IFRNPO Guidance
January 2021
Response Document
PART 2: NPO-SPECIFIC FINANCIAL REPORTING ISSUES

Instructions for completion

IFR4NPO has published this document for respondents to use for submitting their comments.

This document presents all of the questions in **Part 2** of the Consultation Paper with spaces for responses.

Respondents are encouraged to complete this document electronically but are not required to use this document. They may also respond using their own comment letter format or the online survey available at: https://www.ifr4npo.org/cp-survey/

Comments on **Part 2** are requested by **24 September 2021**

Information requested from all respondents

Name[1]:

Australian Charities and Not-for-Profits Commission

Email address:

Mitch.tucker@acnc.gov.au

Description of your role if responding as an individual:

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Description of the activities of the organisation if responding on behalf of an organisation:

The Australian Charities and Not-for-profits Commission (ACNC) is the national regulator of charities in Australia. Charities in Australia do not need to be registered with the ACNC to operate, but registration with the ACNC entitles organisations to various tax concessions and benefits and may provide reputational advantages.

To be registered with the ACNC, an entity must meet the definition of a charity set out in legislation. It must be not-for-profit, and it must have only charitable purposes, or purposes that are incidental or ancillary to that charitable purpose. Registered charities must also meet the reporting and governance obligations that are imposed on them by the regulations.

The objects of the ACNC are set out in the Australian Charities and Not-for-profits Commission Act 2012 (Cth) (ACNC Act) and include:

a. maintaining, protecting and enhancing public trust and confidence in the Australian not-for-profit sector (the sector), and
b. supporting and sustaining a robust, vibrant, independent and innovative sector, and
c. promoting the reduction of unnecessary regulatory obligations on the sector.

The ACNC has several functions which support these objects, including:

a. deciding whether an entity is entitled to registration as a charity,
b. maintaining a public register of charities,
c. monitoring the compliance of registered charities with their obligations, and acting in response to non-compliance by charities,
d. co-operating with other government agencies to minimise the administrative burden on charities, and
e. publishing education and guidance material to assist charities in meeting their obligations.

The ACNC Act and Australian Charities and Not-for-profits Commission Regulation 2013 (Cth) (ACNC Regulation) establish the reporting obligations of registered charities. Charities must meet these obligations in order to maintain their entitlement to registration. Losing charity registration will usually mean that an entity is no longer entitled to charity tax

[1] Name of person providing the response and whether this is in an individual capacity or on behalf of an organisation.

concessions.

There are currently around 59,000 charities registered with the ACNC. The ACNC does not regulate not-for-profit entities that do not otherwise meet the definition of a charity (for example, not-for-profit sporting clubs). Estimates of the number of not-for-profit entities in Australia vary, but it is commonly accepted that there are several hundred thousand such organisations.

Most charities in Australia also have obligations to other regulators because of the nature of their activities. For example, some Australian charities are also regulated by, and required to provide financial reporting to, the Office of the Registrar of Indigenous Corporations. In some circumstances, the ACNC accepts reporting to the other regulators as an effective substitute for reporting to the ACNC.

As Australia is a federation, state and territory governments, rather than the ACNC, are responsible for some aspects of charity regulation (in particular, fundraising).

Jurisdiction(s) to which the feedback relates:

Registered charities in Australia

Accounting basis of NPO financial reports in the jurisdiction in which you mainly work:

(i) Accrual

BLANK

Financial reporting standard use by NPOs in the jurisdiction in which you mainly work

(v) NPO specific standards/guidance based on IFRS

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Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.

☒ *Agree*

☐ *Disagree*

This document has been designed purely to enable feedback to the IFR4NPO consultation. The responses will be used to shape the development of the IFR4NPO Guidance and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses.

