

## CPA Australia Podcast

### Transcript – Episode 72

Intro: Hello and welcome to the CPA Australia podcast. Your weekly source for business, leadership and public practice accounting information.

Ram: Hello and welcome. I'm Ram Subramanian, Policy Advisor in Reporting at CPA Australia. Joining us for this podcast is Melville Yates, Director for Reporting and Red Tape Reduction at the Australian Charities and Not-for-Profits Commission. There are a number of current developments and other forthcoming changes that will have an impact on the operations of many charities around Australia in the near future. Mel is here today to signpost some of these changes and discuss their implications.

And it's quite possible that some of these changes will also affect other not-for-profits, not just charities, but given Mel's focus is going to be just charities, just watch out and listen for any other implications for other not-for-profits as well.

Good morning and welcome, Mel.

Mel: Hello Ram, thanks for having me.

Ram: Okay, perhaps a starter for ten. Entities that are registered deductible gift recipients, so they have DGR status, there's some changes forthcoming very soon, some streamlining changes that government announced, and could you tell us a little bit more about what's happening in this space?

Mel: Sure. So I might just start by reviewing the media release that the Honourable Kelly O'Dwyer put out on the 5th December, 2017 and that was, Reforming administration of tax deductible gift recipients. So some of the headlines in that announcement were that, from, the date is really yet to be determined, but over a 12-month period from the 1st July 2019, until 30th June 2020, all non-government DGRs will need to be registered as a charity with the ACNC in order to retain their DGR status.

Some of the other components of this reform include collapsing of the registers that are currently maintained by different government departments, and there's one with Environment, there's one with Communications and the Arts, there's one with Social Services and there's one registered with Department of Foreign Affairs and Trade. So they will be collapsed and all of those entities which are currently on those registers they will need to be registered charities with the ACNC, and the reporting will be streamlined, so some of those current registers require reporting, some don't, and that's part of the problem, there's a lack of consistency.

So by bringing all of those entities across to the ACNC, they will need to complete an annual information statement, and obviously financial statements as well, if they are required to provide them based on the size of the charity.

The government also announced that they would be introducing External Conduct Standards for charities that are operating overseas, so that will be a big change; and I will note that even though this reform is happening and the ACNC is working on this reform, at the moment really, all I can say is that we are consulting with the sector on how these changes are going to be implemented. We still have not seen the final version of the legislation which will introduce these reforms, and so until we have visibility of that final legislation, it's very hard to make specific comments about some of these changes in a lot more detail.

Ram: Thanks Mel, I suppose one of the important points of this exercise is to signpost what's happening and what could be around the corner for charities and what they should be looking out for. And one question that did occur to me is, could some entities that currently have DGR status, potentially lose their DGR status as a consequence of these proposed changes?

Mel: That's a really good question, and that's one thing that we have absolutely turned our attention to at the ACNC, so we're trying to identify the barriers that some DGRs will have if they're not currently registered as a charity, what barriers they may face registering with the ACNC. So that's definitely a focus of our attention at the moment, and we will be going out and contacting those organisations in due course, once we do have final visibility of the legislation.

But it's certainly something that we are turning our attention to, and as you point out, I would suggest that entities which are going to be caught by this reform, they also need to turn their attention to, to be prepared.

Ram: Thank you Mel. The ACNC has completed its fifth year of existence, and as part of that the government is conducting a legislative review of the laws that underpin the ACNC. And we know there's an independent review panel, that's looking into what proposals they may come up with, and as I understand it, they have already perhaps reported to government on their proposals.

Can you tell us a little bit more about where we are with this particular initiative?

Mel: Absolutely. So I might just refresh some of the key points. The public consultation ended at the end of February, the review panel then met with a large number of stakeholders, quite a diverse number of different people that are associated with the charity sector. The report was finalised and given to the Minister on the 31st of May, and at the moment, the government is considering the report and considering the recommendations that are contained within that report. We're expecting that that will be tabled in Parliament during August.

So at the moment, it's not yet public. We don't know all of the information that's in the final version of the report, but definitely the government is looking at that and the Minister did release a press announcement on the 31st of May confirming that they did have the report and the government would be considering that. So definitely I think over the next couple of months, the Minister and the government will be doing some deliberations about how they take the review forward, and then hopefully, after it's made public in August, hopefully we'll have more of a view, reasonably quickly, about what reform they might start embarking on and what recommendations they will adopt.

