

Ms Susan Pascoe
Commissioner
State Services Authority
GPO Box 4912W
MELBOURNE VIC 3001

Review of Not for Profit Regulation

The Institute of Chartered Accountants in Australia (the Institute) is delighted to respond to your Call for Submissions to the State Services Authority's *Review of Not for Profit Regulation* – the Review. We have taken particular note of your exhortation that “*the Review is interested in solutions, not retelling the problems*”. Even though there is an element of “*retelling*” to support our recommendations, we believe we have responded accordingly.

1 Summary

The Institute has long held the view that the regulatory environment applied to Australian not for profits (NFPs) is too complex because the relevant “corporate” and fund raising legislation varies from jurisdiction to jurisdiction. This results in financial reporting requirements that are not relevant to NFPs, relevant financial reporting requirements not being applied on a consistent basis and annual reports that sometimes fail the transparency test.

The Institute therefore recommends:

1. State and federal governments, under the auspices of the Standing Committee of Attorneys General, develop uniform “incorporated Associations” legislation and regulations that can be applied to NFPs.
2. the Australian Accounting Standards Board (AASB) is assigned the task of developing a NFP specific financial reporting framework, using the UK Charity Commission's *Accounting & reporting by Charities: Statement of Recommended Practice* as a precedent. This framework would:
 - require agreement between the States and the Commonwealth to mandate its application to NFPs incorporated under the Corporations Law and the various Incorporated Associations legislation;
 - need to reflect the reporting requirements of fundraising legislation that operates in each State; and
 - need to recognise that NFPs range from the very large to the very small and therefore allow for differential reporting based on size, perhaps by adopting criteria similar to that specified in the Corporations Act to differentiate between large and small proprietary companies.

If implemented, the Institute believes its recommendations will reduce the administrative and compliance burdens of NFPs by streamlining and simplifying the reports NFPs are required to prepare to satisfy the requirements of all stakeholders, including government.

2 Introduction

2.1 *The Institute of Chartered Accountants in Australia*

The Institute's 45,000 members work in diverse roles across commerce and industry, academia, government and public practice throughout Australia and in 107 countries around the world. Many are engaged in the NFP sector as employees, professional advisors or volunteers.

The Institute aims to lead the accounting profession by delivering visionary thought leadership projects, setting the benchmark for the highest ethical, professional and educational standards, enhancing, and promoting the profession. We are responding to your Call for Submissions because we also represent the interests of members to government by actively engaging our membership on public policy, government legislation and regulatory issues.

2.2 *Assisting the Not for Profit sector*

In 2006 the Institute became aware that the introduction of Australian equivalents to international financial reporting standards (A-IFRS) and a growing focus on corporate governance was creating some uncertainty in the NFP sector about its reporting obligations.

To assist the sector, the Institute commissioned two reports to:

- assist NFPs in the application of legislation and accounting standards in their financial reporting; and
- provide NFPs with additional guidance on broader reporting issues.

Copies of the reports, *Not-for-profit sector reporting: a research project* and *Enhancing not-for-profit annual and financial reporting*, accompany this letter. The research that was the basis of these reports has led the Institute to the recommendations made in 1 above.

3 The legislative and regulatory environment

Australia's NFPs are subject to a myriad of legislation. This includes all of the legislation a business is expected to understand and comply with – the various taxation legislation, occupational health and safety, environmental and so on. In this Submission we concentrate on the legislation governing reporting by the NFP sector. In the Victorian context, the relevant legislation is:

Associations Incorporations Act 1981

Associations Incorporation Regulations 1981

Fundraising Appeals Act 1998

Fundraising Appeals Regulations 1999

The legal form of the NFP and the activities it undertakes dictate the legislation under which a NFP reports to its stakeholders. Victorian NFPs may be incorporated under the Commonwealth *Corporations Act 2001*, the State *Associations Incorporation Act* or under a specific instrument such as a Royal Charter, a specific Act of Parliament or Trust Deed. The *Corporations Act 2001* operates in such a way that companies limited by guarantee are considered Public Companies.

Fundraising legislation imposes additional and complementary reporting requirements on NFPs.

4 Reporting

In this section of our Submission we examine the legislation governing the form and content of NFPs annual financial reports. Ultimately, the nature and extent of reporting to NFP stakeholders is the decision of a NFP's governing body.

4.1 *Companies limited by guarantee*

Companies Limited by Guarantee are public companies and must prepare “a financial report and directors’ report for each financial year.” The financial report consists of:

- the financial statements for the year;
- the notes to the financial statements; and
- the directors’ declaration about the statements and notes.

The financial report must comply with the accounting standards. The financial statements and notes for a financial year must give a true and fair view of the financial position and performance of the company. (If consolidated financial statements are required, they must give a true and fair view of the financial position and performance of the consolidated entity).

