18	63
Between \$1,000,001 and \$5,000,000 ²	18	86	20	83
Between \$5,000,001 and \$12,500,000	10	96	10	93
Between \$12,500,001 and \$25,000,000	2	98	2	95
Greater than \$25,000,000	2	100	5	100

² The table included in the Discussion Paper included a category "Between \$1,000,001 and \$12,500,000. We have used an educated guess to dissect this category.

We therefore suggest the following as a basis for the development of an Australian financial reporting regime for private sector not-for-profit entities.

<u>Form of reporting</u>	<u>Revenue</u>	<u>Assets</u>	<u>Public Accountability</u>
Tier 1: Compliance with all relevant requirements of an Australian financial reporting regime for private sector not-for-profit entities for this tier	> \$25 million	> \$12.5 million	When a not-for-profit has revenue and assets of these amounts it can be assumed it will have a high level of <i>public accountability</i>
Tier 2: Compliance with all relevant requirements of an Australian financial reporting regime for private sector not-for-profit entities for this tier	> \$10 million but < \$25 Million	> \$5 million but < \$12.5 Million	The level of disclosure in the financial report varies according to the level of <i>public accountability</i> of the entity
Tier 3: Compliance with all relevant requirements of an Australian financial reporting regime for private sector not-for-profit entities for this tier	\$10 million or less	\$5 million or less	

The practical application of this regime is illustrated below.



Specific Matter for Comment (h)

Do you think there are approaches, other than the proposed approach based on public interest and employing size thresholds that would reasonably distinguish between entities that should apply the Australian equivalents to IFRSs and those that should apply an Australian equivalent to the IFRS for SMEs? If there are appropriate alternative approaches, please explain.

The proposed approach outlined in our response to *Specific Matter for Comment (f)(v)* is relevant here. That response is based on our belief that the level of public interest in a private sector not-for-profit entity varies based on:

- the entity's source of funds, its membership, whether employees or volunteers deliver its services, the geographic spread and impact of its operations; and
- the entity's revenue and assets.

Specific Matter for Comment (i)

Do you agree that, consistent with the IASB's view of a general purpose financial report, under a revised Australian differential reporting regime:

- i. all financial reports that are available on a public register, such as those prepared and lodged with the ASIC under the Corporations Act, should be regarded as general purpose financial reports; and
- ii. all financial reports that are made available to the public at large, such as those tabled in a Parliament, also should be regarded as general purpose financial reports?

We are uncertain as to how to respond to this question. On page xi of ITC12, The AASB has noted:

"... the AASB has tentatively decided that, under a revised financial reporting regime, all financial reports that are on a public register, such as those prepared and lodged with the Australian Securities and Investments Commission (ASIC) under the Corporations Act, or otherwise made available to the public at large, such as those tabled in a Parliament, would be regarded as general purpose financial reports."

The term *otherwise made available to the public at large* will need to be clarified. A broad interpretation of this requirement would result in all private sector not-for-profits preparing GPFRs. Many charitable not-for-profits make their financial statements available on their website. The consensus in the accounting profession is that financial statements made available in this fashion are '*otherwise available*' and therefore would need to be GPFRs.

Others issue their financial report in response to queries from potential funders. Smaller community organisations will distribute their financial report at their Annual General Meeting to all who attend, whether they are members of the organisation or not. In these situations, would the not-for-profit be required to prepare a GPFR?

It is this uncertainty that has led us to recommend the three-tier reporting approach set out in our response to *Specific Matter for Comment (f)(v)*. If our recommendation for the development of an Australian financial reporting regime for private sector not-for-profit entities is accepted, we anticipate that the Third Tier of reporting would be tailored to the needs of the smaller not-for-profit.

Specific Matter for Comment (k)

The Corporations Act includes three size thresholds respectively for revenue, assets and the number of employees to distinguish between small and large proprietary companies. The AASB's proposed size thresholds only include the monetary thresholds of revenue and assets. Do you think that, except for the case of for-profit entities that are not publicly accountable but are important from a public interest perspective, a further size threshold for the number of employees would be appropriate under the proposed differential reporting for not-for-profit private sector entities and public sector entities?

Philanthropy Australia believes the size thresholds for application of a revised differential financial reporting regime should be limited to revenue and assets. The reason for our conclusion is best expressed in paragraph BC41 of ITC12:

"The AASB considers that the employee number threshold would be difficult to apply in the not-for-profit private sector on the grounds that this sector draws to varying degrees on the services of volunteers and that employee numbers may not adequately reflect the scale of a not-for-profit sector entity that uses volunteers. This makes the number of employees a potentially misleading basis for identifying the degree of public interest for distinguishing between the classes of entities within this sector applying different reporting requirements."

It should be noted that our criteria for determining the level of public accountability of a private sector not-for-profit includes consideration of employee and volunteer numbers.

Specific Matter for Comment (l)

Considering the AASB's tentative decision to base the second tier of reporting requirements on the IASB's pending IFRS for SMEs, do you consider that the IASB's ED of A Proposed IFRS for SMEs is appropriate for Australian circumstances. If not, explain how it could be improved, or what other options are more appropriate and why?

Our response is based on consideration of the appropriateness of the IASB's ED of A Proposed IFRS for SMEs as a basis for a differential reporting regime for Australian private sector not-for-profits. It is our understanding that an Australian IFRS for SMEs "would include Aus paragraphs similar to those included in Australian equivalents to IFRSs."

