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Issues Paper: Better Financial Reporting for Australian NFPs

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Contents

Purpose of this Paper

This paper focuses on financial reporting for the Australian Not-for-profit and Charitable Sector.

It is principally concerned with raising sector-wide participation in the national discussion pertaining to Australian Accounting Standards and their impact on the Sector's financial reporting arrangements.

It seeks to do this by identifying the key issues and problems (including problems associated with relevance and administrative burden) faced by the sector.

The paper is not seeking to provide answers, but rather raises a set of 13 core questions which are intended to facilitate the national discussion.

Ultimately, the answers to these questions should come from the sector, regulators and the broader community.

Overview

The Australian Not-for-profit (NFP) and Charitable Sector (the Sector) is a trusted and important sector in the Australian community, in both social and economic terms. It has built this reputation over many decades—for some organisations, over more than a century—through its work in Australian communities, its reliability in times of need, and through its deep community roots.

To protect and enhance this trust, to demonstrate efficiency and effectiveness, and to acquit funding provided by governments, philanthropists and members, this sector is generally obliged to prepare financial reports, which may or may not be audited. The nature of these reports can be impacted by the regulatory regime faced by individual organisations, by the size of the organisation in terms of turnover, by the expectations of those purchasing services from them or providing funds for operations and capital, as well as by the types and nature of the risks posed to the organisation and its operations.

These organisations participate in a myriad of activities, impacting all aspects of Australian life and, perhaps most importantly, providing services to many of Australia's most vulnerable people. For instance, amongst other things, they can be human services organisations, educational organisations, sporting clubs, emergency services providers and religious organisations.[1] They can also be incorporated under state/territory legislation, Commonwealth legislation and in various forms—for instance, as incorporated associations, companies limited by guarantee and trusts, amongst other structures. They can even be unincorporated associations.

While the Sector itself is varied and very complex—and different to the commercial sector but perhaps more akin to public sector organisations principally because of its focus on purpose rather than profit—this paper is focused on the transaction-neutral financial reporting framework formally established by the Australian Accounting Standards Board (AASB) and the issues this framework presents for the NFP and Charitable Sector. Fundamentally, the paper asks whether the idea of a transaction-neutral Accounting Standards Framework meets the needs of the Users of financial information or whether there needs to be a more nuanced, Sector-specific path taken.

Communications are also a fundamentally important element in the standards setting process as well as the feedback process. In developing this paper, and seeking input

[1] For a full picture of Australia's charities, see: Cortis, N., Young, A., Powell, A.,. Reeve, R., Simnett, R., Ho, K., and Ramia, I. (2016) Australian Charities Report 2015. Centre for Social Impact and Social Policy Research Centre, UNSW Australia. Unfortunately, we do not have a comprehensive data set pertaining to Australia's Not-for-profit sector as yet.

from relevant stakeholders, there is a gap between the standard setter's positon and that of users of standards and others. This is also an issue explored in this paper.

It is timely to be compiling this document given the relatively recent establishment of a national charities regulator and the ubiquitous focus on extending reporting by these organisations into such areas as performance reporting. Further, the Australian Accounting Standards Board has a very keen interest in this area. For instance, it has recently promulgated a new standard focused on the income of Not-for-profit entities.[2] More importantly though, the Board has also developed and sought comment on its 2017-2019 domestic work program which has as its primary focus projects for the NFP sector.

By presenting commentary, this paper seeks to place in one document the key issues presenting problems to the Sector, including problems associated with relevance and administrative burden. As such, the paper does not seek to provide answers (the creation of which should rightly involve the sector, regulators and the broader community), but it seeks to provide a set of core questions which are intended to drive the national discussion.

Ultimately, this paper poses 13 questions. Overall, these questions are posed in order of priority, with two questions regarding the identification of Users and the identification of their needs in turn, being the highest priorities at the very centre of this discussion. Ultimately, the questions as to who the Users are and what they require are fundamental to responding to the other questions and issues highlighted in this paper.

In the concluding remarks, a suggested way forward is offered in order to bring the contents to a head.

The importance of these questions and the need to facilitate a national and inclusive discussion pertaining to the reporting issues involved, was recognised by Anglicare Australia, which provided the funding in order to make this document a possibility.

Anglicare Australia has contributed resources as part of their contribution to the wider sector because of their appreciation and understanding of the need for the effective and efficient communication of performance outcomes—financial and otherwise—to the ongoing sustainability of the sector, and the maintenance of public trust and confidence.

[2] Australian Accounting Standards Board: AASB1058 Income of Not-for-profit Entities available at www.aasb.gov.au.