Ram: Thank you Mel, we certainly at CPA Australia will be keeping a very close eye on what the recommendations are going to be, I presume the ACNC will be taking a similar approach too.

Moving on, red tape reduction obviously is one of the primary objectives of the ACNC and we know that the ACNC has achieved some significant success in this space, in achieving red tape reduction across the country, for charities. Could you tell us a little bit on where we are with this and what good news, if any, you have.

Mel: So we're really really excited to announce that Victoria is the latest jurisdiction, the latest state to come onboard with a streamlined reporting arrangement. So we announced this in June of this year. So incorporated associations from Victoria which are also registered charities with the ACNC, from the 1st of July 2018, any incorporated association that's registered with the ACNC as well as Consumer Affairs Victoria, and the financial year ends on 30th of June 2018 or later, then that organisation will no longer need to lodge an annual statement with Consumer Affairs Victoria, there will not be a requirement to pay an annual statement lodgement fee to Consumer Affairs Victoria.

So that's really exciting because this is now the biggest state to come on board with a streamlined reporting arrangement, and obviously that follows South Australia, Tasmania and the ACT, which all happened prior to this year.

Ram: Thanks Mel, and good luck with the remaining states and territories.

Mel: Thank you, we're certainly working with them all.

Ram: Okay, moving on, the Australian Accounting Standards Board has got a fairly large project currently that they're running, and they are looking effectively at removing special purpose financial reporting, in the medium to long term, I should say. And they've given a couple of reasons for this: one of the reasons is that the International Accounting Standards Board has put out a revised conceptual framework that has a definition of reporting entity within it which clashes with our own definition of reporting entity under Statement of Accounting Concepts 1; and the other reason they've given for this initiative is that the reporting entity concept, as we understand it here in Australia, isn't being applied as intended.

And for those two reasons, and they're effectively, in the medium term, proposing to remove special purpose financial reporting. Effectively that would mean that any entity

that currently has a statutory obligation to prepare financial reports may not be able to do special purpose financial reports any more. So that would mean they would have to do general purpose financial reports.

And this will affect obviously for-profit entities, the corporate sector, but equally, it'll also effect the not-for-profit sector, including charities registered with the ACNC. So could you perhaps tell us a little bit about your thoughts on this particular major project and give us a sense for where the ACNC's thinking might be?

Mel: Yeah, sure. So I think I'd start off Ram, by underlining what you said. This is a major piece of consultation that the AASB are currently undertaking, so I would encourage all professionals who are working for a charity or who support the charity sector to really get their head around all of the proposals contained within the consultation paper, because they are quite widespread and some of those changes are quite significant.

So first of all, I'd start off by saying that in the ACNC legislative review, which we talked about a little bit earlier, the ACNC in our own submission, did propose that any entities which are preparing special purpose statements should be required to comply with AASB 124, Related Party Disclosures, and that's on the basis that to be a charity, you really have to demonstrate that there is no private benefit. So that's just a bit of an aside. But in terms of the consultation paper that the AASB have been released, we definitely see value in having a wider conversation about the reporting requirements for registered charities. And in particular, whether charities should continue to have the option of having special purpose financial statements. There is a lot of views, very diverse views, about whether special purpose financial statements are fit for purpose, whether they provide relevant information to users.

It's also interesting that in the case of charities, there are a lot of people who are of the view that charities and the information that is provided by charities through their reporting shouldn't necessarily be restricted to financial reporting. So I think there's a broader conversation also about outcomes reporting or what the AASB refer to as service performance reporting.

So I know in the United Kingdom in May there was some information that was put out in the media that suggested that charity accounting is not best served by its current focus on cash flows and surplus. And the SORP committee, that's I guess the framework in the UK for charities, the Statement of Recommended Practice which is known as a SORP, they suggested that the focus should to a charity's impact and the public benefit that the charity was having.

The committee noted that public benefit issues should be at the centre of reporting and accounting and not an add-on, in the interest of providing information for a wider range of stakeholders. And I think that's a really relevant point in Australia. I think there are a lot of people who would prefer to see how a charity is going in relation to its mission or its purpose as opposed to necessarily seeing all of the financial statements.