Responses to the consultation will be public, but personal contact information will not be disclosed. Participation in this consultation is undertaken on an entirely voluntary basis. Personal information will only be held for the purposes of the project. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at IFR4NPO@cipfa.org

Information requested only if the organisation on behalf of which you are responding is an NPO

Which International Classification of Non-Profit Organisation (ICNPO) group best describes your organisation and activities?[2]

12. Not elsewhere classified

Regulator

Rank revenue sources of your NPO in order of importance (optional)

		1	2	3	4	5	6
(i)	*Grants*	☐	☐	☐	☐	☐	☐
(ii)	*Donations*	☐	☐	☐	☐	☐	☐
(iii)	*Sale of goods and services*	☐	☐	☐	☐	☐	☐
(iv)	*Gifts in kind*	☐	☐	☐	☐	☐	☐
(v)	*Services in kind*	☐	☐	☐	☐	☐	☐
(vi)	*Other*	☐	☐	☐	☐	☐	☐

BLANK

Approximate total annual revenue of the NPO in US$ (optional)

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[2] http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP_WP19_1996.pdf

Specific Matters for Comment (SMC)

Introduction

Part 2 of this Consultation Paper considers a number of NPO-specific financial reporting issues. It raises questions that are relevant to the project objectives, such as balancing the needs of preparers and users and improving the transparency of NPO financial reports. However, the main focus is to assist in delivering the third project objective: Objective 3: To address specific NPO issues, which will promote the comparability of NPO financial reports.

This part of the Consultation Paper sets out how the list of NPO-specific financial reporting issues for potential consideration was originally identified, and provides a description of the nature of each issue. The criteria used for selecting the issues to be included in the Consultation Paper, and therefore probably in the initial Guidance, are also included.

In-depth analysis is provided for each of the NPO-specific financial reporting issues currently proposed for the initial Guidance. Alternative approaches that could be pursued to address each issue are included to generate feedback.

Comments are welcome on any or all of the parts in the Consultation Paper. Please note:

- There is no requirement to respond to all issues
- You may respond to all of the questions raised in the Consultation Paper or may choose to respond only about certain elements
- There is no minimum number of questions that can be addressed in a response. But, the greater the number of responses received, the richer the feedback for the project team to consider.

Contents

The Overview and each issue provides Specific Matters for Comment (SMCs)

Overview – Selection of NPO-specific issues

This part of the Consultation Paper sets out how NPO-specific financial reporting issues have been identified and provides a description of the nature of each issue. Criteria for selecting issues to be included in the initial Guidance are also included.

SMC 0(a) Is the list of NPO-specific financial reporting issues complete? If not, please provide information about the further issues that you believe are specific to NPOs, or issues that should be removed, together with supporting reasoning for the change(s) you propose.

We consider that the list is largely complete, however, as was noted in our Part 1 submission, a significant proportion of NPOs in Australia are not required to use accrual accounting under any legislation and as a result, there are a large number of NPOs using cash accounting - nearly 40% of all charities registered with the ACNC report that they use cash rather than accrual accounting (these are all small in size as only small charities can use cash accounting).

Given that some of the NPO-specific issues discussed in Part 2 of the Consultation Paper apply to accrual accounting concepts, these will not be relevant to NPOs using cash accounting.

SMC 0(b) Do you agree with the criteria used to evaluate the list of issues? If not, what changes would you make and why?

We generally agree with the proposed criteria. However, weighting each criterion in the context of a specific issue may be challenging. For example, an issue may be prevalent but a technically sound or feasible solution could be difficult to implement. Figure 2.2 appears to follow a sequential order for the criteria: prevalence, consequence, demand, and feasibility. It may be more beneficial to: evaluate these criteria simultaneously; apply the cost-benefit principle; simplify accounting technicalities where possible, and; simplify and clarify the language so that preparers are able to address specific issues as easily as possible and the information presented is accessible to consumers.

SMC 0(c) Do you agree with the topics prioritised for the Consultation Paper? If not, outline which topics should be added or removed and why.

We do not entirely agree with the prioritisation of these topics. In our view, items 20 and 21 should be prioritised in the initial Guidance, rather than in the later project phases, because:

- Our view as a regulator is that information about related party transactions including remuneration is likely to be of significant interest to users of charity financial reports. Such disclosures can have a significant impact on public trust and confidence by providing transparency and to inform users of the financial reports and provide regulators with some assurance of compliance that the resources of NPOs are not being misused, or used to achieve a private benefit through improper related party transactions or unreasonable remuneration.

- Transparency is an important principle, and the act of disclosure should not be burdensome. Many NPOs are already adopting this disclosure requirement in their financial statements.

-The existing Section 33 of IFRS for SMEs includes definitions for the related party disclosure requirements. Generally related party transaction disclosures are not particularly complex so can be applicable to a very broad range of NPOs.

- The independent review panel that undertook the ACNC legislative review (the legislation governing charities in Australia) concluded that transparency around related party transactions and remuneration is important, and recommended legislative change to mandate greater disclosure of related party transactions and remuneration practices.

