Data in the 2015 Annual Information Statement

An analysis of the data provided by charities' in their 2015 Annual Information Statements

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The Australian Charities and Not-for-profits Commission (ACNC) conducts proportionate, risk-based monitoring of Annual Information Statements (AISs) and annual financial reports as part of its compliance program.

This report explains common errors found in charities' 2015 Annual Information Statements, how the ACNC identified the errors, and what the ACNC has done to prevent errors from occurring in the future.

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Background

The 2014 Annual Information Statement (AIS) was the first reporting obligation that required charities to provide financial information to the ACNC. When analysing the 2014 AIS submissions, the ACNC found that a significant number of charities had made errors reporting their financial information. In July 2015, the ACNC published a report detailing these errors.

The analysis of the errors and the subsequent report provided the ACNC with insight that helped to improve the online functionality of the AIS for the 2015 reporting period and the accompanying guidance for charities completing it.

For the analysis of the 2015 AIS submissions, the ACNC examined not only the financial information provided by charities, but also the quality of the annual financial reports provided by medium and large charities.

This analysis led to the correction of errors totalling $37.4 billion.

This report provides details and analysis of the errors that charities made in their 2015 AIS submissions.

The objectives of the ACNC's analysis are to:

- improve the quality of information on the Charity Register and help to maintain, protect and enhance public trust and confidence in the charity sector
- identify the underlying causes of the errors in AIS reporting
- ensure charities have a good understanding of their reporting obligations, and
- educate the entire charity sector to improve their financial reporting.

Classification of charity size

Section 205-25 of the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (the ACNC Act) categorises charities into three sizes based on annual revenue:

- Small charity: annual revenue less than $250,000
- Medium charity: annual revenue between $250,000 and $999,999
- Large charity: annual revenue $1 million or more.

Reporting statistics for the 2015 Annual Information Statement (as at 30 November 2016)

1. By 30 November 2016, the ACNC had received 46,292 2015 AIS submissions. Of these submissions, 30,500 were from small charities, 7,374 were from medium charities and 8,418 were from large charities.

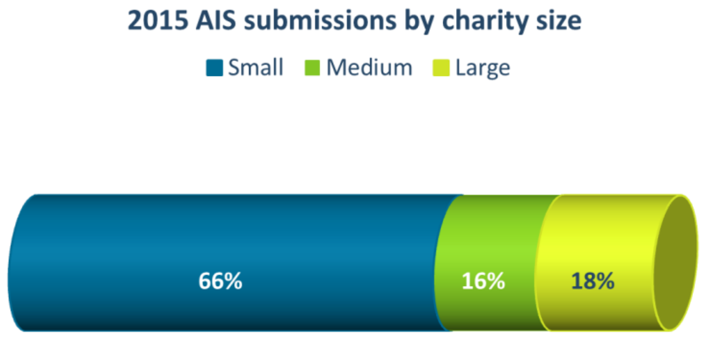

Figure A – 2015 AIS submissions according to charity size

2. Of the charities that provided an annual financial report with their 2015 AIS submission, 11,528 indicated that theirs had also been provided to a state or territory regulator (5,464 small charities, 3,080 medium charities and 2,984 large charities).

3. Of the total 2015 AIS submissions, 7,095 charities classified themselves as a Basic Religious Charity (BRC) (6,008 small charities, 887 medium charities and 200 large charities). As such, these charities did not provide any financial information.

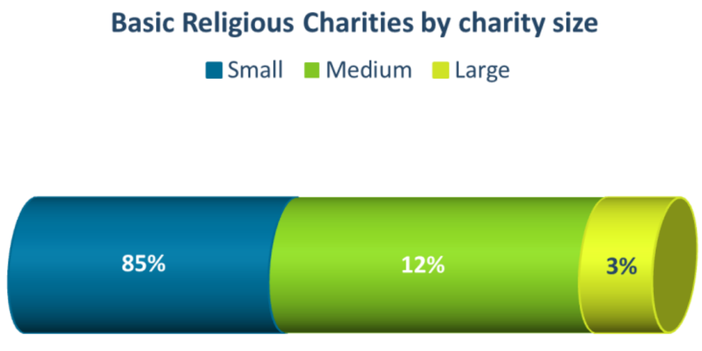

Figure 2 – Basic Religious Charities according to charity size

4. Of the 2015 AIS submissions from small charities, 17,393 reported that they used cash accounting, 6,952 reported that they used accrual accounting and 6,155 (mostly BRCs) did not provide a response.

