



Section 205-25 of the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (**the ACNC Act**) determines the size of a charity based on a single registered charity level, even if the charity controls subsidiary entities.

In addition, the mandatory accounting standards under section 60-30 of the *Australian Charities and Not-for-profits Commission Regulations 2022* (Cth) do not require the use of AASB 10 *Consolidated Financial Statements* or AASB 12 *Disclosure of Interests in Other Entities*.

Only medium and large charities that are reporting entities and approved ACNC groups must apply the relevant accounting standards and the Appendix E to AASB 10, which includes the *Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*.

We have noticed that some charities prepare Special Purpose Financial Statements or amalgamated financial reports to avoid AASB 10 due to difficulties in assessing control to prepare consolidated financial statements. Feedback from sector practitioners suggests that these difficulties may stem from the way charities are structured and the broader concept of control in the not-for-profit private sector.

We refer to our response to Question 17 in the ACNC submission to the *Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* regarding our view to the application of AASB 10 to the charity sector.

Related party disclosures

We acknowledge that ITC 51 seeks comments from not-for-profit public sector entities on related party disclosures.

However, starting from the 2023 reporting period onwards, all charities are required to report related party transactions, regardless of their size.

Medium and large charities must comply with AASB 124 *Related Party Disclosures* or equivalent paragraphs in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to fulfill the new legislative requirements, as recommended by the 2018 ACNC legislation review.

As the 2023 reporting including related party disclosures is not yet due for collection from charities, we will work with the AASB to share any findings or comments as the charity sector starts to implement these accounting standards.

Basis of Preparation of Special Purpose Financial Statements – Disclosures about Compliance with Australian Accounting Standards



We acknowledge the new disclosure requirements under AASB 1054 Additional Australian Disclosures, which apply from the 2020 reporting period onwards, coinciding with the onset of the Covid-19 pandemic. While implementing changes to reporting requirements may not be a priority for charities during this challenging time, we randomly reviewed a sample of 250 medium and large charities to gain insights about the quality of financial reports from registered charities within the wider population.

Our report, available at:

<https://www.acnc.gov.au/tools/reports/reviewing-charities-financial-information-and-annual-financial-reports-2020>

revealed that 45% of charities preparing SPFS included a disclosure note regarding compliance with recognition and measurement requirements.

The most commonly observed disclosure note was one that confirmed compliance with the recognition and measurement requirements of all relevant accounting standards.

Further questions

If there are any further questions, please contact Mel Yates at Melville.Yates@acnc.gov.au or 03 927 59595.

Sincerely,

Sue Woodward AM

Commissioner
Australian Charities and Not-for-profits Commission

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Appendix – Response to specific questions for comment



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ITC 50 Post-implementation Review – Income of Not-for-Profit Entities

Question 10

We support all of the suggested alternative approaches to recognise revenue listed at question 10. We also suggest that the purpose of a grant could also be a relevant consideration in some cases.

Question 11

The most common inquiry on the topic of principal and agent the ACNC receives from charities is in relation to grant/donation auspicing arrangements. The questions are so common that we drafted guidance to help charities with this.

<https://www.acnc.gov.au/for-charities/manage-your-charity/obligations-acnc/reporting-annually-acnc/standards-and-financial-reporting>

We encourage the AASB to develop more guidance and/or an example on this topic and we can provide input to the draft AASB guidance if required.