



Technical Accounting Alert

Australian Charities and Not-for-Profits Commission (ACNC) proposed requirements for Charities on financial reporting and governance

Introduction

The ACNC has announced its proposed requirements for Charities on both financial reporting and governance. Submissions on the ACNC's proposals are due by 15 February 2013. Unlike the Corporations Act amendments (TA Alert 2012-14) that require parliamentary approval, the ACNC proposals are in Regulation form, however the Government has agreed that there should be 'appropriate consultation' but not parliamentary approval before they become applicable. The ACNC's proposals are likely to apply to the 2013-2014 reporting period.

Grant Thornton will be preparing submission on these various proposals and input from clients is as usual, welcome – email to keith.reilly@au.gt.com

Background - ACNC Financial Reporting proposals

The proposed financial reporting requirements will apply for financial reporting periods commencing as from 1 July 2013 (i.e. 30/6/2014 balancers) but no comparatives will be required. However all Charities will have to file an annual information statement for the 2012-2013 financial year but no financial information is mandated until the 2013-2014 financial year. Some Charities may wish to early adopt the financial reporting requirements before the 2013-2014 financial period.

Small Charities (less than \$250,000 annual revenues) & Basic Religious Charities

No financial reporting for small registered entities (78% of ATO Charities registered with the ACNC are small Charities). A basic religious Charity also does not have to prepare a financial report, however the definition of a basic religious Charity is narrow and it excludes an entity that has ATO deductible gift status, or receives more than \$100,000 in government funding on an annual basis over a 3 year period.

Medium (\$250,000-\$999,999 – 11% of all Charities) & Large Charities (\$1,000,000 – 11% of all Charities) annual revenues

If the Charity is a reporting entity, then the financial report must comply with either full IFRS (AASBs) or RDR (reduced disclosures but full recognition & measurement). If the Charity is a non-reporting entity, then only the disclosure AASBs (AASB 101 Presentation, AASB 107 Cash Flow, AASB 108 Accounting Policies, and AASB 1048 Interpretations) will apply.

The Explanatory Memorandum gives various examples of what is or is not a reporting entity but makes it clear that this decision is one for the Charity to determine and then for the auditor or reviewer to provide an opinion on.

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Interestingly the ACNC has stated the ASIC's Regulatory Guide 85 that argues for non-reporting entities to apply AASB *recognition & measurement*, is specifically stated as not applying to ACNC non-reporting entities.

A Medium sized Charity has the option of an Audit or a Review, and the Review can be done by a member of the accounting bodies (CPA, ICAA or IPA) as against an Audit that requires a Registered Company Auditor.

ASIC's survey of 50 out of 8,360 limited by guarantee companies states that 32% of Large companies are non-reporting and 47% of Medium companies are non-reporting.

Non-Government Schools

Transitional provisions apply so that they do not need to report to the ACNC until the 2014-15 financial period.

Grant Thornton's initial thoughts

There should be broad support for the reporting requirements except as follows:

The reporting period should be delayed until 2015 (30 June 2015 balancers) as insufficient notice has been given to Charities (Regulations even if rushed through can/should require Parliamentary oversight)

Reporting Charities should have the option to adopt IFRS for SMEs in addition to RDR as the IASB which has responsibility for IFRS has stated that IFRS is generally only relevant to publicly accountable entities (i.e. generally listed companies).

Background - ACNC Governance proposals

The 6 Governance Standards proposed by the ACNC at first glance appear to achieve the objective of setting out minimum standards which many Charities are probably already following, and should provide a degree of flexibility to tailor the requirements to the nature and size of the Charity. Additionally the ACNC has been generous with the transitional provisions, with basic religious Charities exempted from the standards, and other Charities being given to 30 June 2014 to make the necessary changes to their current documented governance standards, and a 4 year transition to 1 July 2017 for 'governing rules'.

The 6 'possible' governance standards are:

- *purposes and NFP character of a charity;*

This sets out the purpose of the charity by reference to the governing rules and interaction with the public

- *accountability to members (for those charities with members)*

Allow members to interact with the charity and provide information on the charity's activities to members

- *compliance with Australian laws;*

Effectively a statement of compliance with Australian laws!

- *responsible management of financial affairs;*

Take reasonable steps for the responsible management of the charity's financial affairs. Appropriate

internal controls and insurance are mentioned along with an audit or review of activities. This could be an issue for a small charity that does not require an audit or a review.

- *suitability of responsible entities;*

Reasonable steps basically mean that no-one has been disqualified from being involved in the charity.

- duties of responsible entities.

Act honestly, carefully, and in the charity's best interests. It is designed to replicate the Corporations Act requirements of acting with reasonable care and diligence etc.

Grant Thornton's initial thoughts

The application date should be delayed till 1 July 2014) as insufficient notice has been given to Charities (Regulations even if rushed through can/should require Parliamentary oversight)

Action required

Consider the various requirements and provide input into the Grant Thornton submissions.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at nationalaudit.support@au.gt.com.