5. Of the 2015 AIS submissions from medium and large charities, the annual financial reports provided were as follows:

Charity size	General purpose financial statements	Special purpose financial statements
Medium	4,048	2,255
Large	4,680	2,503

Table 1 – Types of financial statements submitted according to charity size.

Approach used to identify errors

In line with the ACNC's risk-based regulatory approach, the process through which the ACNC identified errors involved subjecting charities to checks according to certain criteria:

Level one check – identifying material errors

All charities (except Basic Religious Charities and charities with revenue of less than $5,000) had their financial data analysed to determine if they contained material errors. To conduct this analysis, the ACNC worked with Dr Andrew Young at the University of NSW's Centre for Social Impact (CSI).

Level two check – comparing the financial information

For charities that declared over $30 million of income, assets, liabilities and/or expenses in their 2015 AIS, the ACNC compared the financial information the charity provided in its 2015 AIS with the information in its annual financial report.

Level three check – detailed annual financial report review

A random sample of 150 medium and large charities was selected for a comprehensive review of reporting obligations. In addition to the level one and two checks, the ACNC analysed the quality of the annual financial report to check that it complied with the requirements of the ACNC Act.

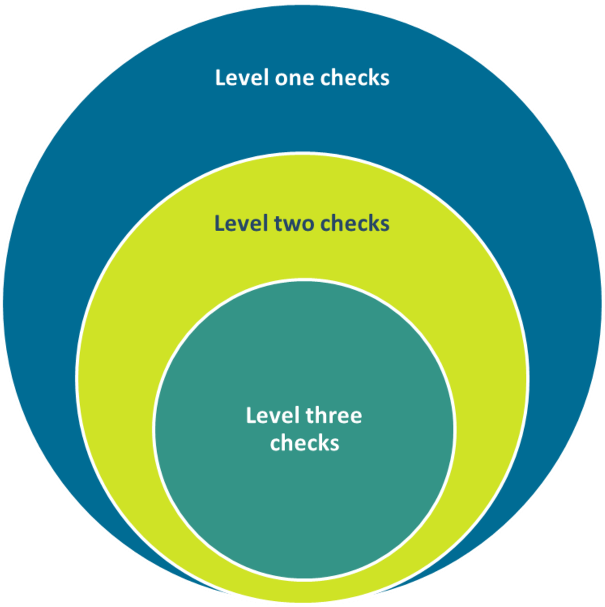

Figure C – The three levels of checks to identify errors in the 2015 AIS.

Analysis of the errors in the 2015 Annual Information Statement submissions

Level one check – identifying material errors

Material errors included:

- calculation errors that the ACNC considered to be 'material' (refer to Figure G)
- reporting incorrect charity size (size discrepancy error)
- reporting the same financial information in both the 2014 and 2015 AISs, and
- significant differences in the financial information reported in the 2015 AIS compared to the financial information reported the 2014 AIS (e.g. sudden unexplained growth of 500 per cent).

The ACNC identified approximately 6,800 charities as having made a material error.