Genesis, Methodology and Acknowledgements

This paper had its genesis in a round table discussion held in Perth in 2016 between a group of Chief Financial Officers of Anglicare Australia members. The discussion focused on a range of reporting issues relevant to the charitable and NFP human services sector. While a number of specific issues were identified and discussed, it became clear that there is a need for a more comprehensive and holistic discussion focused on higher level concepts as well as a need for some specific standards to be considered.

Following this round table, a number of information sessions were held around Australia where finance professionals and senior executives of NFPs were able to make comments. These sessions were held in Sydney, Melbourne, Adelaide and Perth. Additionally, a number of broader sessions were held in order to raise the profile of the study so as to generate more input.

These sessions raised considerable interest and resulted in additional comment being made available to the project. We are grateful to the participants for their time in not only making their ideas available but also in considering the issues thoroughly.

Importantly, the project was governed via a Not-for-profit accounting practitioners' interest group established nationally and this group acted as a sounding board, providing valuable constructive criticism and suggested ways forward.

The Australian Accounting Standards Board and the Australian Charities and Not-for-profits Commission, both gave significant time and expertise in considering drafts of this paper and in providing their views and ideas. Their respective inputs were critical to the development of a cogent paper and also in allowing the author to understand better the positions from which these organisations come. Of course, neither of these bodies has approved this paper and any errors or omissions remain the author's.

The contribution made by these groups and people is very much appreciated and confirms the goodwill and interest that exists in considering the topic itself.

All input has been gathered within a framework intended to retain anonymity.

The NFP sector in Australia is very complex—for instance, in relation to regulation, funder reporting requirements and their financial operations—and heterogeneous. The development of this paper has been equally complex and challenging. Therefore, the paper is necessarily a very truncated version of the issues identified and the positions put by the various parties. As it is intended that this paper encourage a fuller, national discussion, this truncation is not such an issue. However, readers will no doubt have a perspective that may or may not agree with some or all of the contents herein.

The Sector in Question

The NFP and Charitable Sector is one of three key sectors, along with commerce and the public sector, making up the Australian economy. Therefore, it is an important and highly relevant sector.[3]

This is a sector that potentially encompasses a wide range of organisations in terms of size, activities undertaken, stakeholders and objectives. NFP and Charitable organisations participate in a very wide spectrum of activities and service delivery—from health and human services provision, to sports and social activities—and they can be unincorporated or incorporated under a myriad of corporation styles, including incorporated associations (state/territory-based legislation), companies limited by guarantee (Commonwealth legislation), co-operatives (National Uniform Laws established by each Australian jurisdiction), as well as those corporations established by Private Act of Parliament, such as church entities.

Each of these legislative arrangements have their own regulatory requirements, including in relation to the Financial Reporting obligations of the entity. Some of these arrangements also overlap, so that more than one jurisdiction and/or more than one legislative arrangement may impact an individual NFP or Charity; sometimes depending on where it is located, sometimes depending on what it does and sometimes both.

For instance, a Charity may have reporting obligations as an incorporated association at the state/territory level and also have obligations to the ACNC at the Commonwealth level. Further, a NFP member-based deposit taking institution may have obligations to a state regulator as well as to the Australian Prudential Regulatory Authority. Such arrangements are not necessarily unusual, nor are they uniformly inappropriate. However, they are complex and can result in time consuming administrative processes.

Because of this complexity, this paper limits its focus to incorporated associations, companies limited by guarantee, charities, and corporations established by Private Act of Parliament. It also limits its coverage to issues surrounding Accounting Standards and does not consider other legislative requirements—reporting or otherwise.

[3] For information regarding the size and activities of the charitable sector alone, see: Cortis, N., Young, A., Powell, A.. Reeve, R., Simnett, R., Ho, K., and Ramia, I. (2016) Australian Charities Report 2015. Centre for Social Impact and Social Policy Research Centre, UNSW Australia. There is currently no repository of data providing insight as to the activities of the broader NFP sector.

Key Definitions, Concepts and Major Players

Words are important regardless of the topic, and accounting words have very specific meanings that can impact the reporting arrangements an organisation might adopt. Prior to discussing the issues surrounding financial reporting for this sector, it is important to confirm several definitions and concepts as well as to identify some key players in this area, because they too are important in understanding the narrative.

The definitions, concepts and major players are provided in the Appendix to facilitate readers' examination of the main issues raised in this paper. It is important to note that these elements are not intended to be comprehensive but are intended to be accessible to non-accountants. It may be worthwhile for readers without a background in accounting to review this Appendix prior to moving forward in the main part of this paper.