Changes to the ACNC legislation to mandate disclosure of related party transactions for all charities have been proposed to come into effect from 2022.

Issue 1 – Reporting entity and control (including branches)

Reporting entities need to produce financial statements and so it is important to know what constitutes a reporting entity in the sometimes complex arrangements that surround NPOs. Understanding the accounting implications of these arrangements is key to providing complete and transparent financial information.

Some of the specific questions that this topic is seeking to address are:

- How is control defined (as NPOs may not be exposed to investee returns in a conventional sense)?
- How is a branch defined? Should all branches be accounted for as part of an NPO? What is the status of the financial statements of a branch that is not a separate legal entity?

SMC 1(a) Do you agree with the description of issue 1 – Reporting entity and control (including branches) – in the Consultation Paper? If not, why not?

We do not entirely agree with the description proposed in the Consultation Paper.

In Australia, the definition of 'Reporting Entity' is different depending on whether the entity is a for-profit or not-for-profit. Australia has a dual conceptual framework maintained by the AASB. In the context of an NPO, the 'Reporting Entity' definition follows neither IFRS/IPSAS nor IFRS for SMEs standards. An entity must determine, by self-assessment, if it is reasonable to expect that users exist who will rely on the entity's general purpose financial statements to make decisions about the allocation of their resources. The definition is not based on a legal entity concept - a reporting entity can be a single legal entity or group of legal entities.

The ACNC notes that the AASB has outlined it will address the risks of maintaining two conceptual frameworks in the long term and intend to include adopting the IFRS standards, with necessary and appropriate modifications, as part of the AASB Not-for-profits Financial Reporting Framework project.

Importantly, the 'Reporting Entity' definition to be used by IFR4NPO should not contradict existing terms used within each jurisdiction. Although it is inevitable there will be differences, we recommend IFR4NPO use a unique and exclusive term which won't cause confusion for intended users. Noting that NPOs that are required to prepare financial statements in accordance with the Australian Accounting Standards will start to transition to the new 'Reporting Entity' definition when Australia starts to phase out Special Purpose Financial Statements, having another framework overlaid on them which uses a contradictory definition for reporting entity will cause confusion.

Our role is to administer the current ACNC legislation. How an NPO registers with or reports to the ACNC can set the boundary of what we can consider as a 'reporting entity'. For example, when individual members of a consolidated group register with the ACNC, they are each treated as reporting entities for ACNC reporting purposes unless the ACNC approves group reporting by the consolidated group, in which case the group becomes the reporting entity. In administering the ACNC legislation, our approach aligns with the Alternative 1.

The ACNC notes that the forthcoming post-implementation review of Appendix E of AASB 10 regarding the implementation guidance for NFP entities in applying the 'control' principle will be led by the AASB, and should yield some insights from the Australian jurisdiction.

SMC 1(b) Do you agree that the list of alternative treatments that should be considered for issue 1 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

We refer to the answer we provided at 1(a)

SMC 1(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 1? If you do not agree, please set out the changes you propose, and why these should be made.

We agree with the advantages and disadvantages that have been listed.

SMC 1(d) Please identify the alternative treatment that you favour for issue 1, and the reasons for your view.

We note that consolidation may be too complex or onerous for smaller charities, and the AASB's recent deliberations on this issue in developing a Tier 3 financial reporting framework for not-for-profit private sector entities. A solution may be for consolidation to be voluntary for smaller NPOs with the alternative option of a simple disclosure regarding 'significant relationships'.

https://www.aasb.gov.au/media/zx0fzkh5/208-actionalert.pdf (page 3)

Issue 2 – NPOs acting on behalf of other entities

The complex arrangements that surround NPOs may mean that in some instances an NPO is acting on behalf of another entity. It can be difficult to determine whether an NPO is merely acting in an administrative role and what its accountability arrangements are.

Some of the specific questions that this topic is seeking to address are:

- When is an NPO acting as an agent and when is it acting as principal?
- Is any disclosure required of the gross amounts relating to agency activity or assets in custody (including cost pass through and assets held on behalf of another entity/person)?

SMC 2(a) Do you agree with the description of issue 2 – NPOs acting on behalf of other entities? – in the Consultation Paper? If not, why not?