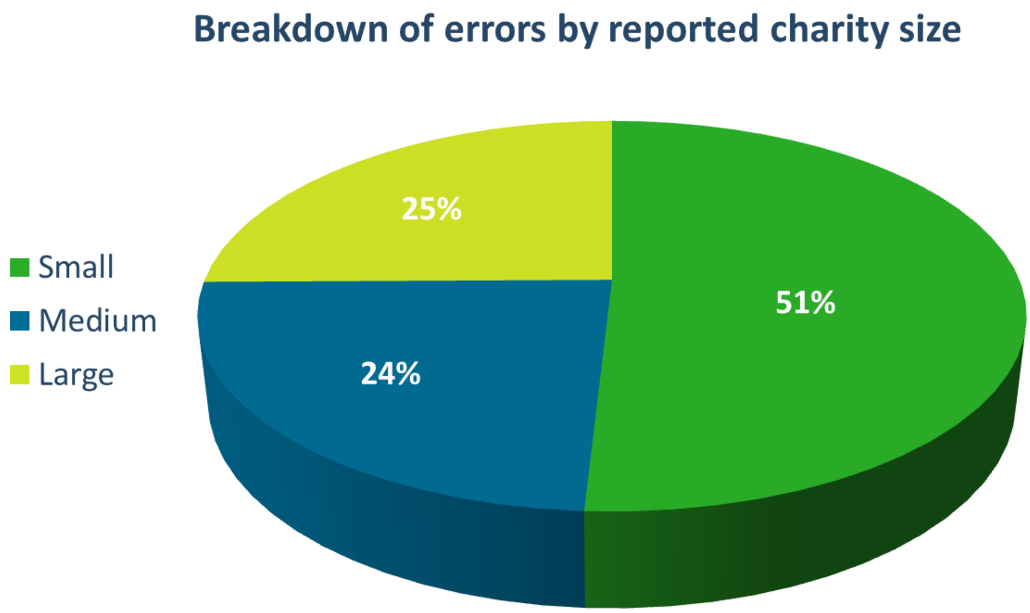

Figure D – Breakdown of errors according to the reported size of the charity. (Note: these results are based on the size that a charity reported in the 2015 AIS and includes instances where a charity reported the incorrect size.)

Of the charities with material errors, 51 per cent reported that they were small – a surprisingly low number considering small charities represented 66 per cent of all 2015 AIS submissions.

These findings can be partially explained by the following:

- charities with revenue of less than $5,000 were excluded from level one checks (the ACNC excluded these charities as it considers their effect on broader public trust and confidence to be smaller), and
- small charities were not required to provide annual financial reports and therefore were not subjected to level two checks.

The most common error was a calculation error. This represented 62.7 per cent of material errors.

The figures below provide more information about the types of errors identified.