4.2 *Incorporated Associations*

A review of Incorporated Associations legislation operating in each State and Territory reveals “best practice” legislation requires statements of accounts to be prepared annually and that the statements of accounts comprise statements of:

- income and expenditure;
- assets and liabilities;
- mortgages, charges or other securities affecting the association’s property; and
- income and expenditure, assets and liabilities and mortgages, charges or other securities affecting the property of any trust of which the association is a trustee.

Whether an association is required to comply with Accounting Standards requires a review of legislation and the Accounting Standards themselves. Some of the Incorporated Associations legislation implies that Accounting Standards are to be complied with, and then only in respect of certain “prescribed associations.”

Three jurisdictions, including Victoria, use the term “prescribed association”. The turnover and activity criteria specified in legislation or regulation to determine whether an Incorporated Association is a “prescribed association” can be found in Attachment 1. The application of these criteria result in a form of “differential reporting” based on the NFPs turnover and activities.

4.3 *An apparent inequity – differential reporting*

The fact that differential reporting based on turnover and activity criteria is available to one group of NFPs and not another is, in the opinion of the Institute, inequitable. Victorian NFPs incorporated as Companies Limited by Guarantee under the *Corporations Act 2001* that would not be Prescribed Associations had they been incorporated under the Associations Incorporation Act 1981 are required to comply with the same financial reporting requirements as public companies.

Those Companies Limited by Guarantee that would be Prescribed Associations under the Associations Incorporation Act 1981 are not able to limit their financial reporting in the same way as prescribed associations. Prescribed Associations are

required to prepare their financial statements in accordance with the Australian Accounting Standards specified in Schedule 1 of the Associations Incorporation Regulations 1998. These requirements are less onerous than those imposed by the Corporations Act on Companies limited by Guarantee.

The financial reporting obligations imposed on Victorian NFPs incorporated as Companies Limited by Guarantee are onerous, inequitable and expensive. Acceptance of our recommendation that a NFP specific financial reporting framework be developed would assist in overcoming this situation.

4.4 Deciding what to include in an annual financial report

Figures 1, 2 and 3 provide an overview of the decisions NFPs must make when determining the form and content of their financial reports. NFPs are faced with a complex regime of legislation and accounting guidance. The regime requires NFPs, no matter how incorporated, to decide whether they are reporting entities and, depending on this decision, what information to include in their annual financial report.

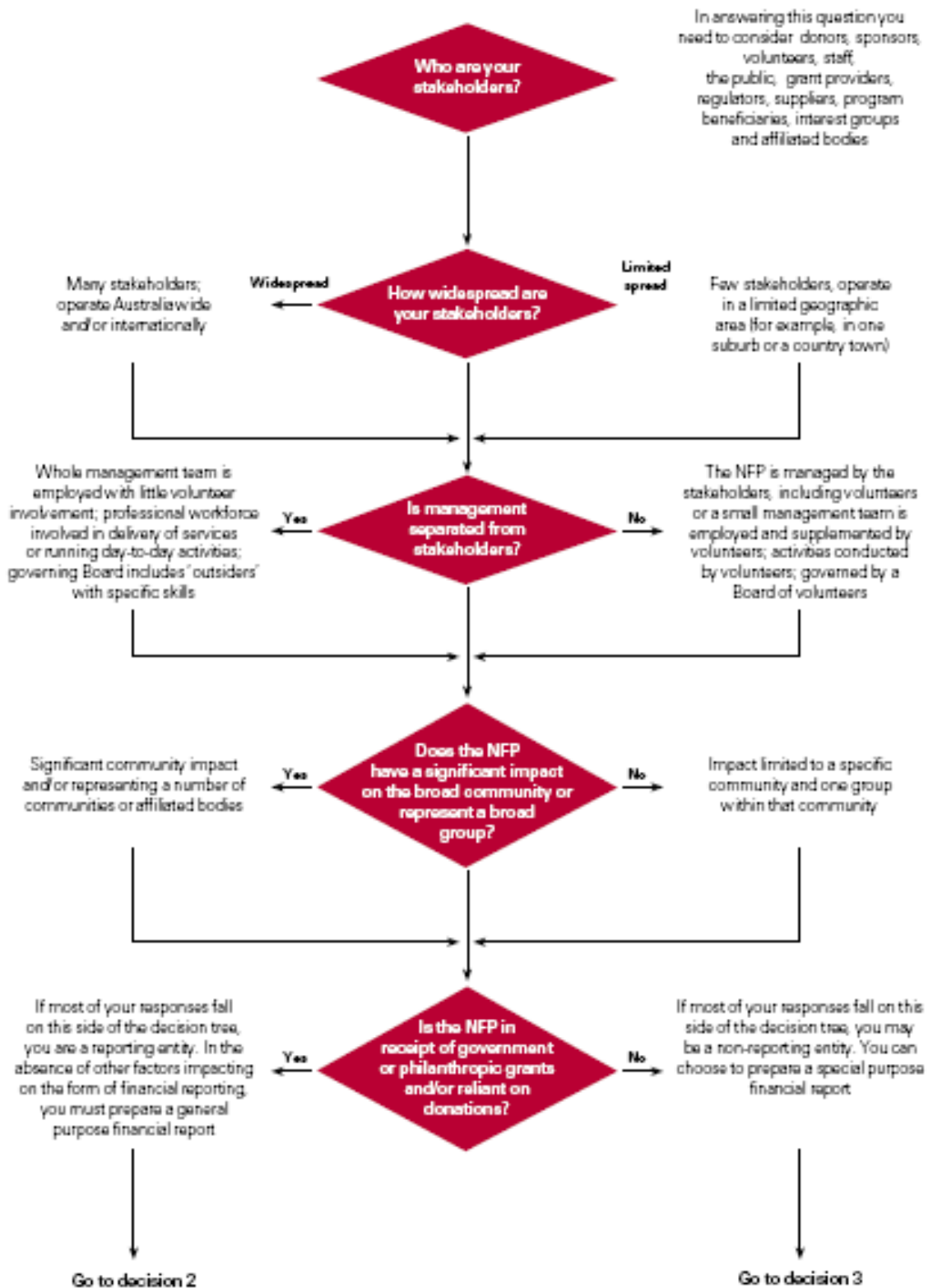
The decision by the AASB to continue with sector neutral Accounting Standards when introducing A-IFRS has added to the complexity. The IFRS that are the basis of A-IFRS were not developed to apply to NFPs. This has resulted in the AASB including NFP specific text in certain Accounting Standards and exempting NFPs from having to apply certain Standards.