The ACNC agrees with the description, and we note that questions about arrangements of this type generate a significant number of enquiries for the ACNC.

SMC 2(b) Do you agree that the list of alternative treatments that should be considered for issue 2 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

We agree that the list of alternative treatments represents an exhaustive list.

SMC 2(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 2? If you do not agree, please set out the changes you propose, and why these should be made.

We agree with the advantages and disadvantages listed for each treatment - the differences between the accounting treatments are subtle and it seems likely that these alternatives will converge and give the same outcome.

SMC 2(d) Please identify the alternative treatment that you favour for issue 2, and the reasons for your view.

The ACNC favours alternative 1. We note that this is IFRS-compliant and should already be applied by GPFS preparers who are required to apply AASB 15 (which sets out the agent vs principle concept).

We note that the current trend is that other standards are aligning towards Alternative 1. In our view, applying the ‘risks and rewards’ approach does not provide substantial simplicity and likely results in a similar outcome to applying the control principle.

SMC 2(e) Additional disclosures are proposed under all alternatives for issue 2. Outline any challenges you would anticipate with the proposed disclosures? Are there additional disclosure that might be more relevant?

Some form of disclosure regarding assets held as agent is essential to assist users to adequately understand the true nature of the amounts held by NPOs. It is unclear whether the proposed additional disclosures will increase the reporting burden, particularly for smaller NPOs, given that smaller NPOS may be less likely to be acting as agents in complex arrangements.

Issue 3 – Non-exchange revenue

NPOs receive non-exchange revenue from a variety of different resources. NPOs may rely on grants, cash donations, donations of individual items (gifts in-kind), donations of services or volunteer time (services in-kind) and bequests and endowments in order to meet their objectives.

Non-exchange revenue transactions raise specific issues. These issues relate to the recognition, measurement and disclosure of non-exchange revenue.

SMC 3(a) Do you agree with the description of issue 3 – Non-exchange revenue? – in the Consultation Paper? If not, why not?

The ACNC agrees with the description of this issue.

SMC 3(b) Do you agree that the list of alternative treatments that should be considered for issue 3 is exhaustive? If not, please describe your additional proposed practical alternatives, and explain why they should be considered.

In Australia, we have a distinct treatment that is different to the 4 listed alternatives.

The concept of non-exchange (non-reciprocal) transaction was removed with the introduction of the new accounting standards AASB 15 and AASB 1058. The two standards underpin the recognition, measurement, and disclosure requirements for non-exchange revenue. The assessment of enforceability and performance obligation determines which standard applies. When a transaction is either not enforceable, or without sufficiently specific performance obligations (both must be present to be accounted for under AASB 15), a charity needs to apply AASB 1058. Services that are provided in-kind (volunteer services) are specifically covered under AASB 1058, but this is optional. This voluntary disclosure of in-kind services is only available when charities can reliably measure the fair value of those services.

This approach does not differentiate between whether the non-exchange revenue is from a government grant or other non-exchange transactions (for example non-government grants). Recognition of services that are provided in-kind is not required.

SMC 3(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 3? If you do not agree, please set out the changes you propose, and why these should be made.

Alternatives 1 and 2 require recognition of services provided in-kind and might have other disadvantages not mentioned:

- Recognising services provided in-kind as revenue/expenses in the statements is likely to confuse some less-sophisticated users.

- Recognising services provided in-kind (as a concept) may not be understood by some NPOs.

- Recognising services provided in kind as revenue may result in more onerous reporting requirements for NPOs operating in jurisdictions where reporting requirements increase in line with increases in revenue (for example the ACNC Act has proportionate reporting requirements for charities by size, which is determined by reference to annual revenue).

- Recognising services provided in kind may be recognised as an asset rather than revenue if the facts and circumstances satisfy the recognition criteria of an asset.

For Alternative 2, it cannot simultaneously be an advantage under 'Technical' that it follows the IFRS for SMEs Standard, while it is also a disadvantage that it is not consistent with the IFRS for SMEs Standard.

SMC 3(d) Please identify the alternative treatment that you favour for issue 3, and the reasons for your view.

Please refer to our response to 3(b), which outlines the existing approach in Australia.

However, given that there is no clear evidence of users calling for recognition of services provided in-kind in financial statements, we favour the current approach in AASB 1058 that recognising services provided in-kind is optional.