The Context of this Paper

Financial Reporting is an important aspect of governance and accountability for Not-for-profit (NFP) and Charitable organisations in Australia. This importance is magnified by the following general attributes of the Sector:

- Organisations are mission-centric, meaning that their purpose is generally related to the achievement of a non-financial, often social outcome;

- Mission-centricity also means that many organisations in this sector provide services and support to some of Australia's most vulnerable people. Therefore, sustainability and capacity for service delivery are key issues in order to ensure continuity of appropriate, high quality services to these people;

- A proportion of funding for the infrastructure and operations of many of these organisations is provided by public sector agencies.[4] The application of public funding in the Sector adds emphasis to the need for transparency and accountability to the broader community over and above any expectations these organisations may have to report to members;

- These organisations may also hold themselves out for philanthropic funding and/or public contributions and so it is in their interests to be, and be seen to be, transparent and accountable; and

[4] For instance, in 2015 and in relation to Charities alone, government provided $55.7b in income. See: Cortis, N., Young, A., Powell, A.. Reeve, R., Simnett, R., Ho, K., and Ramia, I. (2016) Australian Charities Report 2015. Centre for Social Impact and Social Policy Research Centre, UNSW Australia.

- The Sector has access to tax concessions from all tiers of government in Australia. These concessions can vary depending on the type of NFP or Charity. However, the concessions themselves represent a considerable investment in the sector made via the public purse.

The Australian Accounting Standard Setter

In Australia, Accounting Standards are set by the Australian Accounting Standards Board (AASB), a Commonwealth entity, for all sectors. They are created via a formal process that includes wide ranging consultation and encourages the input of those prospectively impacted by changes in this structure. It is important to note that the AASB has no legislative capacity to require any entity to prepare financial reports or conform to the Standards, rather, it is the role of other legislative arrangements, such as the Australia Corporations Act or state/territory Associations Legislation, to establish such requirements.

The Standards themselves are also developed in the context of an underpinning document called the Conceptual Framework. This document does a number of things, including establishing the objectives of financial reporting, defining key accounting elements and concepts, and setting out the attributes of high quality accounting information.[5]

The Standards

Overall, the purpose of the Standards is to guide the preparation and presentation of financial reports.

Historically, the Standards have been derived from a commercial emphasis. Indeed, at one point in recent history there existed both an AASB and a Public Sector Accounting Standards Board (PSASB)[6], dichotomising the accounting standards setting process, and allowing for the establishment of sector-specific standards for these two sectors. However, standard setting for the Third Sector (the NFP and Charitable Sector) has never been segregated in this way.

For the last two decades, and following the discontinuation of the PSASB, the AASB has been tasked with the role of establishing Accounting Standards using the principle of "Transaction Neutrality". As such, International Financial Reporting Standards (IFRS) is used as a base to meet the requirements of all three sectors in the Australian economy: The For Profit (Commerce Sector), the Public Sector and the Not-for-profit Sector, but taking into account the underlying intent of the AASB to

[5] Please refer to the Appendix for further information pertaining to the Standards and the Conceptual Framework.
[6] Internationally, there remains both an International Accounting Standards Board (IASB) and an International Public Sector Accounting Standards Board (IPSASB).

try to ensure that the standards are appropriate to each sector using sector-specific amendments, guidance and sector-specific standards.

As such, these Standards are based on the IFRS, created by the International Accounting Standards Board (IASB) for For-profit entities. IFRS has been adopted in Australia but modified for local purposes and to address particular nuances.

For instance, specific Standards have been introduced relating to specific industries—including commercial industries such as mining—and specific amendments have been applied in other Standards.[7] These amendments include “AUS paragraphs” and Not-for-profit specific appendices providing additional guidance for the Not-for-profit sector.

As such, it is not the intention of the AASB to have identical standards for all sectors. Rather, the AASB reports it uses IFRS as a starting point and then modifies the standards as appropriate for NFPs. The AASB seeks to focus on Users’ needs and the costs and benefits of the financial reporting requirements.[8]

Reporting Entities

In principle, the AASB standards apply to Reporting Entities that are required to prepare and publicly lodge their financial statements. Reporting Entities that prepare and present their financial reports in accordance with the Accounting Standards present what are termed General Purpose Financial Reports (GPFR), while those that do not consider themselves Reporting Entities prepare Special Purpose Financial Reports (SPFR).

Defined in the appendix, a Reporting Entity is an organisation for which there exist stakeholders that need to make financial decisions relating to that entity but which cannot command the production of information upon which to base their decisions. Therefore, a Reporting Entity must prepare GPFR in order to facilitate those decision makers’ needs. Determining whether an entity is a Reporting Entity requires significant judgement and adds to the complexity in preparing financial reports.

