



Australian Government



Australian
Charities and
Not-for-profits
Commission

31 March 2023

Australian Accounting Standards Board (AASB)

Submitted via <https://www.aasb.gov.au/current-projects/open-for-comment/>

Our reference: ACNCSUB2023/4

AASB Invitation to Comment

ITC 50 Post-implementation Review – Income of Not-for-Profit Entities

ITC 51 Post-implementation Review of Not-for Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements

The Australian Charities and Not-for-profits Commission (ACNC) welcomes the opportunity to comment on *ITC 50 Post-implementation Review – Income of Not-for-Profit Entities* and *ITC 51 Post-implementation Review of Not-for Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements*.

The ACNC is the national regulator of charities established by the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (ACNC Act). It currently has oversight of around 60,000 registered charities. The objects of the ACNC are to:

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

The ACNC maintains a free and searchable online public register of charities (**the Charity Register**). The Charity Register helps the public to understand the work of the charity sector and enables charities to be transparent by publishing information about their activities, operations, and finances. Financial reports provided by charities are available on the Charity Register.





Our general comments below are limited to the impact of these post implementation reviews on ACNC registered charities. Comments are based on the ACNC's current legislative framework.

ITC 50 Post-implementation Review – Income of Not-for-Profit Entities

Charities regularly contact the ACNC asking how to account for grants. Our interactions with charities suggests that some charities (generally Special Purpose Financial Statement (SPFS) preparers who are not required to apply AASB 15 and AASB 1058) are recognising grants revenue as grants related expenses are incurred, rather than by strict adherence to the reporting requirements in AASB 15 and AASB 1058. Feedback we have received indicates that charities and the users of their financial reports consider this approach to be logical, easy to understand and the financial report information is used both externally and internally by charity boards and management. Given that grant funding is very common for charities, this suggests that matching of revenue and expenses, at least in relation to grants funding, may be relatively common in the sector.

Our view is that wherever possible and appropriate, charities should have as much flexibility as possible to recognise grant revenue progressively as they expend grants given that most grants are for a specific purpose, even if they have varying degrees of acquittal/contractual obligations.

We are concerned that an overly strict approach to grant revenue recognition could result in some charities preparing two sets of financial reports, for external and internal use respectively, resulting in additional costs for charities that already have limited resources.

We also note that a significant number of larger charities that currently prepare SPFS (approximately 8,000) may no longer be able to apply their current grant revenue and expense matching policies if the reporting entity definition is changed to remove the option to prepare SPFS.

ITC 51 Post-implementation Review of Not-for Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements

Control and Structured Entities

We acknowledge the issues raised in ITC 51 regarding the challenges faced by not-for-profit private sector entities, including charities, in determining control for the preparation of consolidated financial statements.



Section 205-25 of the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (**the ACNC Act**) determines the size of a charity based on a single registered charity level, even if the charity controls subsidiary entities.

In addition, the mandatory accounting standards under section 60-30 of the *Australian Charities and Not-for-profits Commission Regulations 2022* (Cth) do not require the use of AASB 10 *Consolidated Financial Statements* or AASB 12 *Disclosure of Interests in Other Entities*.

Only medium and large charities that are reporting entities and approved ACNC groups must apply the relevant accounting standards and the Appendix E to AASB 10, which includes the *Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*.

We have noticed that some charities prepare Special Purpose Financial Statements or amalgamated financial reports to avoid AASB 10 due to difficulties in assessing control to prepare consolidated financial statements. Feedback from sector practitioners suggests that these difficulties may stem from the way charities are structured and the broader concept of control in the not-for-profit private sector.

We refer to our response to Question 17 in the ACNC submission to the *Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* regarding our view to the application of AASB 10 to the charity sector.

Related party disclosures

We acknowledge that ITC 51 seeks comments from not-for-profit public sector entities on related party disclosures.

However, starting from the 2023 reporting period onwards, all charities are required to report related party transactions, regardless of their size.

Medium and large charities must comply with AASB 124 *Related Party Disclosures* or equivalent paragraphs in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* to fulfill the new legislative requirements, as recommended by the 2018 ACNC legislation review.

As the 2023 reporting including related party disclosures is not yet due for collection from charities, we will work with the AASB to share any findings or comments as the charity sector starts to implement these accounting standards.

Basis of Preparation of Special Purpose Financial Statements – Disclosures about Compliance with Australian Accounting Standards



We acknowledge the new disclosure requirements under AASB 1054 Additional Australian Disclosures, which apply from the 2020 reporting period onwards, coinciding with the onset of the Covid-19 pandemic. While implementing changes to reporting requirements may not be a priority for charities during this challenging time, we randomly reviewed a sample of 250 medium and large charities to gain insights about the quality of financial reports from registered charities within the wider population.

Our report, available at:

<https://www.acnc.gov.au/tools/reports/reviewing-charities-financial-information-and-annual-financial-reports-2020>

revealed that 45% of charities preparing SPFS included a disclosure note regarding compliance with recognition and measurement requirements.

The most commonly observed disclosure note was one that confirmed compliance with the recognition and measurement requirements of all relevant accounting standards.

Further questions

If there are any further questions, please contact Mel Yates at Melville.Yates@acnc.gov.au or 03 927 59595.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sue Woodward'. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Sue Woodward AM

Commissioner
Australian Charities and Not-for-profits Commission

Enc:

Appendix – Response to specific questions for comment



Appendix – Response to specific questions

ITC 50 Post-implementation Review – Income of Not-for-Profit Entities

Question 10

We support all of the suggested alternative approaches to recognise revenue listed at question 10. We also suggest that the purpose of a grant could also be a relevant consideration in some cases.

Question 11

The most common inquiry on the topic of principal and agent the ACNC receives from charities is in relation to grant/donation auspicing arrangements. The questions are so common that we drafted guidance to help charities with this.

<https://www.acnc.gov.au/for-charities/manage-your-charity/obligations-acnc/reporting-annually-acnc/standards-and-financial-reporting>

We encourage the AASB to develop more guidance and/or an example on this topic and we can provide input to the draft AASB guidance if required.