The complexity of the reporting and compliance regime for NFPs is demonstrated in Figures 1, 2 and 3. It is a regime that results in the waste of all forms of scarce NFP resources – funds raised by donation or received as grants, volunteer time, management time – and might act as a deterrent to individuals who wish to volunteer their time to assist NFPs.

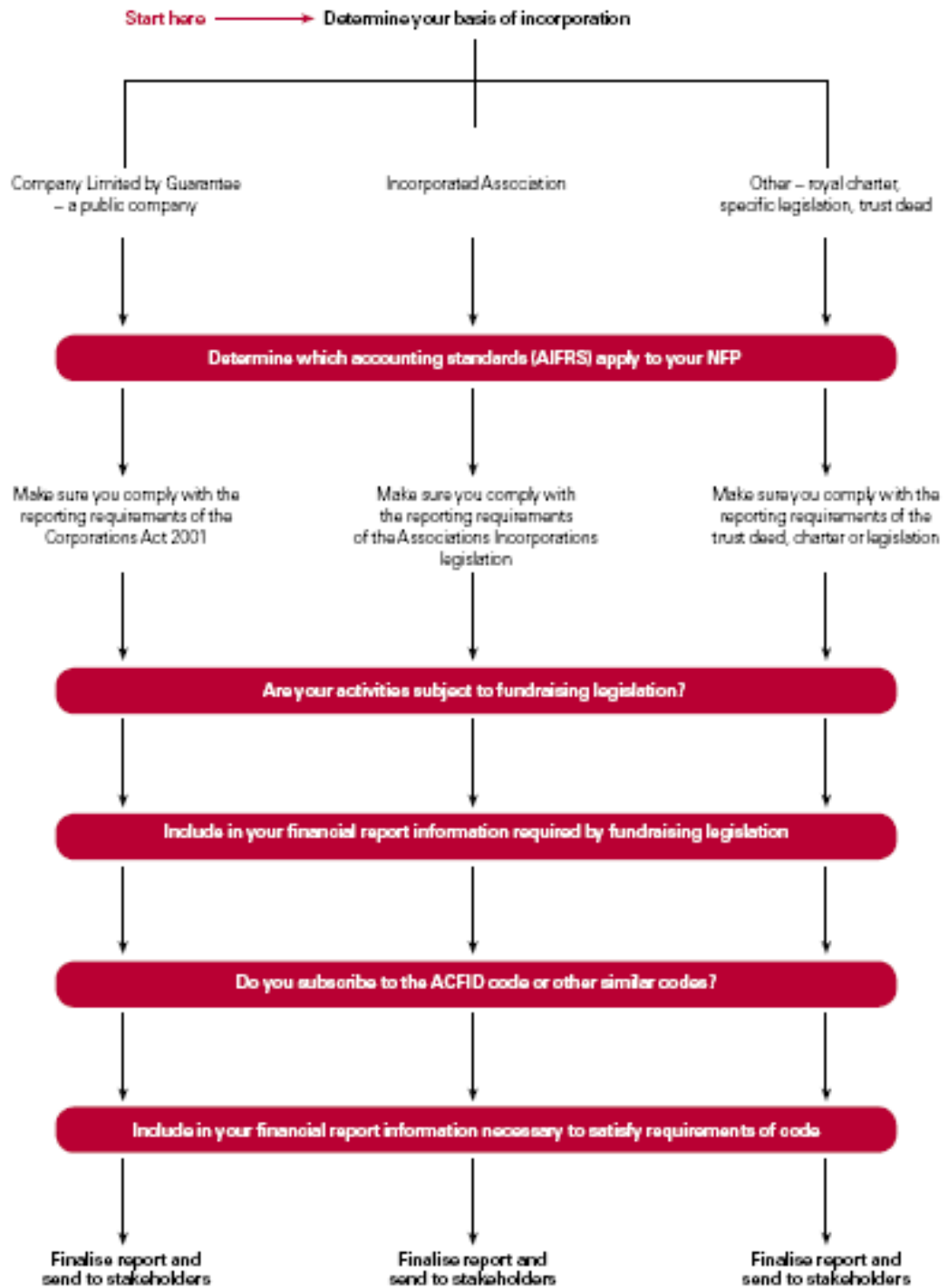
The complexity of the existing regime, the introduction of A-IFRS, the exceptions that have been made to the application of A-IFRS to NFPs, the resources that are expended in meeting the existing reporting requirements, the need for different financial information to show what the NFP is achieving and the size and importance of the NFP sector to the Australian economy all combine to indicate a need for a “non-government NFP” financial reporting framework.