Principles Versus Regulatory Requirements

However, a difficulty arises between the principles-based application of the Standards and the regulatory requirements faced by NFPs which can be unaligned.

The Accounting Standards setting process and the reporting requirements inherent in the Standards, which may or may not be made mandatory by regulators for particular NFPs and Charities, are also complex and technical. However, for NFPs

[7] An example of industry-specific standards is AASB1049 Whole of Government and General Government Sector Financial Reporting.
[8] For further information, see: http://www.aasb.gov.au/admin/file/content102/c3/M140_10.5_Final_Process_for_modifying_IFRSs_Oct_2009.pdf

and Charities, the current financial reporting environment adds complexity in that organisations can be regulated by state/territory and Commonwealth legislation (which is not necessarily uniform in terms of its financial reporting requirements), can be required to meet differing funder financial reporting and assurance requirements (such as those required by major philanthropists or under government procurement contracts), and are also increasingly pressured to meet performance reporting expectations.

This lack of alignment occurs for a number of reasons including that:

- The principles may not be well understood outside of technical accounting circles;

- Regulators do not necessarily see the application of the Standards as necessary in the context of the cost and benefits that may be seen to arise. For instance, the Australian Charities and Not-for-profits Commission allows individual charities to determine whether they are Reporting Entities or not;

- There may be differing ideas as to what constitutes financial reporting between regulators, the AASB and others involved in the sector. For instance, the AASB would consider financial reporting to be limited to the framework established by the standards while the ACNC would consider that the provision of appropriate financial information (as decided by the board of the entity) is inherently financial reporting.

As a result, there is a differing perspective being taken by regulators of the NFP sector as compared to that taken by the AASB as to whether or not the standards are mandatory for certain NFPs.

The Place of Users

While there are differing rules for Financial Reporting relating to differing types of organisations operating in differing jurisdictions, it is not clear that these current requirements actually meet the needs of Users. The word “Users” is a technical term describing those people who make decisions regarding reporting entities using the entities’ financial reports. Overall, the purpose of Accounting Standards is to support the preparation and presentation of financial information which meets the needs of Users in an efficient and effective manner. Indeed, the AASB is focused on meeting Users’ needs in the context of the costs and benefits associated with financial reporting.

It is the question as to whether the current Standards ensure financial reports meet the needs of Users that is central to this paper.

This term is defined in the Appendix. However, there is an increasing interest in the application of Accounting Standards in the NFP and Charitable Sector, with concerns raised regarding the extent to which the application of the Standards results in high quality Financial Reports which:

- Are understandable to the Users;
- Meet Users' needs in terms of the reports' utility;
- Are reliable, comparable and accurate;
- Meet accountability requirements; and
- Represent an efficient use of scarce NFPs' resources.

Of course, it is also not necessarily clear that the arrangements established by regulators or others meet these hurdles either. Indeed, this Issues Paper is intended to focus the national discussion regarding financial reporting and the NFP sector toward identifying opportunities for progressing the quality of financial reporting.

This Issues Paper

Anglicare Australia has commissioned the Independent Centre for Applied Not-for-profit Research (ICANR) and BaxterLawley to undertake a study focused on identifying the key issues related to the application of Australian Accounting Standards in NFP Financial Reporting. The product of this piece of work is intended to:

- Inform policy makers and sector leaders as to the key issues associated with the current Financial Reporting arrangements in the context of the Australian Accounting Standards—to identify what are the broad problems and to make comment as to why are they problems;

- Highlight the key questions related to Financial Reporting in Australia by NFPs and Charitable organisations; and

- Promote and prioritise these issues as topics of research amongst academics, as topics of interest for sector leaders and industry groups, and as issues of priority for regulators and policy makers.

As such, this Issues Paper is intended to be a contribution made by Anglicare Australia to the national debate regarding Financial Reporting by a significant sector of the Australian economy, providing social and community services in support of Civil Society.

Overall then, the aim of the project is to provide a basis for working toward the development of a Financial Reporting Framework that is:

- Fit-for-purpose;
- Resource efficient (meets the Cost/Benefit Test); and
- Sensitive to the relative financial risk of the organisations involved.

It is intended to do this by asking a range of pertinent and focused questions designed to highlight the issues and about which discussion can be undertaken by all interested parties—NFPs, Charities, public sector agencies, the standard setters and the Australian community. It is hoped answers to these questions framed out of this discussion will inform the shape of future NFP and Charity Reporting Frameworks. These questions are highlighted at the end of each section to which they relate, while a complete set is articulated at the end of this report.

Why is this important?