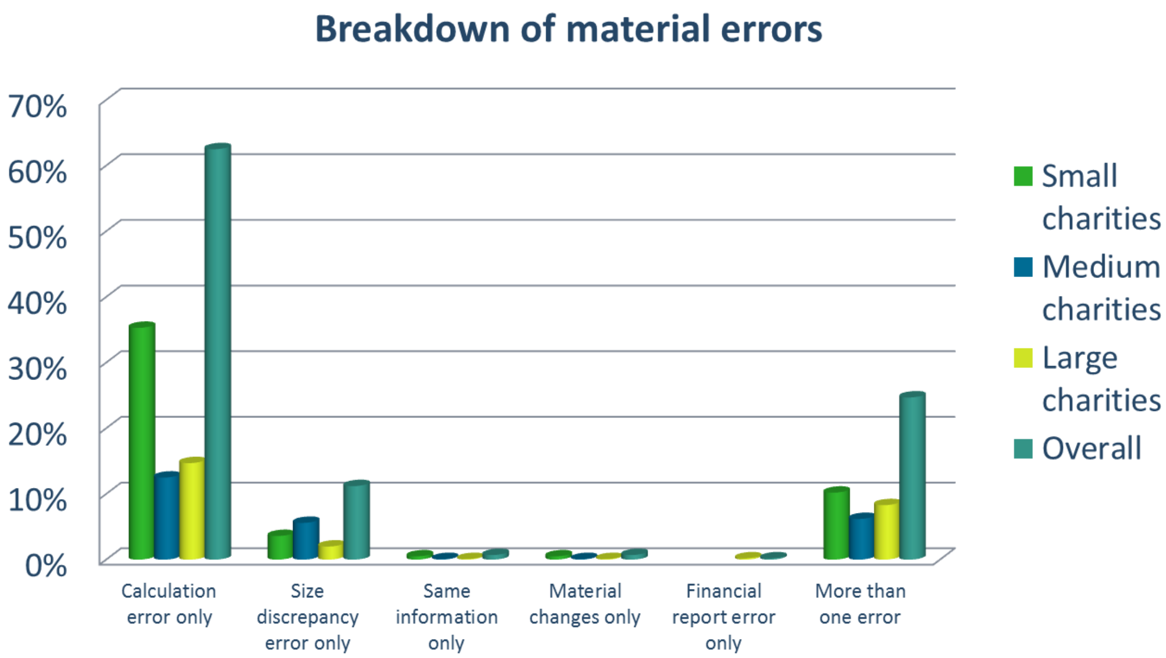

Figure E – types of material errors according to charity size

Error	Percentage of charities with error			Overall
	Small	Medium	Large	
Calculation error only	35.5	12.5	14.7	62.7
Size discrepancy error only	3.6	5.6	2	11.2
Same information only	0.5	0.05	0.05	0.6
Material changes only	0.5	0.05	0.05	0.6
Financial report error only	-	0.0	0.2	0.2
More than one error	10.2	6.2	8.3	24.7

Table 2 –breakdown of the types of material errors according to charity size

Calculation errors

The ACNC considered a calculation error to be ‘material’ if the error met the following thresholds:

Financial information	Threshold of materiality
Balance sheet	discrepancy of 5 per cent (or more) when compared to the appropriate asset or liability base (e.g. if the error concerns assets, the calculation is based on the total number of assets).
Income statement	discrepancy of 5 per cent (or more) when compared to the appropriate income or expense base (e.g. if the error concerns income, the calculation is based on the total income).

Table 3 – thresholds to determine ‘materiality’

As shown in Figure E and Table 2, calculation errors were made mostly by small charities. This finding can be partially explained by their limited resources.
Across all charity sizes, the most common calculation errors included:

- incorrect totaling
- missing totals
- the provision of totals without sub-totals.

Common responses the ACNC received from charities about calculation errors included:

- being unaware of the need to enter the components of a total figure because the form did not display an error message
- being unaware that decimals or commas were not to be entered
- expectation that the form calculated totals automatically, and
- difficulty transposing financial information from the charity’s annual financial report to the AIS.

Size discrepancy errors

Of the 6,800 charities the ACNC identified as having made a material error, 11.2 per cent reported their charity size incorrectly.

Surprisingly, more than half (53 per cent) of these charities over-estimated their charity size. This error resulted in them providing more financial information than the ACNC required.

Medium charities (50 per cent) were most likely to make a size discrepancy error followed by small charities (32 per cent) and large charities (18 per cent).
The three most common size discrepancy errors involved charities:

- reporting their size as medium when they were small
- reporting their size as small when they were medium, and
- reporting their size as medium when they were large.

Based on contact with the charities that made a size discrepancy error, the ACNC found that common issues were:

- a confusion between what is ‘revenue’ and what is ‘income’
- a mistaken understanding that a charity’s size is based on income rather than revenue, and
- the information in the charity’s annual financial report being based on different definitions of income and revenue.

More than one error

About one-quarter of charities (24.7 per cent) made more than one error (see Figure E and Table 2). Many of the charities that had errors identified through the level two checks fell into this category.

In response to the ACNC, charities that made more than one error reported:

- they copied the figures from the annual financial report and pasted them into what they thought were the most appropriate fields in the 2015 AIS, and
- they did not have accounting experience and found the 2015 AIS to be confusing.

Level two check – comparing the financial information

Approximately 1,100 charities reported income, assets, liabilities or expenses of over $30 million in their 2015 AIS.