I think the financial statements are important and I think they provide transparency and accountability and that's one of the benefits of having the ACNC register. It means that all of this information is publicly available, it's free of charge which is all very, very important to help build trust and confidence right across the sector.

But we are very mindful at the ACNC of our red tape reduction object and so if we look at some of these changes that are proposed in the consultation paper we are very mindful that some of those will result in an increase in reporting obligations in terms of the financial reporting that they need to prepare and lodge with the ACNC. And that does concern us.

So, we are very mindful of not overburdening charities. Charities have a very special place in our community, they do amazing work and they do work that the government can't do or won't do. They do work that the corporate sector can't do or won't do. And so the beneficiaries of charities, in particular, you know, they are, I guess, the reason why a lot of these organisations exist.

So I think the conversation also needs to perhaps consider, not just the financial reporting but also what other forms of reporting charities should do. And definitely, I think, not that I know what's in the legislative review but in conversations that I have had with the AASB, we're certainly turning our attention to what might be appropriate in terms of any outcomes reporting. And how we drive that forward in Australia.

Obviously, New Zealand has got a different model. And they've introduced some of those forms of reporting. So what happens in Australia we are yet to see but I would really highlight that I think it's not just the financial reporting or the financial statements that are lodged but there needs to be perhaps a broader conversation about what's appropriate for charities to report.

In terms of some of the options that are in the consultation paper, personally, I do think that requiring all registered charities to prepare tier 1 financial statements or even reduced disclosure statements is too much. I do think that's too onerous and some of the options in the consultation paper have different variations of that. There is one option of the specified disclosure requirements which would require all recognition and measurement but with some reduced disclosure requirements.

To date, the ACNC is tentatively supportive of that but, again, I don't know that it's appropriate that every single charity should have to comply with all of the recognition and measurement requirements. So, there's a broader conversation and what I would say is I would really encourage people who work for charities or who are supporting the charity sector to make sure that they look at the consultation paper, make sure they get across some of that detail and please, put in a submission or engage in the conversation with the AASB. Doesn't have to be a formal submission, it doesn't have to be particularly lengthy but the AASB want to hear from people about their thoughts and what this is going to mean for organisations.

And I do think that if this, I guess, this change comes in, that special purpose reports are removed for charitable entities, then I do think there needs to be a conversation about transitional arrangements and the timeframe that's given for those entities to adopt the new framework. And potentially, some concessions. These are all things that need to be thought through. You know, what is special about the charity sector and what are some of those needs that really need to be factored in when there is large environmental changes to reporting.

Ram: Thanks Mel. And, for listeners, the benefit of listeners. The submissions to the AASB on this particular consultation and this particular aspect of the consultation is due on the 9th of November 2018. I think you raised some very good points there, Mel, particularly around what a charity should be reporting and we have also heard the views that financial performance is not the only measure that a charity should be reporting. And in some cases, it may not be the most important measure that a charity should be reporting.

And we've also heard that some other metrics, even financial metrics like fundraising costs, where a charity actually spends its money is more important than the more standard metrics that we are used to. Seeing as a result of applying the Australian accounting standards. And to be ... and the AASB has indicated that they're open to listening to what people have to say, particularly around the charities and not for profit space.

And, did you have anything to add on that?

Mel: I do, Ram. I think it's very important to note that the ACNC supports transparency, supports comparability, supports information to be made available to the public that is relevant and fit for purpose. So I think it's really about understanding what the user needs are. What is it that people are wanting to know from charities in order for them to make decisions about where they're going to volunteer, where they're going to donate, where they're going to support charities. And all of those different considerations.

But I think it's very important to note, and this is something that our new commissioner, the Honourable Doctor Gary Johns been very clear on, he does want to make information more accessible to donors. He wants to improve the functionality of the ACNC register. He wants to help to make information available to provide valid comparisons of charity performance. But he's not interested necessarily in specifying metrics or specifying particular levels.

So, he's really about making information available but allowing then donors and the public and other people who are interested in performance to start to make their own decisions around how a charity is performing without specifying that there should be a particularly ratio or a particular target. So it's almost about making information available and then allowing what the commissioner terms as the market to drive some of these changes in behaviour for charities.