Our recommendations are made in an effort to meet this need and remove complexity.

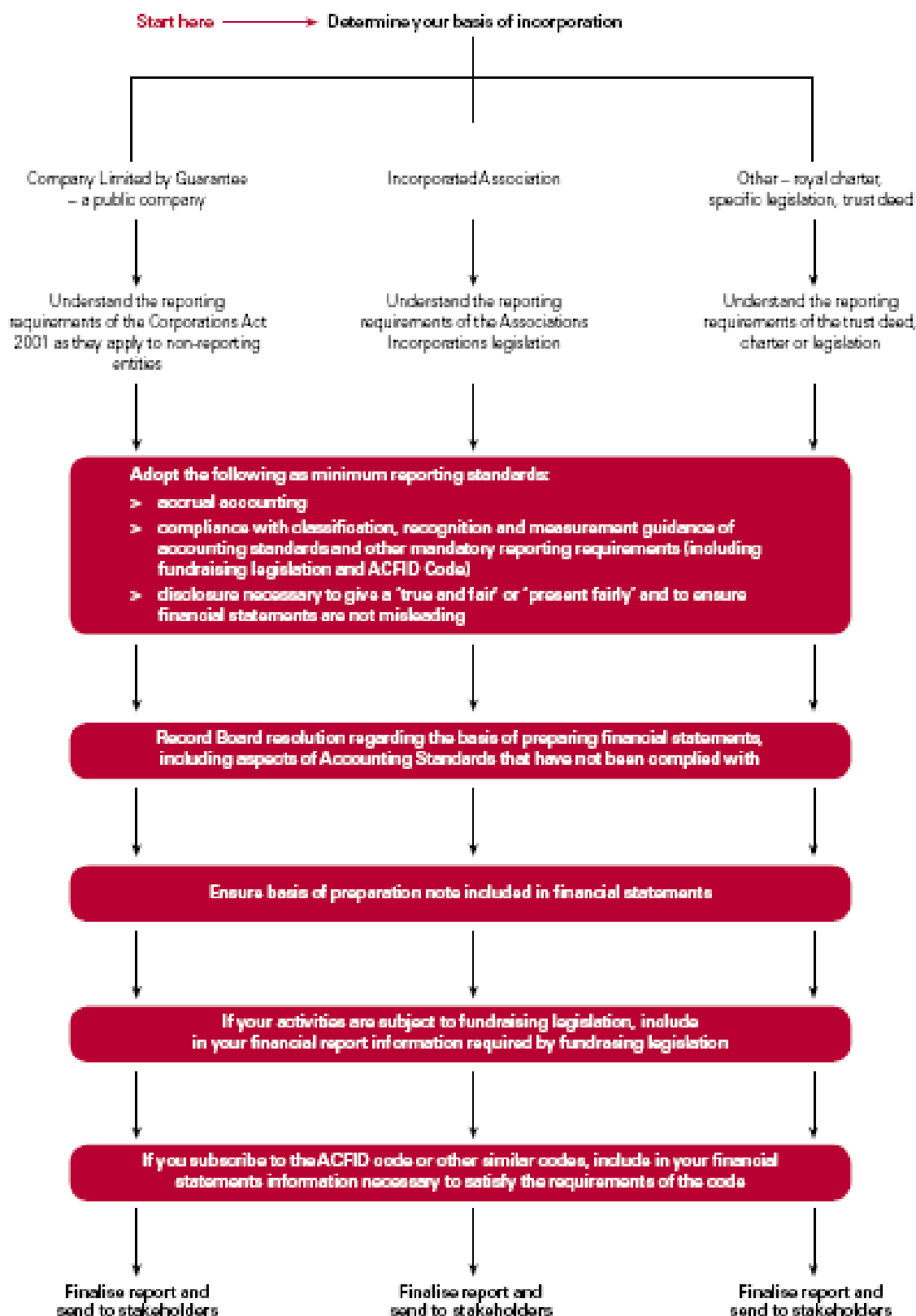
Decision 1: Are you a reporting entity?



