Not for Profit Accounting Specialists

Submission on the ACNC legislation

August 2012

Timing of the introduction of the legislation

We believe that whilst there has been a considerable amount of work done in a short period of time, there is still a way to go with the process of refining the legislation and the associated regulations. We would recommend a delay of a few months to allow further consultation with the not for profit sector and those who work closely with the sector. These are significant reforms and we believe it is important to get it right the first time.

Our preference would be to have draft regulations as well as the legislation written and available for review before either is passed to ensure that together, the legislation and regulations give the full picture and all bases are covered prior to introduction of the legislation. It will be more difficult to make changes once the legislation has been approved.

Audit requirements

An extract from the legislation;

"60-30 Audit or review

(1) The audit or review must be undertaken by:
  (a) a registered company auditor (within the meaning of the *Corporations Act 2001*); or
  (b) a firm:
    (i) that consents to be appointed, or is appointed, as auditor of a registered entity; and
    (ii) at least one member of which is a registered company auditor (within the meaning of that Act) who is ordinarily resident in Australia; or
  (c) an authorised audit company (within the meaning of that Act); or
  (d) an entity prescribed by the regulations for the purposes of this paragraph."

We support the inclusion of paragraph 60-30 (d), however, we would like to see the regulations to determine what the outcomes of this section will be. This paragraph does not give assurance that auditors other than Registered Company Auditors will be permitted to provide audit services.

We are concerned that in only allowing Registered Company Auditors (RCA's) to perform audits;

- The same auditing requirements imposed on listed companies are being imposed on organisations with a turnover as low as $250,001
- There is a small pool of RCA's available, this will result in a higher demand for their services and possibly increased prices as a result. Finding a RCA willing and/or with the capacity to take on the work may be difficult.

- RCA's can charge a premium for their services, and rightly so – but this will result in increased costs for charities
- These requirements are based on the Corporations Law – these requirements are going to be translated across all charities regardless of structure and state of incorporation – a large number of small to medium organisations are going to be impacted by this and their operating costs increased as a result.
- An organisation with a turnover of $1,000,001 is considered 'large' and is required to have an audit conducted by a RCA. Is a turnover of $1,000,000 sufficiently high to define a charity as 'large' and hence have the same auditing requirements as large publicly listed entities?

We would hope that the regulations will widen the base of auditors allowed to perform audits for not for profit entities with turnover greater than $250,000 to include other qualified members of the professional accounting bodies in Australia. This will relieve the pressure on the small pool of RCA's in Australia, and more importantly, relieve the cost pressure on not for profit entities of having their annual audit conducted.

Reporting requirements

In relation to reporting requirements, there are no details in the legislation as to what will be required – it simply refers to accounting standards, but as to whether General Purpose Financial Statements (GPFS) or Special Purposed Financial Reports (SPFR) are required, we are none the wiser. The reporting requirements are going to be included in the regulations, but again, it would be preferable to have these regulations at least drafted prior to the passing of the legislation to ensure that together, the requirements are appropriate.

If GPFS were required for all charities, then they would be required to comply with the same regulatory framework as Australia's large publicly listed companies which need to be publicly accountable due to the large number of investors, government and other stakeholders making significant financial decisions based on those financial statements.

Charities on the whole have been able to report using SPFR, a cheaper, less complicated reporting method which are less onerous to prepare, and are generally considered appropriate in meeting the information needs of the users of those financial statements. If they were required to prepare full GPFS it would significantly increase the cost of reporting, and would not necessarily enhance the reader's understanding of the reports.

We would like to see the regulations clearly state which type of financial report is applicable for each type of entity.

Our recommendation would be to allow SPFR for all small and medium charities, GPFR under the reduced disclosure reporting requirements for other charities with a turnover up to $3 million and where turnover is greater than $3 million, or for DGR's with donations greater than $1 million full GPFS should be prepared.

Reporting Thresholds

We understand the basis upon which Treasury have determined the reporting thresholds, however, we still believe that the reporting thresholds, particularly for those entities classified as large and the associated requirements that accompany that threshold, will be onerous for many charities and not for profit organisations. We believe that $1m turnover is quite low and would result in many more obligations than presently in place for organisations of that size. These obligations will result in additional costs for those organisations that are already under cost pressure.

Duplication of reporting

The current legislation does not adequately deal with the duplication of reporting requirements and we do not believe it will result in "report once – use often" until the State legislations can be amended to be consistent. This is a process that will take a considerable amount of time and energy, and in the meantime, will result in duplication of reporting for all charities and other not-for-profit entities once they are included under the ACNC banner.

In the mean time, reporting to the ACNC will impose further requirements on charities that are already under pressure with multiple reporting requirements.

Governance Standards

Similarly to reporting requirements, the governance standards are to be contained in the regulations of which we do not currently have any information. Our preference would be to view these regulations prior to the legislation being passed. At this stage as the legislation is quite vague, we have no real idea what is going to be required.

Prepared by Not for Profit Accounting Specialists
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