

01 February 2022

Australian Accounting Standards Board

Submitted online at: [REDACTED]

Our reference: ACNCSUB2022/2

ACNC submission – ITC46 Agenda Consultation 2022-2026

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the Australian Accounting Standards Board's (**AASB**) Invitation to Comment on its agenda for 2022-2026 (**ITC 46**).

About the ACNC and the charity sector

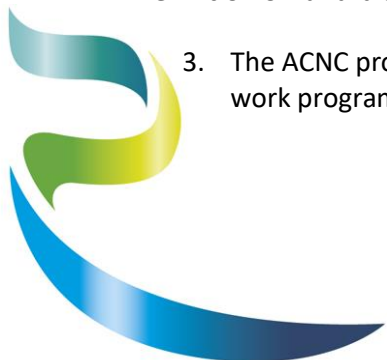
1. The ACNC is the federal charities regulator with the following statutory objects – to:
 - a. maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector;
 - b. support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector; and
 - c. promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.
2. The ACNC regulates over 59,000 charities in Australia which are a sub-sector of the Not-for-profit (NFP) sector. The ACNC is careful to balance each of these objects and has considered them in responding to ITC 46.

Question 1 – Inactive projects

Section 2.3 and Table 2 summarise inactive projects on which the AASB is seeking stakeholder feedback. Are there any inactive projects you think should be retained in the AASB 2022–2026 work program? To help the Board consider the feedback, please provide reasons explaining your views and other relevant information, including feedback on the project's proposed scope(s).

Definition of fundraising

3. The ACNC propose that the Definition of fundraising should be retained in the AASB 2022–2026 work program. However, we would rank this as a lower priority in comparison to other AASB





projects, specifically the not-for-profit private sector financial reporting framework development, the conceptual framework for not-for-profit private sector entities, and service performance reporting.

4. Fundraising revenue is important for most charities. As noted in the 2019 Charities Report, donations received by charities rose to \$11.8 billion in the 2019 reporting year – an increase of \$1.3 billion from the previous year, with 67% of charities receiving donations. As a result, fundraising-related expenditure can often be a significant expense for many charities.
5. There is significant public interest in the disclosure of fundraising expenses and some charities are concerned about negative publicity regarding levels of fundraising expenditure, which can in turn result in charities applying accounting policies intended to minimise fundraising 'ratios'.
6. In the absence of accounting standard guidance on this subject, there are inconsistent approaches used by charities. Some charities report expenses on the basis of local state/territory fundraising definitions, resulting in a lack of comparability and consistency in fundraising expense reporting.
7. The recent government announcement regarding a national fundraising framework is relevant to a standardised definition of fundraising and is good opportunity to engage with state/territory fundraising regulators about harmonising reporting requirements. Most of these regulators have already accepted the ACNC financial reporting framework as satisfying their own respective requirements for a fundraiser that is a registered charity (<https://www.acnc.gov.au/about/red-tape-reduction>).
8. This project could also leverage progress, at a global level, from the IFR4NPO consultation regarding fundraising costs, and may be an opportunity to look at modern fundraising methods and challenges, including the application of technology (e.g. cloud-based fundraising vs traditional methods).

Remuneration reporting

9. As a result of recent changes to the *Australian Charities and Not-for-profits Commission Regulation 2013* (Cth), all large charities, including charities preparing special purpose financial statements, will be required to report key management personnel (KMP) remuneration in accordance with AASB 124 or AASB 1060 for the 2022 reporting period onwards (covering 1 July 2021 to 30 June 2022 and later periods). We are currently preparing guidance and tools to support charities in adopting this new measure.
10. As a significant number of charities will be reporting KMP remuneration for the first time in the 2022 reporting period, we propose that the AASB continue to monitor developments in remuneration reporting for the charity sector, particularly for this new cohort of charities.

**Question 2 – Potential projects**

Section 2.4 and Table 3 provide an overview of proposed external reporting projects that the AASB propose to add to the work program.

Do you agree that the AASB should add any of the proposed external reporting projects to the work program? Include any feedback as to the scope of the proposed external reporting projects.

Are there any other projects you think the AASB should include as part of its work program for 2022–2026? Specify the scope of these projects and take into consideration the AASB's capacity for additional projects.