Decision 2: What do you include in a general purpose financial report?



Decision 3: What do you include in a special purpose financial report?



5 The reporting requirements of fundraising legislation

5.1 What happens to the money? – Openness and transparency should be encouraged

The question donor stakeholders most often ask of NFPs is, “What happens to the money?” Financial reporting legislation and regulation does not specify disclosures regarding fundraising activities and the use of funds or goods raised by those activities. This gap is filled by the reporting provisions of fundraising legislation, the provisions of which vary from jurisdiction to jurisdiction.

The most comprehensive reporting requirements are included in the New South Wales *Charities Fundraising Act 1981* (refer to box on page x). At the other end of the scale, the Tasmanian *Collections for Charities Act 2001* has no reporting requirements and the Northern Territory does not have any specific fundraising legislation.

The Institute believes NFPs should be open and transparent regarding the use of funds obtained through fundraising activities. We believe the Victorian *Fundraising Appeals Act 1998* needs to be aligned with similar legislation in other jurisdictions to encourage Victorian NFPs to achieve a desirable level of openness and transparency.

5.2 Victorian legislation does not encourage openness and transparency

The Victorian legislation requires fundraisers to “*keep records sufficient to enable a true and fair view of the income and expenditure relating to the appeal*” ... including:

- full details of all funds and assets received as a result of the appeal;
- full details of what happened to all those funds and assets;
- full details of:
 - the amount applied to the purposes or objects of the appeal and how it was distributed;
 - any expenditure on assets;
 - any expenditure on wages, salaries, commissions and other remuneration in relation to the appeal;
 - any other administrative expenses related to the appeal;
 - any other expenditure related to the appeal; and
- any other details required by the regulations¹.

Our reading of the legislation indicates that Victorian NFPs are required to keep records of appeals, and prepare accounts summarising the information specified above², but are not required to include the results of the appeals and the utilisation of appeal funds in their annual financial reports. This compares unfavourably with the New South Wales legislation and the mandated and suggested Codes of Practice adopted in South Australia and Western Australia respectively.

¹ Fundraising Appeals Act 1998, section 29(1)

² Fundraising Appeals Act 1998, sections 29(4) and (5)

5.3 South Australia's mandatory code

The mandatory Code of Practice operating in South Australia requires that *“accounts should contain, in addition to the full range of information which would normally be contained in annual accounts, a statement of income and expenditure, including overheads, relating specifically to fundraising conducted ... during an organisation's normal accounting period, which shows:*

- *the aggregate gross income received from each type of fundraising activity;*
- *the total expenditure associated with each type of fundraising;*
- *the net operating surplus or deficit from each type of fundraising.”*

The South Australian Code also requires *“accounts (to) include a statement which describes how any surplus from fundraising was applied (distinguishing) between amounts allocated to direct services, administration costs and any other application (the transfer to reserves or accumulated funds).”*

5.4 Western Australia's mandatory code

WA's voluntary Code of Practice notes *“information contained in the financial statements is an important factor in determining estimates of fundraising returns to be used in promotional materials for future fundraising campaigns, as well as to satisfy public enquiries into the organisation's fundraising costs.”* The Code goes on to specify *“a recognised accounting method is to be used” and that “Australian Accounting Standards must be complied with in the preparation of accounts.”*

To comply with the Code *“financial statements must include a balance sheet; and an income and expenditure statement.”*

The income section of the income and expenditure statement must:

- clearly describe each type of fundraising activity conducted and avoid the use of general terms such as “fundraising” and
- list separately each different type of fundraising activity conducted.

The expenditure section of the income and expenditure statement must:

- separately list the expenses for each type of fundraising activity listed in the income section; and
- include all direct costs of fundraising in addition to a fair apportionment of relevant and identifiable indirect costs and overheads.

The apportionment method must be clearly stated in the notes to the accounts and remain consistent from year to year. Where a change in the apportionment method occurs, this must also be clearly stated in the notes.

5.5 Our recommendations

The Institute recommends that, at a minimum, the *Fundraising Appeals Act 1998* be aligned with similar legislation in other jurisdictions to encourage Victorian NFPs to achieve a desirable level of openness and transparency. This alignment will involve mandating that Victorian NFPs include the following information in their annual financial report:

- the aggregate gross income received from each type of fundraising activity;
- the total expenditure associated with each type of fundraising;
- the net operating surplus or deficit from each type of fundraising

- a statement which describes how any surplus from fundraising was applied distinguishing between amounts allocated to direct services, administration costs and any other application such as the transfer to reserves or accumulated funds.

We emphasise that this is our minimum recommendation. Ideally, the requirement for these disclosures should be included in the NFP specific financial reporting framework we have suggested earlier.

