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GRANT THORNTON SUBMISSION – Exposure Draft: Australian Charities and Not-for-profits Commission – Financial Reporting Requirements

Grant Thornton Australia is pleased to provide Treasury with its comments on the Exposure Draft: Australian Charities and Not-for-profits Commission – Financial Reporting Requirements (the ED).

Grant Thornton's response reflects our position as auditors and business advisers to listed companies, privately held companies and businesses, not-for-profit organisations and wealth management groups, and this submission has benefited with input from our clients, discussions and seminars with the Australian Charities and Not-for-profits Commission (ACNC), and discussions with other key constituents.

Grant Thornton supports the broad thrust of the proposed financial reporting requirements as we believe that they broadly meet the 3 key objectives of the ACNC mandate which is to:

- maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency;
- support and sustain a robust, vibrant, independent and innovative not-for-profit sector; and
- promote the reduction of unnecessary regulatory obligations on the sector.

We anticipate that those Charities that report under the Corporations Act as Limited by Guarantee companies will generally be able to meet the proposed financial reporting requirements as they mirror what those Charities currently prepare for Corporations Act purposes. However for those Charities that are not Corporations Act reporting entities, we expect that there may be additional costs in some instances to meet the proposed requirements.

Our specific comments follow:

1 Financial Reporting: Reporting Entity Charities

As an interim step, we broadly support the proposed financial reporting requirements. These Charities already produce general purpose financial reports and as such adopt the existing requirements of all of the accounting standards whether that be full IFRS (AASB's) or the Reduced Disclosure Requirements (RDR).

However we believe that such entities should be able to choose to adopt the International Accounting Standards Board's (AASB) IFRS for SMEs accounting standard regime that is specifically designed for non-publicly accountable (generally non ASX listed) entities.

It is disappointing that the AASB has only taken up the reduced disclosure provisions of the IFRS for SMEs accounting standard and not the significantly simplified recognition and measurement provisions of the IFRS for SMEs accounting standard. Grant Thornton notes that the AASB has not taken the opportunity to reduce unnecessary compliance costs and hence added to red tape, contrary to the Government's commitment to reduce red tape, by not allowing the IFRS for SMEs model which is generally internationally accepted. The take up of the RDR alternative has been quite low as the major reduction in compliance costs is with simplifying the recognition and measurement provisions of IFRS.

However in time we believe that Charities should have a consistent financial reporting framework that is specifically tailored to their activities rather than just rely upon the 'private sector capital markets' structure that IFRS is based upon. For instance there needs to be a consistent basis and guidance on how to account for donations and grants that is currently absent in the IFRS and the AASB's accounting standards framework. Similarly there is a need for more relevant disclosure on income received, how it is spent, over what period of time and how it is allocated, along with guidance on administration costs so that those interested in the work of Charities are better able to determine how the particular Charity operates.

We note that a number of countries provide specific guidance for Charities in preparing financial information, (Canada and the US for Tax filing). The UK has a specific Statement of Recommended Practice – SORP 2005 which provides a comprehensive framework of recommended practice for charity accounting and reporting. Given the Government requirement for consistent rules with New Zealand, regard should be had to New Zealand developments with its External Reporting Board's (XRB) proposed new accounting standards requirements for registered charities and other not-for-profit organisations that includes a simple format reporting approach for organisations with expenditure under $2 million.

2 Financial Reporting: Non-Reporting Entity Charities

As an interim step, we broadly support the proposed financial reporting requirements for those Charities that are reporting under the Corporations Act, as their current financial reports are consistent with the proposed financial reporting requirements. In particular we strongly support the proposal that as a minimum, only the five AASB disclosure standards without recognition and measurement need to be complied with. This is consistent with the reporting practices of many non-reporting entities.

As detailed in our comments on Financial Reporting for Reporting Entities above, we believe that in time Charities should have a consistent financial reporting framework that is specifically tailored to their activities rather than just rely upon the 'private sector capital markets' structure that IFRS is based upon. For instance the UK's SORP 2005 would be a good starting point, along with the New Zealand XRB's proposals.

For non-Corporations Act Charities, even the five AASB disclosure standards may be more that those Charities currently adopt, hence the need for further work to be done on financial reporting. We note that the AASB has not been successful in producing relevant accounting standards entities for Charities and non-public sector Not-for-profits to date.

We also note that the AASB has publicly advised Treasury in its 5 February submission on the ED that it "…has no plans to create another tier of reporting requirements.", which is contrary to the ED's Explanatory Memorandum which states: "The AASB (as standard-setter) and the ACNC (as regulator) will work together to develop guidance on financial reporting…". We find the AASB's statement disappointing and contrary to the Government's policy of reducing red tape.

3 Joint and collective reporting

We support the proposal that Charities be able to report on what the ED refers to as 'joint and collective reporting'. We would expect the ACNC to exercise its discretion to all such reporting particularly where a Charity has extensive operations with multiple ABNs but a single reporting framework (i.e. branches that are part of the 1 organisation).

4 Audit requirements for Large Charities

Whilst we support the need for an audit by a registered company auditor (RCA) for Large Charities, we are mindful of the difficulty that some regional areas of Australia have in obtaining the services of an RCA.

We have encouraged the Australian Securities and Investments Commission (ASIC) to register more RCAs using the Audit Competency model which was designed to increase the number of RCAs from regional areas, rather than use the alternative hours based test which tends in practice to be linked to experience on listed company audits.

Given that ASIC has not been able to increase the number of RCAs in regional areas, we suggest that the ACNC should have a discretion to allow an audit to be conducted by a non RCA who has appropriate audit experience with Large Charities where it can be demonstrated that an audit by an RCA cannot be conducted on a cost effective basis. We envisage that this would only occur in some regional areas of Australia, and we suggest that the ACNC may wish to rely upon a Panel of experienced RCAs that could review any applications for this discretion. Grant Thornton would be prepared to nominate an experienced Charity RCA to participate on this Panel.

If you require any further information or comment, please contact us.

Yours sincerely
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