The ACNC Charity Register supplements this information gap by collecting and publishing information about the number of unpaid volunteers for each reporting period for charities in all sizes, which may be considered a reasonable proxy.

Finally, the ACNC adopts a proportionate reporting framework - recognising services provided in-kind as revenue will result in more onerous reporting requirements, as it will push a number of entities into a higher classification. It is also impractical for small-size charities that can still use cash accounting.

SMC 3(e) If you favour an alternative other than alternative 4 for issue 3, do you consider that the exceptions to the recognition and measurement of gifts in-kind and services in-kind should be available under your preferred option?

The ACNC favours permitting, but not compelling, NPOs to recognise services provided in-kind. Recognition and measurement of in-kind gifts should occur where practicable.

SMC 3(f) Are there any practical considerations, for example impacts on tax or audit thresholds, or questions that arise in implementing your preferred option for issue 3?

Australian charities preparing GPFS already apply AASB 15 and AASB 1058 for these types of transactions. Also, there are proposed new tier 3 reporting requirements for certain not-for-profit private sector entities as part of the Not-for-Profit Private Sector Financial Reporting Framework project, led by the AASB, which is currently underway. Additional information about the current status of this: https://aasb.gov.au/media/tv1frs10/210-actionalert.pdf

From the reviews of annual financial reports conducted by the ACNC, it appears to be very rare for charities to recognise services provided in-kind and voluntarily disclose such information.

Issue 4 – Grant expenses

Many NPOs make grants to other organisations to further their own objectives. This topic is primarily concerned with what expense should be recognised and when, as well as related disclosures.

SMC 4(a) Do you agree with the description of issue 4 – Grant expenses? – in the Consultation Paper? If not, why not?

BLANK

SMC 4(b) Do you agree that the list of alternative treatments that should be considered for issue 4 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

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SMC 4(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 4? If you do not agree, please set out the changes you propose, and why these should be made.

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SMC 4(d) Please identify the alternative treatment that you favour for issue 4, and the reasons for your view.

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Issue 5 – Measurement of non-financial assets held for social benefit

Tangible and intangible assets that are held for use in delivering the NPO's objectives and not for a financial return is a specific issue for NPOs, particularly where there is a need to impair them.

This topic is seeking to address matters related to:

- How assets are measured initially and subsequently
- Impairment, including when an impairment is recognised, how it is measured and what disclosures should be made.

SMC 5(a) Do you agree with the description of issue 5 – Measurement of non-financial assets held for social benefit? – in the Consultation Paper? If not, why not?

BLANK

SMC 5(b) Do you agree that the list of alternative treatments that should be considered for issue 5 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

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SMC 5(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 5? If you do not agree, please set out the changes you propose, and why these should be made.

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SMC 5(d) Please identify the alternative treatment that you favour for issue 5, and the reasons for your view.

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SMC 5(e) Do you agree that land and buildings (or sub classifications thereof) used to provide services should be measured using the revaluation model and specifically a measurement which reflects the 'value in use' or the operational capacity to an NPO? Could it provide useful information to users?

BLANK

Issue 6 – Inventory held for use or distribution

Inventory held for use or distribution to service users has also been identified as a specific issue for NPOs, particularly where the inventory has been donated rather than purchased.

Some of the specific questions that this topic is seeking to address are:

- the initial and subsequent measurement of low value donated goods
- the measurement of perishable inventories and what disclosures should be made about these
- impairment, including when an impairment is recognised, how it is measured and what disclosures should be made.

SMC 6(a) Do you agree with the description of issue 6 – Inventory held for use or distribution? – in the Consultation Paper? If not, why not?

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SMC 6(b) Do you agree that the list of alternative treatments that should be considered for issue 6 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

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SMC 6(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 6? If you do not agree, please set out the changes you propose, and why these should be made.

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SMC 6(d) Please identify the alternative treatment that you favour for issue 6, and the reasons for your view.

BLANK

Issue 7– Presentation of financial statements (including fund accounting)

The format and content of financial statements including revenue and expenses is fundamental to how the information is presented to stakeholders. This presentation is particularly important when revenue is restricted or can only be used for particular purposes.

Some of the specific questions that this topic is seeking to address are:

- How should financial statements be presented to help the user's understanding of an NPO's activities? Should there be disclosure of material categories of income and expenses and/or transactions?
- How should unrestricted and restricted funds that can be used for specific NPO purposes be presented in the main financial statements and notes (including reserves)? How does this align with donor reporting requirements? What is the role of fund accounting?