Reporting provisions of the NSW Charities Fundraising Act 1981

The New South Wales legislation has specific requirements for those NFPs with gross income from fundraising in excess of \$20,000. These include disclosures regarding:

- information on any material matter or occurrence, including those of an adverse nature such as an operating loss from fundraising appeals;
- the manner in which the net surplus or deficit obtained from fundraising appeals was applied;
- amounts spent on direct services in accordance with the charitable objects or purposes of the fundraising, recurrent costs of administration and any other significant purposes including transfers to reserves or accumulated funds;
- aggregate gross income and aggregate direct expenditure incurred in appeals in which traders were engaged;
- all forms of fundraising appeals conducted by the fundraiser during the period covered by the financial statements;
- comparisons in monetary terms and ratios or percentages of:
 - total costs of fundraising to gross income obtained from fundraising;
 - net surplus from fundraising to gross income obtained from fundraising;
 - total costs of services provided by the fundraiser to total expenditure;
 - total costs of services provided by the fundraiser to gross income received; and
- the financial performance for fundraising appeals, showing:
 - the aggregate gross income received;
 - the total expenditure associated with all fundraising appeals;
 - the net operating surplus or deficit.

In addition, *“the annual financial accounts of an authorised fundraiser that is an organisation are to include a declaration by the president or principal officer or some other responsible member of the governing body of the organisation stating whether, in his or her opinion:*

- *the statement of financial performance gives a true and fair view of all income and expenditure of the organisation with respect to fundraising appeals, and*
- *the statement of financial position gives a true and fair view of the state of affairs of the organisation with respect to fundraising appeals conducted by the organisation, and*
- *the provisions of the Act, the regulations under the Act and the conditions attached to the authority have been complied with by the organisation, and*
- *the internal controls exercised by the organisation are appropriate and effective in accounting for all income received and applied by the organisation from any of its fundraising appeals.”*

6 The question of “cost”

As a final point, we would like to express our view that the Review should take a very broad view of what is meant by *cost*.

The Call for Submissions uses the term *costs* in a number of places. For example the Call for submissions defines:

- the *administrative burden* of regulation as costs incurred by firms or organisations to demonstrate compliance with the regulation, or to allow government to administer the regulation, for example, the cost of completing a form or accompanying an inspector on a site visit; and
- the *compliance burden* as costs that directly lead to the regulated outcomes and are borne by groups, individuals and businesses, for example, installing a fence around a building site.

Later in the Call for Submissions, it is noted that the Review is seeking comment on (inter alia):

- the administrative and compliance costs arising from NFP regulation, and provides as an example “*how many people in your organisation are employed to manage administration and compliance matters relating to regulation; how many hours are spent dealing with regulation?*” and
- what are the administrative and compliance costs arising from service and grant agreements – “*for example, how many people are employed to complete tasks associated with Government requirements and how many hours are spent dealing with Government processes?*”

Where employees deal with regulation and government processes, the cost is reasonably easy to measure.

However, many people involved in administrative tasks at NFPs are not “employed” by the organisation in the sense they are remunerated for those tasks. They carry out these administrative tasks as part of their voluntary activities. Where these tasks involve dealing with regulation and government processes there is an opportunity cost to the community. This cost is represented by the benefits the Victorian community *could* have received had these individuals not been distracted from the core activities of the NFP while they deal with regulation and process and the benefits the Victorian community *could* have received had these individuals not been deterred from involving themselves in NFPs by the nature and extent of government regulation and process imposed on NFPs.

We suggest that the Review take this *opportunity cost* into account when reaching its conclusions.

Conclusion

We trust that this Submission assists you in your task. Any queries you might have can be addressed to the undersigned or Mr Stewart Leslie, the author of the two reports that accompany this Submission. Stewart can be contacted by telephone on either (03) 9576 7570 or 0412 135 109 or by email at cway@bigpond.net.au

Yours sincerely
Bill Palmer
General Manager, Standards & Public Affairs

Attachment 1

What is a “prescribed association”?

The term “prescribed association” is used in three jurisdictions. The following table provides a summary of the relevant provisions of the Incorporated Associations legislation in those jurisdictions.

<u>Jurisdiction</u>	<u>Section(s) of Legislation</u>	<u>Summary</u>	<u>Criteria/Definition</u>
ACT	76	This section of the ACT Associations Incorporation Act 1991 specifies who can be appointed auditor of a “prescribed association” and the duties and responsibilities of the auditor.	Regulation 13 of the Associations Incorporations Regulations 1991 specifies “an incorporated association that has gross receipts exceeding \$500,000 for a financial year of that association is prescribed for the Act, section 76”
SA	Division 2 (Sections 35 & 38)	This division of the Associations Incorporation Act 1985 deals with: <ul style="list-style-type: none"> ▪ the manner in which a prescribed association must keep its accounting records; ▪ the preparation and recording of accounts; and ▪ the lodgement of periodic returns. 	Section 3 of the Act defines a “prescribed association” as “an incorporated association: <ul style="list-style-type: none"> a) that had gross receipts in that associations previous financial year in excess of – <ul style="list-style-type: none"> I. \$200,000; or II. such greater amount as is prescribed by regulation; or b) that is prescribed or of a class prescribed by regulation.”
	39	This section deals with the Annual General Meeting of a prescribed association	