Ram: Thank you. I think one of the things that certainly the Australian Accounting Standards brought, the AASB needs and is conscious of is that the reporting threshold for charities compared to say a for-profit corporate is much lower. So you've got a \$250,000 revenue limit, any charity that has revenue higher than \$250,000 has to prepare a financial report. And that's, I think, where the real challenge is because how does a charity with \$250,000 of revenue prepare a full set of financial statements which are based on Australian Accounting Standards?

Okay, there are some potential reductions in disclosure but recognition measurement, I mean, there's quite a lot there to apply to. So, I mean, we certainly here at CPA Australia are concerned about that particular aspect. And AASB has indicated that, look, they could potentially consider a simplified form of accounting for smaller charities. And I suppose it's also tied into the ACNC legislative review. So we need to watch out for what the government might do in that space, perhaps by increasing thresholds or whatever. So I think all these various moving parts are in play. So we need to watch out for how that pans out.

Mel: Absolutely.

Ram: And, look, keeping to the financial reporting theme, transitional relief. I believe that we've got some good news on financial reporting, transitional relief as well?

Mel: We do, Ram. So this is something which has just been formalised very recently for both for 2017/18 plus the 2018/19 financial years. So the government changed the regulation to extend the transitional arrangements by regulation after which the ACNC commissioner could exercise discretion to accept financial reports that are prepared for other government agencies. And so, our commissioner at the ACNC has extended the transitional arrangements for those two years that I mentioned.

So charities that are preparing financial reporting to meet the requirements of another government regulator can provide those same financial reports to the ACNC for both the 2017/18 and 2018/19 years. So there are some conditions associated with that. So I would direct people to our transitional reporting webpage on the ACNC website which has been provided with this podcast.

Ram: Perfect. Thank you Mel. And, reporting to the ACNC doesn't stop with financial reports, entities also have to, in many cases, provide an annual information statement. What do you have to tell us about the 2018 annual information statement, Mel?

Mel: Yeah. We're actually very excited for a number of reasons. The 2018 annual information statement is going to be the first time that we are using new technology. The ACNC has been embarking on a very significant replacement of our IT infrastructure. We were given a budget allocation in the 2017 Commonwealth Budget of three million dollars to replace all of our IT. That has been going at quite a rapid pace over the last 12 months. I'm really excited to confirm that the 2018 AIS will be launched using a new forms product, which will have new functionality, new capability, and it will see the

elimination of many of the issues that charities have experienced when they've been trying to submit their reporting to the ACNC.

In terms of the changes to the questions, we will be asking for corporate trustee details. That's only for ancillary funds, so I do underline that we collect information in relation to ancillary funds on behalf of the Australian Taxation Office. We will start collecting corporate trustee details and pass them on to our colleagues at the ATO.

There will be also a couple of additional optional questions to enable streamlined reporting with our state and territory colleagues. Where we can ask a question through the AIS, which then we can share with specific states and territories in order that they don't need to ask that information of charities. That's what we'll do because that results in a red tape reduction for charities. There will be some changes to the streamlined reporting questions that we do ask for states and territories.

I'm thinking at this stage, depending on our IT timetable, it's expected that we will launch the annual information statement for 2018 at the end of September. I do note that that is later than what we normally release. Last year, we released it in July, but people need to be aware who are listening that we took that decision because the benefits that you will get by waiting to be able to use the new system far outweigh what we thought were the costs of delaying that until September. We're really, really looking forward to working with charities so that they can take advantage of the new functionality, which is going to be included in the 2018 AIS.

Ram: Moving away from reporting obligations and initiatives in that space, developments in that space, I presume charities are continuing to register with the ACNC and they do go through a formal process of registering with the ACNC. Can you give listeners any tips of what they should really be focusing on when registering with the ACNC so the process is one smooth, and two, fairly quick?

Mel: That's a really good question that you ask, Ram. I guess one of the most important things I would highlight to anyone who is going to be submitting an application for charitable status to the ACNC is just be mindful of the need to provide all of the information that we need to make an assessment because where there are gaps or we need to go back and clarify information, it delays the process by which we can make that assessment, which ultimately delays the period for which the entity may be eligible for exemptions or concessions at the Commonwealth level.