Because of the sizes of these charities, their errors have a greater effect on the integrity of the ACNC's data, and on public trust and confidence in the charity sector. Some of these charities are household names.

These charities were subjected to a check which involved the ACNC comparing the financial information in the charity's 2015 AIS with the information in its annual financial report.

About 30 per cent of the 1,100 charities made an error. The most common was a calculation error.

Of the errors that could only be identified through an analysis of the annual financial report, the top three were:

- provision of consolidated financial information instead of financial information for the registered charity[1]
- inclusion of other comprehensive income items, and
- misclassification of trust distributions made from equity/funds to beneficiaries as an expense item of grants and donations.

Level three check – detailed annual financial report review

Random sample

The ACNC's selection focused on medium and large charities that prepared either general or special purpose financial reports. A total of 150 charities were selected for reviews. An analysis of the accounting policies provided in the 'basis of preparation' section of each charity's annual financial reports indicated that 101 were General Purpose Financial Reports (GPFR) and 49 were Special Purpose Financial Reports (SPFR).

[1] While the ACNC allows charities to provide consolidated annual financial reports where appropriate, the financial information in a charity's 2015 AIS must relate only to that registered charity (unless it is a parent charity).

Figure I – basis of annual financial report preparation

What the ACNC looked for

This check involved reviewing a charity's 2015 AIS submission and annual financial report to confirm:

- that the annual financial report was the correct report type and the information matched the financial information in the charity's 2015 AIS submission
- that the annual financial report contained a reference to the ACNC Act
- that an audit/review report and responsible entity declaration were attached and signed
- that the charity complied with the minimum accounting standards required under the *Australian Charities and Not-for-profits Commission Regulation 2013* (Cth) (the ACNC Regulations)
- that, if applicable, the charity complied with related party disclosures required for general purpose financial reports, and
- that, if the charity submitted the same annual financial report it submitted to its state/territory regulator, it did so as part of the ACNC's transitional arrangement and was done correctly and appropriately.

Material errors in the annual financial reports

Of the 150 charities reviewed with this check, the ACNC identified 50 as having a material error in their annual financial reports or 2015 AIS. The errors in the annual financial reports were split evenly between GPFRs and SPFRs.

1. Not all the financial statements included within the annual financial report

A charity's annual financial report must comply with Australian Accounting Standards Board (AASB) 101 *Presentation of Financial Statements*. This AASB standard specifies that a complete set of financial statements comprises:

- a statement of profit and loss and other comprehensive income
- a statement of financial position
- a statement of changes in equity
- a statement of cash flows, and
- the notes to the financial statements.

The ACNC Act requires medium and large charities to submit a full version of their annual financial report, including an audit or review report (the annual financial reports of medium charities can be reviewed or audited, and the annual financial reports of large charities must be audited).

Thirty-six per cent of the charities that made material errors did not provide a full annual financial report that included the complete set of financial statements[2]. Five per cent of charities within this category submitted a concise or summarised version of the financial statements.

2. Accounting policy notes

Fifty-two per cent of charities that had material errors in their annual financial reports did not make reference to the ACNC Act or to the mandatory accounting standards in their basis of preparation note as required by the ACNC Act. Thirty-two per cent also did not disclose, for the purpose of preparing the financial statements, whether they were a for-profit or not-for-profit entity as required by AASB standard 1054.[3]

In addition, the ACNC reviewed the notes in the financial statements for each balance sheet item of material significance. The ACNC found that, in many instances, the financial statements did not contain adequate details for each item or even a simple policy of revenue accounting. In one case, there were references to revenue items that the ACNC could not identify anywhere in the financial statements.

The ACNC also found 32 per cent of charities did not provide adequate accounting policy note disclosures on significant judgements and estimates (for example, the

[2] This review excluded charities that are lodging their annual financial report under the specific state and territory transitional reporting provisions. For more, see http://www.acnc.gov.au/transitionalreporting.