What is a “prescribed association”? (continued)

<u>Jurisdiction</u>	<u>Section(s) of Legislation</u>	<u>Summary</u>	<u>Criteria/Definition</u>																
Victoria	30B	<p>Section 30B of the Associations Incorporation Act 1981 deals with the auditing of the accounts of a prescribed association and the retention of the associations accounting records.</p> <p>Regulation 7 of the Associations Incorporations Regulations 1998 requires that “a ‘prescribed association’ must prepare its financial statements in accordance with –</p> <ul style="list-style-type: none"> a) the Australian Accounting Standards prescribed in Part 1 of Schedule 1 which have been issued by the Australian Accounting Research Foundation ...; and b) the Accounting Standards specified in Part 2 of Schedule 1 which have been issued by the Australian Accounting Standards Board.” 	<p>Section 3 of the Act defines a “prescribed association” as an “incorporated association –</p> <ul style="list-style-type: none"> a) that has gross receipts in that association’s previous financial year in excess of \$200,000 or such other amounts as is prescribed by regulation; or b) that has gross assets in excess of \$500,000 or such other amount as is prescribed by regulation; or c) that is prescribed or of a class prescribed by regulation. 																
Northern Territory		<p>The Northern Territory’s “Association Act” has adopted a tiering of associations, based on the gross annual receipts, gross assets and activities of the association.</p> <p>Note that only one of the criteria needs to be satisfied for an association to be classified in a tier.</p>	<table border="1"> <thead> <tr> <th><u>Tier</u></th> <th><u>Annual Gross Receipts</u></th> <th><u>Gross Assets</u></th> <th><u>Activity</u></th> </tr> </thead> <tbody> <tr> <td>One</td> <td><\$25,000</td> <td><\$50,000</td> <td>n/a</td> </tr> <tr> <td>Two</td> <td>\$25,000 - \$250,000</td> <td>\$50,000 - \$500,000</td> <td>Gaming Machine Licence</td> </tr> <tr> <td>Three</td> <td>>\$250,000</td> <td>>\$500,000</td> <td>Performing local government functions</td> </tr> </tbody> </table>	<u>Tier</u>	<u>Annual Gross Receipts</u>	<u>Gross Assets</u>	<u>Activity</u>	One	<\$25,000	<\$50,000	n/a	Two	\$25,000 - \$250,000	\$50,000 - \$500,000	Gaming Machine Licence	Three	>\$250,000	>\$500,000	Performing local government functions
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Dr Elizabeth Lanyon
General Manager, Consumer Policy & Programs
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MELBOURNE VIC 3001

Dear Dr Lanyon

Associations Incorporation Regulations 1998

Thank you for the opportunity to provide some input to the “re-making” of the *Associations Incorporations Regulations 1998* (the Regulations). We note, “*in order to minimise disruption (until amendments to the Associations Incorporation Act 1981) it is therefore proposed to re-make the regulations in substantially same form, subject to any necessary changes such as updating the accounting standards.*”

We also note that you are seeking our particular advice “*on the accounting standards that are incorporated into the regulations, with which the annual accounts of prescribed incorporated associations must comply.*”

We are responding¹ to your request regarding accounting standards in two parts – the current situation and our perception of the likely standards regime that will emerge from current reviews of accounting standards.

The table on the following page replicates Schedule 1 to the Regulations which details the accounting standards to be adopted by Prescribed Incorporated Associations (PIAs) when preparing their annual Financial Report and includes our commentary on the currency of the Schedule.

PIAs are defined by the Associations Incorporation Act 1981 (the Act) as an incorporated association:

- that has gross receipts in that association's previous financial year in excess of \$200 000 or such other amount as is prescribed by regulation; or
- that has gross assets in excess of \$500 000 or such other amount as is prescribed by regulation; or
- that is prescribed or of a class prescribed by regulation;

In practice, the requirements of Schedule 1 are treated as minimum requirements. PIAs that meet these minimum requirements are said to provide *special purpose financial reports* to their members. Accounting Standards define a *special purpose financial report* as “*as a financial report other than a general purpose financial report.*”

¹ Please note that in our response we will use the term “prescribed incorporated association” and “not-for-profits” interchangeably.

The governing bodies of many PIAs choose to prepare *general purpose financial reports*, which are described in Accounting Standards as reports which are:

“... intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial reports include those that are presented separately or within another public document such as an annual report ...”

PIAs that choose to provide their stakeholders with *general purpose financial reports* provide more extensive information than is required by adherence to the requirements of Schedule 1.