SMC 7(a) Do you agree with the description of issue 7 – Presentation of financial statements? – in the Consultation Paper? If not, why not?

BLANK

SMC 7(b) Do you agree that the list of alternative treatments that should be considered for issue 7 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

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SMC 7(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 7? If you do not agree, please set out the changes you propose, and why these should be made.

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SMC 7(d) Please identify the alternative treatment that you favour for issue 7, and the reasons for your view. In your response please consider the presentation of unrestricted reserves allocated for internal purposes.

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SMC 7(e) The term 'statement of financial performance' is used in the Consultation Paper to describe the statement that contains an NPO's revenues and expenses. Do you agree with the use of this term? If not, describe your preferred term and explain your reasoning.

BLANK

Issue 8 – Classification of expenses – function or nature?

NPOs can present their expenses by nature or by function, with at least one jurisdiction having a presentation allowing a hybrid of the two.

Some of the specific questions that this topic is seeking to address are:

- Should there be a standardised format and if so, what should the primary headings be?
- Should the primary analysis of expenses be based on function or nature?

SMC 8(a) Do you agree with the description of issue 8 – Classification of expenses? – in the Consultation Paper? If not, why not?

BLANK

SMC 8(b) Do you agree that the list of alternative approaches that should be considered for issue 8 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

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SMC 8(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 8? If you do not agree, please set out the changes you propose, and why these should be made.

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SMC 8(d) Please identify the alternative approach that you favour for issue 8, and the reasons for your view. When considering your preferred approach please comment on which alternative:

(i) provides the best information about the key components of expenses or drivers of performance/activities?

(ii) most closely matches how management reports internally and the way the operation is run (to assist with the cost/benefit assessment)

(iii) whether the alternatives link to any key ratios that might be given in the narrative reporting (and therefore should be something that can be disclosed and reconciled to)

(iv) whether the alternatives permit accountability.

BLANK

SMC 8(e) Do you think that the alternatives for issue 8 provide the right balance between information presented on the face of the performance statement or in the notes?

BLANK

SMC 8(f) Would the allocation of expenses to functions outlined in issue 8 be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions?

BLANK

SMC 8(g) Are there any practical questions that arise in implementing your preferred option for issue 8?

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Issue 9 – Fundraising costs

Raising funds is critical to the existence of many NPOs. Fundraising activities can take many forms and there is a question about where to report the associated costs.

Some of the specific questions that this topic is seeking to address are:

- How should the costs of fundraising be defined (for example, whether to include business development spend and/or overheads)?
- How should the costs of fundraising be recognised and/or presented (i.e. on a gross basis or netted against income)?

SMC 9(a) Do you agree with the description of issue 9 – Fundraising costs? – in the Consultation Paper? If not, why not?

The ACNC agrees with the description - there is currently no standard definition of what constitutes fundraising costs.

SMC 9(b) Do you agree that the list of alternative approaches that should be considered for issue 9 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

The ACNC does not consider this list is exhaustive. Firstly, there is the question of whether fundraising costs would be disclosed in the Profit & Loss statement or in a separate disclosure note. Secondly, another alternative could be to make the disclosure of fundraising costs optional, as opposed to Alternative 3 which is compulsory.

SMC 9(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting approach for issue 9? If you do not agree, please set out the changes you propose, and why these should be made.

The Alternative 3 advantage of 'flexibility to define the costs of fundraising with the principles established by the guidance' is hard to quantify without knowing more about how flexible the principles will be. Alternative 3 may also result in significant additional costs to reconfigure accounting systems and procedures.

SMC 9(d) Please identify the alternative approach that you favour for issue 9, and the reasons for your view.

While we tend to favour Alternative 3, it may only be appropriate for larger NPOs due to the issues with that alternative which have been identified. The approach is a first important step in addressing the long-standing gap regarding how to report fundraising costs, which is specific to NPOs and of great interest to their stakeholders. It overcomes the main disadvantage of resulting inconsistent approaches in Alternative 1 and 2. It helps to establish the principles and basis needed to standardise a consistent approach. A starting point is needed subject to ongoing maintenance and post-implementation reviews to find the right balance and improve fundraising cost reporting. Although it may not offer a tailored approach for each situation, the disclosure or accounting policies will provide

relevant information. Finally, a standardised approach will help strengthen public trust and confidence

SMC 9(e) Do you agree that all fundraising costs should be presented gross? If not, please provide examples of where this might not apply and the reasons for your view.