[3] Australian Accounting Standards Board [AASB] 1054 *Australian Additional Disclosures*, paragraph 8.

depreciation methods used for items of property, plant and equipment), as required by AASB standard 101.[4]

3. Audit or review reports

Section 60.10 of the ACNC Act requires the submission of an audit report for large charities and an audit or review report for medium charities as part of the annual financial report. Twenty-six per cent of charities with material errors in their annual financial report attached an unsigned or incomplete audit or review report. In some cases, no audit or review report was attached. Of the audit or review reports submitted, the ACNC found that omission of a reference to the ACNC Act was a common error.

4. Responsible person declaration

Twenty-two per cent of charities did not include a complete or signed responsible entities' declaration as required by section 60.15 of the ACNC Regulations. Similar to the 2014 AIS submissions, the most common errors in the responsible entities' declarations in the 2015 AIS submissions were:

- omission of solvency declarations, and
- no reference to the requirements of the ACNC Act.

The ACNC has a template responsible entities' declaration that charities can download and refer to when preparing their financial statements.

5. Related party transactions

Twelve per cent of charities that prepared GPFRs with material errors did not adopt the AASB standard 124 Related Party Disclosures. The ACNC considered these inadequate because the disclosure provided was simply a note stating that 'related party transactions have occurred at normal terms and conditions'.

The AASB standard 124 is a mandatory requirement of GPFRs and the relevant disclosures include the key management personnel (KMP) compensation disclosures. Transaction disclosures should include the nature of the transaction and the amounts and balances outstanding by the related party category.

[4] Australian Accounting Standards Board [AASB] 101 *Presentation of Financial Statements*.

What the ACNC has done

Improvements to the AIS

The ACNC has made changes to the AIS to minimise errors and improve the submission process.

From the 2016 AIS, the online form will:

- calculate totals automatically (which will eliminate most calculation errors)
- compare a charity's total revenue with its size. The charity will not be able to submit its AIS unless its total revenue matches its declared size (except for charities with an approved size dispensation)
- contain a financial item line for other comprehensive income; and
- ask charities if they are providing a consolidated annual financial report. If a charity answers that it is, it will be reminded to provide only the information about the registered charity (not the associated unregistered entities).

Education and guidance

From August to November 2016, the ACNC hosted 26 information sessions in regional and metropolitan locations in Australia. As part of these sessions, the ACNC provided basic financial training which explained the most common errors in the AIS and how charities can avoid them in future.

In October 2016, the ACNC published the top 10 tips for submitting the 2016 AIS. The ACNC continues to provide specific guidance to charities, but there may be a further need to:

- provide additional guidance on the difference between revenue and income
- raise the profile of the National Standard Chartered Of Accounts (NSCOA) in the charity sector, and
- produce specific reporting checklists for charities that helps them avoid making errors in the AIS.

Analysis of Annual Information Statements for 2016

The improvements to the 2016 AIS are expected to significantly reduce the amount of errors.

In addition to errors in financial reporting, the analysis of the 2016 AIS submissions will focus on other error types, such as charities incorrectly reporting as a Basic Religious Charity.

In line with its strategic objectives, the ACNC will increase the number of charities subjected to a financial statement review.

Conclusion

As the 2014 AIS was the first for which charities were required to provide financial information, the ACNC's focus was on educating the charity sector.

However, the ACNC has found that charities still report incorrectly. As the analysis has shown, there appears to be a lack of awareness of the ACNC's financial reporting requirements.

The ACNC will continue to provide education and guidance to address this, including:

- communicating the findings of this project to charities, professional bodies including auditors and accountants, and
- improving guidance and information on the ACNC website.

While the provision of education and guidance is critical to improving charities' reporting, the ACNC also recognise that the functionality of the online AIS form has an important role to play.

With the improvements to the 2016 AIS, the ACNC expects the rate of errors to decrease significantly in comparison to those of the 2014 and 2015 AISs.

The ACNC will continue to refine the AIS to make it easier for charities to comply with ACNC obligations.