***Australian
Accounting
Standard
Number***

<i>Number</i>	<i>Title</i>	<i>Issued</i>	<i>Comments</i>
AAS 4	Depreciation	Aug 1997	Replace with AASB 116, Property Plant & Equipment
AAS 5	Materiality	Sep 1995	Replace with AASB 1031, Materiality
AAS 6	Accounting Policies	Mar 1999	Replace with AASB 108, Accounting Policies, Changes in Accounting Estimates and Errors
AAS 8	Events Occurring After Reporting Date	Oct 1997	Replace with AASB 110, Event After Balance Date
AAS 15	Revenue	Jun 1998	Replace with AASB 118, Revenue
AAS 17	Leases	Oct 1998	Replace with AASB 117, Leases
AAS 28	Statement of Cash Flows	Oct 1997	Replace with AASB 107, Cash Flow Statements
AAS 36	Statement of Financial Position	Oct 1999	Replace with AASB 101, Presentation of Financial Statements
AASB 1018	Statement of Financial Performance	Jun 2002	Replace with AASB 101, Presentation of Financial Statements
AASB 1041	Revaluation of Non-Current Assets	Jul 2001	Now covered in AASB 116, Property Plant And Equipment

In addition to the suggested changes, we recommend that the following Standards be added to Schedule 1:

AASB 102, Inventories – this Standard includes not-for-profit specific paragraphs.

AASB 136, Impairment of Assets – prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount, and includes not-for-profit specific paragraphs.

AASB 140, Investment Properties – this Standard includes not-for-profit specific paragraphs.

Acceptance of our suggestions for amendment to Schedule 1 to the Regulations will have a consequent effect on the wording of *Regulation 7*. References to the *Australian Accounting Research Foundation* will need to be deleted and replaced with the *Australian Accounting Standards Board*.

As indicated, those responsible for the setting of accounting standards are considering some changes to the current reporting regime. Over the last year the Australian Accounting Standards Board (AASB) has issued two Invitations to Comment (ITCs) that are of particular relevance to PIAs:

ITC 14, Proposed Definition and Guidance for Not-for-Profit Entities.

ITC 12, Request for Comment on a Proposed Revised Differential Reporting Regime for Australian and IASB Exposure Draft of a Proposed IFRS for Small and Medium Sized Enterprises.

The closing date for submission of comments in response to ITC 14 is 31 March 2008. It is unlikely that the inclusion of the proposed Guidance included in ITC 14 in Accounting Standard AASB 101, Presentation of Financial Statements would have a substantive impact on PIAs.

The closing date for submission of comments in response to ITC 12 was 1 September 2007. As its lengthy title suggests, ITC 12 proposed a revised differential reporting regime for Australia. ITC 12 proposed that this revised regime be developed around the concept of ‘public accountability’. If implemented, the regime would apply to both for-profit and not-for-profit entities.

Participants in the not-for-profit sector felt that the adoption of the proposed regime would result in many not-for-profit entities having to adopt a more onerous and extensive financial reporting regime that might not be relevant to the sector.

The AASB has noted in its most recent *Action Alert*² that it will “*progress the project in relation to differential reporting for not-for-profit entities.*” Details of the project are not yet available on the AASB website. It is likely that this project will change the financial reporting regime for not-for-profit entities and therefore Victoria’s incorporated associations, whether they are prescribed or not. We therefore recommend that Consumer Affairs Victoria monitor this project’s progress.

Finally, we would like to take this opportunity to acquaint you with the Institute’s attitude to financial reporting regime imposed on not-for-profit entities.

The Institute has long held the view that the regulatory environment applied to Australian not-for-profit entities is too complex because the relevant “corporate” and fund raising legislation varies from jurisdiction to jurisdiction. This results in financial reporting requirements that are not relevant to not-for-profits, relevant financial reporting requirements not being applied on a consistent basis and annual reports that sometimes fail the transparency test.

The Institute therefore recommends:

- The State and Federal governments, under the auspices of the Standing Committee of Attorneys General, develop uniform “incorporated Associations” legislation and regulations that can be applied to not-for-profits.

² Issue Number 112 – 7 March 2008, available at www.aasb.com.au >AASB Meetings>Action Alerts

This legislation would ensure that not-for-profits would be subject to the same regulatory regime and should cover issues as (for example) which not-for-profits are required to appoint auditors

- The Australian Accounting Standards Board (AASB) is assigned the task of developing a NFP specific financial reporting framework, using the UK Charity Commission's *Accounting & reporting by Charities: Statement of Recommended Practice* as a precedent. This framework would:
 - require agreement between the States and the Commonwealth to mandate its application to not-for-profit s incorporated under the Corporations Law and the various Incorporated Associations legislation;
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If implemented, the Institute believes its recommendations will reduce the administrative and compliance burdens of not-for-profits by streamlining and simplifying the reports not-for-profits are required to prepare to satisfy the requirements of all stakeholders, including government.

We trust you find our comments useful. Should you wish to discuss any aspect of this letter, please do not hesitate to contact Michael Nazzari, General Manager of our Victorian Branch.

Yours faithfully