What priority would you give to each of the potential projects – high, medium or low? To help the Board consider the feedback, please provide reasons explaining your views and other relevant information.

Service performance reporting – High Priority

11. Charities operate for charitable purposes and for the public benefit. In addition to financial reporting for performance and sustainability reasons, service performance reporting can provide useful information for charity stakeholders seeking to assess the progress and impact of charities in achieving their charitable purposes.
12. We consider that service performance reporting is of significant interest to charity stakeholders and can improve levels of trust and confidence in charities.
13. Charities already report information about their charitable programs to the ACNC and many charities choose to provide additional information about their activities, effectiveness and outcomes in their annual reports. However, the information voluntarily provided by charities is often inconsistent, so a framework for service performance reporting, for example along the lines of the New Zealand model, could result in more consistent and comparable information about service performance for charity stakeholders.
14. As service performance reporting should continue to be voluntary, the AASB should consider implementing a voluntary framework.

Digital financial reporting – medium priority

15. Digital financial reporting for charities carries potential benefits, noting that many small charities not currently required to submit financial reports to the ACNC still choose to voluntarily submit their financial reports to demonstrate accountability and transparency.
16. The number of questions in the ACNC Annual Information Statements may also be reduced if financial information from a charity's financial report can be captured digitally.



17. We also see a potential role for the ACNC's National Standard Chart of Accounts (NSCOA). Digital financial reporting is an opportunity to increase the uptake and use of the NSCOA.
18. We note some challenges for charities in adopting digital financial reporting, including: the additional cost for charities to implement compatible software; many charities are run by volunteers; and difficulties convincing software vendors to implement functionality for charities due to the size of the market and the lack of cash-based accounting software for charities that do not use accrual accounting.

Sustainability reporting – low priority

19. The ACNC supports the AASB's plan to gather feedback from stakeholders and we encourage the AASB to consult specifically with charity stakeholders. We note that there is considerable interest in the subject, but at this stage the nature and extent of the sustainability reporting information needs of charity stakeholders are unclear.
20. Taking into account the ACNC Act's third object, to promote the reduction of unnecessary regulatory obligations on the sector, the ACNC notes that many charities, particularly smaller charities, do not currently undertake reporting of this type, and so any additional reporting requirements would likely increase costs and administrative burden for those charities.
21. At this stage, further research and consultation with the sector is needed to determine whether such reporting by charities would be of sufficient interest to charity stakeholders and whether the benefits of this reporting would outweigh the costs.

Question 3 – Research projects

Section 3.3 proposes several research projects. Do you agree that the AASB should add any of the proposed research projects to the work program? Are there any other research projects you think the AASB should include as part of its work program for 2022–2026? Specify the scope of these projects and take into consideration the AASB's capacity for additional projects. What priority would you give to each of the potential projects – high, medium or low? To help the Board consider the feedback, please provide reasons explaining your views and other relevant information.

Sustainability reporting – low priority

22. As noted above, the ACNC suggests that the AASB undertake further research to better understand the sustainability reporting information needs of charity stakeholders and the related costs to charities (refer to ACNC ITC48 Submission [ACNCSUB2022-01]).

Digital financial reporting – medium to high priority

23. 99% of charities lodge their annual ACNC reporting electronically, Single Touch Payroll has been implemented, and state/territory regulators commonly use online portals to interact with



regulated entities. The ACNC encourages the AASB to investigate the feasibility of digital reporting for the not-for-profit sector as part of its research activities in this area.

Service performance reporting – low priority

24. We note that the AASB has already undertaken research on this topic but acknowledge that there are still challenges in determining users' needs and relevant cost factors which impact on assessing cost versus benefit. We encourage the AASB to undertake further research where needed and the ACNC will assist where we can with this work.

Question 4 – Other comments

Do you have other comments on the AASB's activities and work program?

25. The ACNC appreciates the resources that the AASB has previously released on a timely basis, such as staff FAQs, illustrative examples, and recently-published COVID guidance. Additional guidance on the topic of accounting treatment of digital currencies would be useful as there is increasing interest in this topic in the charity sector.

Next steps

If you have queries about this submission, please contact our Reporting team at [REDACTED]



The Hon Dr Gary Johns
Commissioner
Australian Charities and Not-for-profits Commission