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Not for Profit Subordinate Legislation Review Discussion Paper
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Department of Justice and Attorney General
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To whom it may concern

Consultation to the Associations Incorporation Regulation 1999 (AI Regulation) and Collections Regulation 2008 (Collections Regulation)

As the representatives of over 300,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to provide feedback on the key changes to the Associations Incorporation Regulation 1999 (AI Regulation) and Collections Regulation 2008 (Collections Regulation).

CA ANZ and CPA Australia have been long standing advocates for legislative reform to achieve consistent and coordinated reporting requirements for the Australian not-for-profit (NFP) sector, including those applying to incorporated associations. Many of our members are involved with the sector as advisors, employees or volunteers. While significant progress has been made in achieving a streamlined NFP regulatory framework across Australia, there is scope to further improve the consistency of statutory financial reporting requirements of relevant Commonwealth and State/Territory laws and regulations applicable to the sector. Therefore, we are strong supporters of continued regulatory reform that promotes the transparency of the sector and its activities, to stakeholders and the public, in a way that minimises complexity and cost for these entities.

In responding to this consultation, we have focused our feedback on those areas where we consider we can add the most value, namely the papers titled Disclosure of Remuneration (Priority Consultation Paper 2) and the Reporting Requirements and Thresholds (Priority Consultation Paper 3). Our views on the key matters raised in each of these Priority Consultations Papers are set out below.

Implementing an Appropriate Underlying Reporting Framework **(Comments applicable to both Priority Consultation Papers 2 and 3)**

We note that the current statutory financial reporting requirements applicable to incorporated associations in Queensland do not refer to the need to prepare financial statements in accordance with Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB). In our view, one of the cornerstones of a streamlined NFP regulatory framework across Australia is consistent and clear financial reporting requirements based on a recognised and readily identifiable financial reporting framework. While we appreciate that this matter may not be within the scope of the current consultation and may require more substantive changes to the underlying legislation, it is our view that it is important that statutory requirements for financial reporting and/or disclosure imposed on Queensland's associations are underpinned by AAS.

Referencing AAS in the statutory financial reporting requirements applicable to incorporated associations ensures that these financial reports are prepared in accordance with a standardised and high-quality, fit for purpose financial reporting framework that is cost effective, nationally consistent and is already applied to incorporated associations in other states and territories.

Importantly, the AASB is currently undertaking a project that will further improve the accounting standards that apply to smaller NFP entities. This work will result in the development of a Tier 3 accounting standard which standardises recognition, measurement and disclosure requirements in the financial statements of those NFP entities required to apply it.

We therefore strongly encourage the Queensland Government to become an active participant in the AASB's NFP financial reporting framework reform project, which is nearing its public consultation phase. We are a strong supporter of the AASB's work which we believe should result in more consistent and comparable financial statements for lodgement on the public record in the NFP sector nationwide. The release of the new Tier 3 accounting standard could represent an opportune time for Queensland to review the legislation and regulations to ensure suitable incorporated associations are eligible to apply this standard in preparing their financial statements.

Priority Consultation Paper 2 - Disclosure of Remuneration

We support the need for clear and consistent disclosure of remuneration of key management personnel and related party transactions in the interests of good governance, transparency and accountability, but believe a proportionate approach that considers both costs and benefits is needed. To avoid regulatory burden on incorporated associations, we suggest introducing disclosure requirements for remuneration of key management personnel and related party transactions that mirror the disclosure requirements for charities registered with the Australian Charities and Not-for-profits Commission (ACNC).

Content of prescribed remuneration and other benefit disclosures (Questions 1-7)

Given our view that the proposed disclosure requirements should be aligned with the ACNC requirements, our preference is that the remuneration disclosures only be applicable to large incorporated associations. However, we acknowledge that current legislation imposes these remuneration disclosures on all incorporated associations and that changes to this requirement are not within the scope of this consultation. It is our recommendation that any future consultation should consider alignment of the remuneration disclosures with the ACNC requirements.

When prescribing disclosure requirements for presentation to the Annual General Meeting (AGM), our preferred approach is not to include prescriptive detail for such disclosures in the Regulations. Instead, as per our earlier recommendation, disclosure requirements should be referenced to AAS so that these requirements are readily understandable and based on a nationally consistent framework. Accordingly, reference should be made to the requirements of AASB 124 *Related Party Disclosures* (AASB 124), and the relevant equivalent disclosures specified by AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (paragraphs 189-203). These AAS provide requirements for the identification and disclosure of all types of remuneration. They also address concerns raised in the discussion paper about an appropriate threshold for disclosures (through the use of the concept of materiality) and about aggregated disclosures, setting out minimum requirements that entities can always increase if there is member demand for

disaggregated information. In particular, providing aggregated information as required by AAS, is likely to reduce administrative burden and audit/review costs.

Adopting this approach has the advantage of it being familiar to many preparers of financial statements, which will make the requirements easier to apply and facilitate the completion of an audit or review (where required).

Furthermore, for incorporated associations that are also ACNC registered charities, it removes the unnecessary regulatory burden of having to produce two sets of information, one on the basis of the proposed definitions and requirements subject to this consultation, and another on the basis of the current requirements of the ACNC that are underpinned by the requirements set out in AAS.

Disclosure of other related party transactions (Questions 8-9)

We believe the proposals to disclose other related party transactions with persons identified in section 70D of the *Associations Incorporation Act 1981* will present challenges and create additional cost and regulatory burden on incorporated associations.