The current A-IFRS include Aus paragraphs that specify how A-IFRS is to be applied to not-for-profit entities. At a practical level, the interpretation of A-IFRS is complicated by the inclusion of these paragraphs. The proposal that, *"not-for-profit private sector entities that fall under the two size thresholds would apply an Australian equivalent to the IFRS for SMEs (which would include Aus paragraphs similar to those included in Australian equivalents to IFRSs). Such entities could also choose to apply the full set of Australian equivalents to IFRSs"* would replicate this complication.

Specific issues that require further consideration are:

Recognition of changes in fair value of investments

Paragraph 11.8 of the IASB's ED of A Proposed IFRS for SMEs requires *"ordinary and preferred shares and similar equity instruments ... with published price quotations"* to be measured *"at fair value, without any deduction for transaction costs it may incur on sale or other disposal, and recognise changes in fair value recognised"*

in profit or loss." Paragraph 11.14 specifies the basis for determining fair value. The most likely application of this requirement will be in respect of private sector not-for-profits with investment portfolios comprising equities listed on stock exchanges. Paragraph 11.14 requires these investments to be valued by reference to quoted prices in an active market

Many private sector not-for-profits with investment portfolios have adopted the 'available for sale' option included in AASB 139 *Financial Instruments: Recognition and Measurement* which allows gains or losses from changes in fair value to be recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The 'available for sale' approach has resulted in not-for-profits' results not being subjected to undue fluctuations as a result of unrealised gains or losses on investments. We recommend the retention of the 'available for sale' option for private sector not-for-profits.

Recognition of government grants and contributions

The requirements of paragraphs 23.3 to 23.5 of the IASB's ED of A Proposed IFRS for SMEs dealing with government grants are quite clear. However, we recommend that the requirements of AASB 1004, Contributions be reviewed to provide similar clarity around the recognition of grants from other sources, donations and bequests.

Segment reporting

Paragraph 31.1 of the IASB's ED of A Proposed IFRS for SMEs exempts an SME from the requirement to present segment information. Philanthropy Australia believes the financial reports of private sector not-for-profits should include segment information to provide further information on the effectiveness of the stewardship exercised by the organisation's management. In combination with other information included in the financial report, the reader will be able to assess:

- how the governing body and management has performed in the past so they can gauge their likely performance in the future;
- the extent to which transactions similar to those already undertaken might recur in the future; and
- how the management performance and transactions undertaken, including related party transactions, might affect the not-for-profit's performance.³

Specific Matter for Comment (m)

Do you think adaptations, or additional guidance, are needed (in addition to Aus paragraphs that would be included consistent with Australian equivalents to IFRSs) for not-for-profit private sector entities and public sector entities if the IASB's IFRS for SMEs were adopted in Australia?

We emphasise that we recommend a separate private sector not-for-profit financial reporting regime, not the inclusion of specific "not-for-profit" paragraphs in Accounting Standards developed on a sector neutral basis. This includes any *IFRS for Small and Medium-sized Entities*.

³ Based on "Stewardship/accountability as an objective of financial reporting: A comment on the IASB/FASB conceptual framework project", published by 'Proactive Accounting Activities in Europe'

Specific Matter for Comment (o)

Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the preliminary views?

The not-for-profit regulatory environment

Many not-for-profits are incorporated under various *State Associations Incorporation Acts* as incorporated associations. The requirement for their accounts to be prepared in accordance with accounting standards varies from State to State and (in some jurisdictions) according to the associations' revenue and assets. Under current legislation their financial information and/or reports are required to be lodged with the relevant State authority.

Philanthropy Australia has concluded that incorporated associations might be required to prepare GPFRs under the proposed revised differential reporting regime because, in certain States, the public can obtain copies of an association's financial information from the relevant authority on payment of a fee. For example, in Victoria, a copy of 'a document kept by the Registrar' can be purchased on line.

Unless the States agree to modify their *Associations Incorporation Acts* so as to adopt the proposed revised differential reporting regime, there is likely to be confusion regarding the need to prepare GPFRs.

The professional standards of the accounting bodies mandate the '*application of the standards set out in Accounting Standards ... in the context of the preparation and presentation of a general purpose financial report*'. Accountants '*involved in, or [who] are responsible for, the preparation, presentation or audit of a general purpose financial report ... are required to take all reasonable steps within their power to ensure that Accounting Standards ... are consistently applied in the preparation and presentation of the report.*'⁴ This requirement applies to accountants involved in the preparation, presentation or audit of the financial report of a not-for-profit incorporated under an *Associations Incorporation Acts*. The promulgation of the proposed revised differential reporting regime would require accountants to ensure its application.

Those responsible for the governance of an incorporated association could rightly point to the financial reporting requirements of the relevant existing *Associations Incorporation Act* and assert that they are complying with the reporting requirements of that legislation. The potential for any conflicting reporting requirements needs to be avoided.

In our response the Commonwealth Treasury's June 2007 Discussion Paper *Financial Reporting by Unlisted Public Companies*, Philanthropy Australia indicated its support for the introduction of harmonised, consistent financial reporting requirements for not-for-profit entities, no matter what the basis of their incorporation.

We suggest that the AASB, to the extent it is able, encourage this harmonisation. Philanthropy Australia believes this harmonisation will be encouraged by the development of an Australian financial reporting regime for private sector not-for-profit entities.

⁴ Professional Statement APS 1, *Conformity with Accounting Standards and UIG Consensus Views* issued by the Institute of Chartered Accountants in Australia and CPA Australia