

Not for Profit Sector  
Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601  
By Email: [nfp@pc.gov.au](mailto:nfp@pc.gov.au)

Grant Thornton Australia Limited  
ABN 41 127 556 389

Level 17, 383 Kent Street  
Sydney NSW 2000  
PO Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230

**T** +61 2 8297 2400  
**F** +61 2 9299 4445  
**E** [info@gtnew.com.au](mailto:info@gtnew.com.au)  
**W** [www.grantthornton.com.au](http://www.grantthornton.com.au)

24 November 2009

Dear Sir

**Contribution of the Not-for-Profit Sector – Productivity Commission Draft Research Report October 2009**

Grant Thornton Australia Ltd (Grant Thornton) is pleased to provide the Productivity Commission with its comments on the Commission's Draft Research Report as it relates to the 'Building a better knowledge base', and the 'Smarter regulation of the not-for-profit sector'.

Grant Thornton's response reflects our position as auditors and business advisers to listed and privately held companies, other businesses, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, and discussions with key constituents.

Our principal comments are as follows:

**Draft Recommendation 5.3:**

To minimize compliance costs and maximize the value of data collected, Australian governments should agree to implement a reform agenda for reporting evaluation requirements for not-for-profit organizations involved in the delivery of government funded services. This should:

- commit to basing reporting and evaluation requirements in service delivery contracts on a common measurement framework (appropriately adapted to the specific circumstances of the service delivery);
- require expenditure (input) measures to be based on a Standard Chart of Accounts
- and embody where practicable, the principle of 'report once, use often.'

**Comment:**

We support this recommendation and suggest that the Australian Accounting Standards Board be consulted on a Standard Chart of Accounts and that SBR/XBRL technology be utilized for a specific NFP taxonomy.

**Draft Recommendation 6.1:**

The Australian Government should establish a Commonwealth incorporated associations legal structure for not-for-profits. The new legal structure would assist not-for-profits, in particular those operating across state and territory boundaries, that do not wish to be companies limited by guarantee but wish to be incorporated at the Commonwealth level. Australian governments should ensure that incorporation legislation is amended to allow not-for-profits to migrate from one form of legal entity to another and to migrate between jurisdictions. State and territory governments should continue to reduce unnecessary compliance requirements for incorporated associations.

The Commission seeks comments on:

- whether there is a need for a new legal form for small unincorporated associations, similar to the Australian Business Name registration, providing limited legal rights
- whether state/territory based incorporation of associations should be restricted to not-for-profits with income less than \$150 000 per annum
- how governments can free up the ability of organisations to migrate between legal forms and jurisdictions, while guarding against any undesirable consequences from forum shopping.

**Comment:**

As detailed in our 29 May 2009 submission on the Productivity Commission's Issue Paper, we support a financial reporting regulatory regime that encompasses all NFPs within a single legislative act and a single regulator that has dedicated resources for regulating the financial reporting requirements of the Industry. On that basis, we support a dedicated Commonwealth incorporated associations legal structure for NFPs. This would overcome inconsistencies in the current regulatory regime with some NFP organisations being subject to inconsistent Commonwealth, States and Territories legislative regimes, and enhance the efficiency and effectiveness of the sector.

To overcome any forum shopping, we recommend that all NFPs be migrated to the Commonwealth incorporated associations legal structure, and on that basis we see no need for a separate structure for small NFPs.

**Recommendation 6.2:**

To promote confidence in the not-for-profit sector and reduce regulatory burden, Australian governments initially through COAG Business Regulation and Competition Working Group should:

- endorse the adoption by all governments of the Standard Chart of Accounts for reporting by not-for-profits in receipt of government grants or service contracts;
- ensure that the Standard Business Reporting initiative be expanded to include reporting requirements by not-for-profits.”

**Comment**

As detailed in our comments on Draft Recommendation 5.3, we support a Standard Chart of Accounts for adoption by all those involved in the NFP industry. In our 29 May 2009 submission on the Productivity Commission's Issue Paper, we stated that the Government's forthcoming Standard Business Reporting using XBRL technology will go a long way to overcoming the burden of providing multiple performance and compliance lodgements with various government agencies and private sector funding bodies, and continue to support SBR being expanded to include NFPs.

**Other Recommendations not covered in the Draft Research Report****a Relief from mandatory financial reporting requirements**

As detailed in our 29 May 2009 submission on the Productivity Commission's Issue Paper, we supported an exemption from the current mandatory financial reporting requirements for small NFPs. We note that the Commonwealth Government is to release in the next few weeks the Corporations Amendments (Corporate Reporting Reform) Bill which is expected to provide relief from financial reporting requirements for smaller NFPs, and we suggest that the proposed Commonwealth incorporated associations legal structure mirror the Bill's proposals when enacted. We do however recognise that NFPs do have governance responsibilities and we continue to support the development of appropriate reporting to constituents in order for the entities to be accountable given their status. Such reporting needs to be balanced with the costs of meeting such requirements.

**b A specific Accounting Standard for NFPs**

Given that the majority of the users of NFP reports are purely interested in the use of funds / donations, we recommend that these entities should be exempted from the more onerous and complex current accounting standards requirements, particularly disclosure requirements.

The Government's success in reducing unnecessary red tape costs will depend on the financial reports being relevant and useful to the users of the entity's financial reports and we believe clearer guidance in this area is necessary, particularly surrounding the applicability of all accounting standards (i.e. general purpose v special purpose financial reports and the reporting entity concept).

In particular we believe that there should be a specific Accounting Standard and guidance applicable for NFP entities, which consolidates existing NFP paragraphs in the Australian Accounting Standards and includes additional disclosure requirements relevant to their operations. This was supported by respondents to the Grant Thornton IFRS Survey which will be published in June 2009. It is clear that the existing Australian Accounting Standards that are re-badged International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) are developed solely for profit-oriented entities and primarily with the securities market in mind, and hence do not take into account the specific characteristics of NFPs nor the users of NFP financial statements.

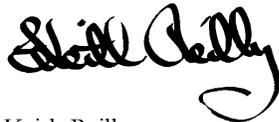
For entities where stakeholders require and are prepared to see the particular organisation fund the preparation of general purpose financial reports, and in the absence of a specific accounting standard for NFPs, we support replacing the existing IFRS requirements with the proposed IFRS for Private Entities Accounting Standard that is being developed by the International Accounting Standards Board and which is expected to be released by June 2009, suitably amended by the Australian Accounting Standards Board to contain specific areas of relevance to NFPs. However, major NFP organisations should be allowed instead to adopt the IFRS that is designed for publicly accountable organisations such as listed public companies, in the absence of a specific NFP accounting standard.

For smaller non-reporting NFP entities where there are not users who require detailed financial information in their decision to become involved through donations etc, we support a more simplified financial reporting regime. For instance the Institute of Chartered Accountants Business Practice Guide is a good example of how a simplified financial reporting framework could operate for non-reporting NFP entities and we encourage the Australian Accounting Standards Board to consider that model with any necessary amendments to reflect the NFP industry.

We would support an Audit of Financial Statements for NFP entities which are deemed to be large, either due to the revenue test or the number of donors / users.

Grant Thornton looks forward to discussing this Submission with the Commission. If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly  
National Head of Professional Standards