

18 March 2021

The Chairman
Thresholds Working Group
c/- Not-for-profit Unit
Individuals and Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email Thresholds@treasury.gov.au

Dear Sir/Madam

Re: Consultation Paper: Increasing financial reporting thresholds for ACNC – registered charities

On behalf of the Institute of Public Accountants (IPA), I am writing to comment on the consultation paper: *Increasing financial reporting thresholds for ACNC – registered charities*.

The IPA believes reporting by not-for-profit (NFP) entities, and charities in particular, need to be considered from a public-accountability viewpoint. Charities are the recipients of donations from the public (taxpayer funding) and are often the conduit for the delivery of social services (sometimes via contractual arrangements with government) that requires a level of transparency and accountability that is not always delivered.

The IPA does not believe that grant acquittals represent an adequate substitute as they do not provide the level of public transparency and accountability the public and taxpayers require for recipients of government funds, assets, and contracts. The IPA is of the view that any changes to reporting thresholds needs to be considered in such a context, particularly given the increased distrust of government and institutions (both public and private) and the minimal cost savings of the proposals (between \$2,400 - \$3,000).

The IPA also has concerns about using review engagements to provide assurance for ACNC-registered charities and other NFP entities. In particular, the institute thinks:

Efficacy of review engagements – The IPA is concerned that legislators and regulators fail to appreciate the extent of assurance procedures carried out under ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in particular, that the procedures are limited to enquiry and analytical review and corroboration of information obtained is not ordinarily required.

Difference from half-yearly reviews of listed companies – The efficacy of half-yearly reviews of listed entities is enhanced by their “anchoring” to audited full-year information, enhancing the results

of review procedures including analytical procedures. Review engagements undertaken for ACNC charities lack this “anchoring” and are inherently less robust.

Lack of segregation of duties (SODs) – Many charities fail to employ enough staff (particularly accounting staff) to maintain an effective SOD. This increases the inherent risk of fraud and given the limitations of review engagements the risk of material misstatement due to fraud and errors remaining undetected is increased.

Efficacy of the board of directors – The IPA is concerned that the lack of experienced boards coupled with rudimentary governance requirements and risk-management processes, including weak internal controls, increases the risk of material misstatement due to fraud and error; these might go undetected even by a review engagement.

The IPA also is concerned that the increasing number of ACNC charities not required to be audited will put pressure on the ACNC’s monitoring and reviews.

The institute believes that threshold changes should be subject to the following:

- The deficiencies in the review standard ASRE 2410, particularly the requirement for corroboration of management representations
- Sufficiency of resources for the ACNC to undertake reviews of annual information statements and financial reports
- Address the adequacy of financial information that should be available to donors and taxpayers, including fundraising information, use of funds, and other relevant information, and
- Improve the transparency and availability of financial information for donors, taxpayers and other interested parties, including by requiring financial information to be readily and clearly accessible to interested parties including on entities’ websites.

Our detailed comments on the paper are included in the attached appendix.

If you would like to discuss our comments, please contact me or our technical advisers, Stephen La Greca (stephenlagreca@aol.com) and Colin Parker (colin@gaap.com.au) (a former member of the AASB), at *GAAP Consulting*.

Yours sincerely



Vicki Stylianou
Executive General Manager, Advocacy & Technical
Institute of Public Accountants

Cc Chair, Australian Accounting Standards Board

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in more than 65 countries, including Australia, the IPA represents members and students working in industry, commerce, government, academia, and private practice. Through representation on special-interest groups, the institute ensures that the views of its members are voiced with government and key industry sectors and makes representations to government and the Australian Tax Office, Australian Securities & Investments Commission, and the Australian Prudential Regulation Authority on issues affecting our members, the profession, and the public interest. The IPA recently merged with the UK's Institute of Financial Accountants to form the world's largest accounting body in the SMP/SME sector.

Appendix

Question 1

Do you consider the proposed new thresholds are suitable? If no, why? If no what thresholds do you consider appropriate to balance regulatory red tape and the need for accountability and transparency?

IPA response

As noted in our covering letter, the IPA has several concerns about proposed changes in reporting thresholds including:

- The need for public accountability and transparency
- The inherent limitation of review engagements
- The efficacy of review engagements in the context of not-for-profits, for example, the lack of SOD, inexperience of boards, and rudimentary understanding and application of governance standards
- The resource requirements of the ACNC to undertake effective reviews of annual information statements and financial reports, and
- The minor cost benefits from the proposed changes.

Question 2

In your view, is it more important for the ACNC to increase reporting thresholds as soon as Commonwealth legislative priorities allow, or for the increased thresholds to be increased simultaneously across all jurisdictions consistent with a longer timeframe?

IPA response

As noted in our cover letter and response to Question 1, the IPA has concerns about the proposed changes to thresholds.

We do not consider it necessary that simultaneous adjustment need to be applied to all jurisdictions.

Question 3

What lead time would you consider suitable for charities to make necessary changes to their reporting processes?

IPA response

The IPA believes that only minor changes would be needed to address the changes arising from a change in thresholds. Twelve months after the changes are legislated would be adequate for charities to address the changes, including liaising with professional-service providers. Early adoption should be permitted.

Question 4

In your view, if non-ACNC-registered incorporated associations were required to report similar financial information to that which ACNC-registered incorporated associations provide to the ACNC, would this provide sufficient accountability and transparency including for the purposes of members, donors and the interested public?

IPA response

The IPA does not believe that reporting by non-ACNC-incorporated associations of information similar to that which ACNC-registered incorporated associations provides would give sufficient transparency to members, donors, and the interested public.

As noted in our covering letter, the IPA has concerns about the current regime and would not support its extension in its current form to other entities. The IPA believes any reform to NFP reporting, including by charities, should be consistent with the AASB-NFP reporting framework to ensure that users' needs are adequately addressed.

Question 5

What, if any issues do you consider differences in reporting thresholds for charity and non-charity incorporated associations will cause? Why?

IPA response

The difference in thresholds for charities and non-charities is most likely to cause confusion for boards and professional advisers, resulting in non-compliance with appropriate requirements. This could be mitigated by clear and consistent communication on the respective responsible regulators' websites of requirements applicable to each type of entity.

Question 6

In your opinion, is the Thresholds Working Group overlooking any issues concerning the nexus between fundraising reporting requirements and financial reporting requirements for ACNC-registered charities?

IPA response

The IPA is unaware of issues concerning fundraising-reporting and financial-reporting requirements for