I'd also highlight that where an entity does indicate the subtype, the charitable subtype that they are applying under, only indicate on the application form the relevant subtypes. Don't tick all of the subtypes because that really delays the analysis and the registration team do have to go back and then clarify with the applicant what subtype they are actually applying under to make sure that they are eligible. The ACNC will always contact applicants if they need any further information and we are currently redesigning the registration form, which we expect will be rolled out at the end of September. Again, based on what I just said about our system improvements that will have more functionality, better guidance, it will provide auto-filling of some



information, so again, that'll be a real improvement to those who are applying for a charitable status with the ACNC.

Ram: Sure. All this information is on the website as well, the ACNC website?

Mel: It is.

Ram: Yeah. The Australian government has been implementing a new funding model for the Australian Securities and Investments Commission, ASIC. Under this, entities that are regulated by ASIC will pay a levy to ASIC. That will go towards funding the regulator's operation. Entities that will have to pay a levy include public companies limited by guarantee. But we know that for those public companies limited by guarantee that are also registered charities, the regulator in question is the ACNC and not ASIC. I suppose the question is, why should they be paying a levy to ASIC? We certainly have raised that issue in a submission to treasury when they consulted on this particular initiative. Did you have anything to say on this, Mel?

Mel: I do. I'm actually really, really happy to report this, that the government has changed by regulation the way that the cost recovery will apply to companies limited by guarantee, which are also registered charities with the ACNC. The government have confirmed that if an entity, which is registered with the ACNC and he's also a company limited by guarantee, they will not have to pay those levies. The condition is that the entity has to be a registered charity with the ACNC on the last day of the financial year. That is the 30th of June. If they are, then they don't have to pay the levy. The levy does not apply to them, so that means that charitable companies are exempt from that user pays system, which is being implemented. So that's a really, really positive outcome.

We certainly were hoping for that outcome. I know CPA have been supportive of that position and I think that's the right decision that's being reached by the government in the end.

Ram: That's fantastic news. Thank you, Mel. Fundraising is another area where there's certainly a view that there's a regulatory burden and there's been quite a lot of work being done by various stakeholders at this pace. Notably, we've got a fixed fundraising initiative, which CPA Australia is a part of, and one of the main proposals under that initiative is that fundraising regulation could be done through the Australian Consumer Law. Interestingly enough, we have just heard that the government has announced an inquiry, a senate inquiry into fixing fundraising regulation. We're quite keen to see where this progresses. Do you have anything to say on this?

Mel: All I'd say, Ram, is that we're excited, so obviously the select committee on charity fundraising will look at fundraising in the 21st century and they'll report on the current framework of fundraising regulation and options for reform. Obviously the ACNC does not regulate fundraising because it is within the domain of states and territories, but we are very, very supportive of the efforts of the fixed fundraising campaign of which CPA is a member. We are wanting reform. We stand on the sidelines cheering for reform

because it does have an impact on charities and fundraising right across the sector is important for many activities and many programs that charities undertake and operate.

Hopefully elevating this conversation onto a national level through the inquiry that the senate is going to want to take. Hopefully that actually changes the dynamic of the conversation and it allows for some progression of these thoughts because the legislation that regulates fundraising across the states and territories, some of it is very, very out of date. Some of it is very unfit for purpose. There are some charities which operate across state borders and it is extremely problematic and extremely complex for those organisations to comply with all of the requirements that fit within each of the different, very disparate rules and regulations that exist across states and territories.

Again, we're optimistic. We're hopeful that this inquiry will actually bring about reform. We'll wait and see, but we're certainly very excited about the announcement and we commend efforts for any reform in this area to make it easier for charities.

Ram: Mel, thank you very much for covering a wide range of topics and providing an update on a number of developments and initiatives that are happening in a wide range of topics that affect charities and other non-for-profits in some cases. For listener's benefit, many of the issues that we discussed today, there will be links provided on the same webpage where this podcast will be, so please do visit the webpage and look at some of the other links for more information on some of the topics and issues that we discussed today. Thank you.

Mel: Thank you very much for the invitation.

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