This is because the proposals only require disclosure of related party transactions between the association and persons specifically identified in section 70D. This definition of 'related party' is narrower than the more widely used and recognised definition of 'related party' contained in AASB 124 (which is also the basis for the ACNC requirements). Furthermore, section 70D is framed in the context of disclosure of "remuneration paid or **other benefits given**". Related party transactions, as defined by the AAS (and also reflected in the ACNC requirements), can be broader than "other benefits given," a term that is not defined and therefore will need clarification.

Consistent with our comments on the disclosure of remuneration and benefits above, we consider that effective disclosure of all related party transactions requires the use of a recognised nationally consistent framework for identifying and disclosing this information. Therefore, we recommend that these requirements be aligned with the ACNC requirements (which are underpinned by AASB 124 and the equivalent requirements in AASB 1060). This would mean that medium and large incorporated associations will be required to disclose related party transactions in accordance with AASB 124 or the equivalent disclosures in AASB 1060. We also suggest that the Department of Justice and Attorney General should consult with the ACNC on the disclosure requirements to be imposed on small charities and align these with the requirements for small incorporated associations.

Provision of information to the AGM (Questions 10 and 11)

We support the proposal in Question 10 that if an entity is not required to prepare financial statements, they should be able to provide the same information in a statement to the AGM. However, to avoid unnecessary cost, this statement should not be subject to audit or review requirements, unless the entity has a broader audit or review requirement in respect of its financial statements (Question 11).

Disclosures where there is no remuneration or benefits (Questions 12 and 13)

We do not support the proposals in Questions 12 and 13 that would require entities to formally confirm that no remuneration was paid as we believe this imposes an unnecessary extra obligation (and cost) on these small entities who are, in most cases, unlikely to be making these payments.

Priority Consultation Paper 3 Reporting Requirements and Tiers

We welcome the recent changes to the Associations Incorporation and Other Legislation Amendment Act 2020 which, from July 2022, exempts many Queensland incorporated associations and Collections Act organisations that are registered with the ACNC from lodging financial statements with a regulator in Queensland, provided they fulfil their ACNC reporting obligations. This is a significant positive step towards the streamlining of nationwide NFP regulation.

Financial Reporting Tiers – annual revenue thresholds (Questions 1-2)

We also welcome the consultation on the review of reporting thresholds for incorporated associations that are not charities registered with the ACNC. In our view, it is important that reporting requirements, including thresholds for financial reporting, are regularly reviewed to ensure that they are meeting regulatory objectives without placing an undue burden on the NFP sector, given the limited resources the sector has available to achieve its objectives.

We support implementation of financial reporting thresholds that align with the new ACNC financial reporting thresholds, for all non-exempt incorporated associations (Option 1E). When implemented alongside our recommendation to require preparation of financial statements in accordance with AAS, we believe that this will ensure the preparation of high quality, consistent and comparable financial statements by medium and large incorporated associations on a basis that effectively balances preparer costs and user needs in this sector.

We recognise that pursuing Option 1E would remove statutory audit or review requirements for at least 80% of the sector. However, we are of the view that the financial risk inherent in these very small entities is low and that the newly introduced enhanced governance framework, including the mandatory reporting of related party remuneration to the AGM, and other governance safeguards, such as grant acquittals, provide more cost-effective oversight than the imposition of a broader mandatory reporting and assurance regime that is likely to increase regulatory burden. In addition, the pool of audit and review resources available to associations is limited and needs to be directed to where they are most needed. We also note that the Office of Fair Trading has retained the ability to require financial information, including audited financial statements, in certain circumstances.

Finally, we believe that alignment with the ACNC thresholds reflects a better, and more importantly, nationally consistent balance between risk and accountability, ensuring that this sector's scarce resources are not diverted from their key objectives unless benefits clearly outweigh costs. To this end, we made a similar recommendation about alignment with ACNC thresholds in our [joint submission](#) to the recent consultation on the reform of Western Australian Associations Incorporations Legislation.

Financial Reporting Tiers – asset thresholds (Question 3)

The financial reporting thresholds adopted by the ACNC – i.e., those with which we support alignment – are based on revenue alone and do not include an additional assets-based test. However, we note that the removal of the assets-based thresholds test for Queensland associations is not within the scope of this consultation. Therefore, until such alignment is possible, we support Option 2B (double the value of the revenue threshold) on the basis that an increase is justified and that this option aligns with the current requirements of other states using an assets threshold (New South Wales and Northern Territory).

Fundraising audit threshold (Questions 4-5)

We support making the financial reporting and audit/review requirements for Collections Act organisations consistent with those for incorporated associations. This is on the basis that a simple and consistent regulatory framework is likely to result in better compliance and regulatory outcomes. Accordingly, we support Option 1E for these fundraising organisations, which will impose a review requirement on fundraising organisations with annual revenue between \$500k and \$3m and an audit requirement on those fundraising organisations with annual revenue above \$3m.

Prescribed documents (Questions 6-9)

We do not believe it is necessary to prescribe specific financial documents over and above the general requirement to keep financial records that correctly record and explain transactions. Detailed prescription in this way runs the risk of imposing an unnecessary administrative burden on time poor NFP organisations and their volunteers. Furthermore, the rapid transition to digital record-keeping is transforming the financial record keeping function, allowing much more detailed information to be stored digitally.

If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

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