The ACNC agrees with this approach, except where it is impracticable to do so - for example, where sponsors share costs and the gross cost is unknown.

Issue 10 – Narrative reporting

Non-financial information, which includes management commentary and other forms of narrative reporting, is relevant to NPOs, in demonstrating accountability and stewardship to stakeholders and civil society. For many NPOs, the financial statements may not capture many of the most important aspects of performance.

Some of the specific questions that this topic is seeking to address are:

- What should the narrative/non-financial reporting requirements be for NPOs?
- Should ratios be required for narrative reporting? If they are included, how should costs be classified between support costs and those attributable to operational delivery?

SMC 10(a) Do you agree with the description of issue 10 –Narrative reporting? – in the Consultation Paper? If not, why not?

We note that donors are often interested in narrative reporting and non-financial information and integrate it into their decision-making. However, without a full understanding of users' needs it is challenging to describe precisely what form of narrative reporting would address those needs.

We note that the AASB has published a research report to evaluate users' needs across all sectors. As noted in the report's Executive Summary, 'It is recognised by several studies that large donors are able to obtain the information required, whereas other users are restricted to financial reports. Non-financial information is wanted, and narrative reporting is valued. Performance information is also sought, although defining performance is an open question.'

The ACNC currently requires limited performance information through the Annual Information Statement (AIS). This includes information on the programs that charities operate, their operating locations and beneficiaries, and a narrative description of how their programs achieve their outcomes. The information allows the ACNC to ensure charities are meeting their charitable purposes and remain entitled to charitable status. Public trust and confidence in the sector is also promoted by making this information available to the public. However, beyond this basic information the sector is left to innovate in relation to developing measures of performance that are tailored to the needs of donors and the broader public.

Although there is no narrative reporting standard for Australian charities, we do observe various and innovative ways charities communicate narrative information via annual reports, their websites, social media and other platforms.

Guidance that is applied universally may disproportionately burden some sub-sectors more than others. The burden could arise not only because of increased reporting, but due to the difficulty, complexity and cost of collecting certain narrative information. We suggest that the narrative reporting requirements should be proportionate to the size of NPOs.

SMC 10(b) Do you agree that the list of alternative treatments that should be considered for issue 10 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

There is at least one additional option - the development of new guidance based on users' needs, which is highly likely to be different to all the other options. Ideally the alternative would be proportionate based on NPO size, complexity, and resources.

We consider that a principles-based approach is better suited to the NPO sector because of its diversity – there is no 'one size fits all' option. The comparability of data would affected, but to a certain extent this is inevitable with any option due to the diversity of the sector.

The New Zealand Service Performance Reporting for Public Benefit Entities (PBEs) standard, although not an international standard, is a modern standard. It is targeted specifically at PBEs that share common characteristics with NPOs, with differentiated reporting that are more prescriptive for Tier 1 entities that are better able to carry that additional burden. A post implementation review was recently undertaken.

The ACNC's own Annual Information Statement gathers narrative reporting information from charities in questions relating to programs.

SMC 10(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 10? If you do not agree, please set out the changes you propose, and why these should be made.

Option 2 and 3 may result in additional assurance costs. There is an assumption that options 2 and 3 will benefit stakeholders but the extent of the benefit is difficult to quantify without fully understanding users' needs.

SMC 10(d) Please identify the alternative treatment that you favour for issue 10, and the reasons for your view.

Without a better understanding of users' needs it is difficult to assess which option is preferable, or whether, in fact, another alternative should be developed.

We note that all alternatives are based on an international framework. The ACNC supports developing global best practice guidance on what good narrative reporting includes. It may be worth drawing on jurisdictional standards as mentioned in 10(b).

SMC 10(e) Should narrative reporting guidance be set at the level of a framework and principles, rather than any more specific reporting requirements or recommendations? If you disagree, what additional guidance on whatspecific reporting requirements or recommendations would be beneficial?

Guidance should be set at the level of framework and principles because this better allows for the diversity of the NPO sector. However, a more complete understanding of users' needs would be needed to better develop any approach. We also note that smaller NPOs may prefer more prescriptive standards, templates and examples because of their limited resources.