Financial Reporting is a critical element of the governance framework of any organisation. NFPs and Charities form an economically significant and socially critical part of the Australian community and so governance and accountability pertaining to this Sector is a matter of wide interest. Further, many NFPs also provide services and support to some of Australia's most vulnerable people, making their sustainability and risk management key issues for those charged with oversight of the Sector.

These organisations use Financial Reporting to:

- Be accountable to their stakeholders;
- Communicate their financial outcomes for a period;
- Demonstrate the organisation's financial solvency, sustainability and capacity;
- Meet regulator and funder compliance requirements;
- In combination with an auditor's / reviewer's report, provide assurance to stakeholders; and
- In combination with other information, demonstrate efficiency and effectiveness.

Financial Reports fulfil these purposes best when they meet the needs of the Users. Unfortunately, it is difficult to identify the Users of NFP and Charity Financial Reports and it is equally difficult as a result to identify Users' information needs. Of course, regulators and funders are interested in the Financial Reports of NFPs and Charities but these organisations are not the Users focused on here because they can command the production of financial information. For instance, the ATO can command SPFR such as Business Activity Statements to be prepared and the ACNC Commissioner also has certain powers to command the production of financial information. Users are those people who need the information but must rely on the published reports of an entity—they cannot demand information of a NFP or Charity.

Of course, the members of a charity or NFP are a logical User group. However, members are not always of central importance to the operation of all organisations. For instance, a human services organisation may have members in order to facilitate incorporation, but those with a significant interest in the organisation may be service recipients.

Staffs, creditors, banks and the general community are also important potential Users of NFP and Charity Financial Reports.

However, given the purpose of GPFR is to meet the information needs of an organisation's Users, this introduces two related and fundamental questions in the context of Financial Reporting:

Question 1: ***Who are the Users of NFP and Charitable organisations' Financial Reports?***

Question 2: ***What are the Financial Reporting needs of those Users?***

Other Considerations

There are a number of other issues that impact how interested parties see financial reporting. Such issues can see differing priorities being set, differing levels of concern raised, and differing levels of understanding develop.

Differing Priorities

In terms of general reporting organisations will, of course, appropriately emphasise differing aspects depending on their activities, the interests of their stakeholders and the requirements of regulators. For instance, in Australia today, there is a significant national discussion being had with regard to performance and outcomes reporting.

Further, changes to funding arrangements where government now prefers to purchase services in the context of Person-centred, Individualised Funding arrangements, also mean that increased focus is being directed by funding public sector agencies toward outcomes reporting rather than outputs reporting or financial reporting. This means that traditional acquittal processes and the concomitant interest government departments had in the financial sustainability of their NFP service providers may be waning, leaving Users, such as members, in a changed position such that they need to oversee the financial performance and position of such organisations, where this might previously have been done by government funders.

NFPs may also provide differing data depending on their perspective of Qualitative and Quantitative Materiality. Additionally, these other types of reporting may be of greater interest to stakeholders than financial information.

Red Tape Reduction

There is also a national focus on Red Tape reduction. The principal here is that any Financial Reporting undertaken should create benefits that are of greater value than the costs incurred in their preparation and presentation. Of course, these benefits may not always be of direct value to the organisation or its immediate stakeholders, such as members and clients. Indeed, regulators and the broader Australian public may be interested in such issues as how public money is spent and whether organisations that are provided considerable tax and other concessions are undertaking the activities for which they receive these benefits.

However, Financial Reporting does cost time and money, and NFPs are continually admonished to use their scarce resources in pursuit of their organisational mission. This aspect of NFP resourcing is a significant part of the national discussion with interest being displayed in issues such as the proportion of income being applied to administration as opposed to service delivery.

Therefore, it is also critical that the time and money spent on Financial Reporting achieves the objectives such reports are intended to address. Equally though it is important that the reports themselves, together with the national discussion and sector-level reporting, focus on the principle indicators of efficiency, effectiveness and sustainability rather than reporting on items of questionable value, such as the administrative components of expenditure, which are not necessarily directly relevant to the discussion pertaining to accounting standards but which form an ongoing topic of discussion in the sector.

The Red Tape reduction conversation may also be antagonistic to financial reporting requirements, especially given the complexity of the standards and the reporting process.

Information Gap

The process of gathering data and obtaining input into this issues paper also brought into stark relief an apparent information gap that is likely to exist between the sector, the regulators, the standard setters, accountants in practice, and the prospective Users of financial reports. This gap seems to impact the level of engagement achieved by the AASB in its activities.

When developing and amending standards, the AASB seeks universal input. For instance, in 2016, the AASB conducted a round table on the financial reporting framework of NFP private sector entities and two fora with CPA Australia and CAANZ on NFP standards updates and to receive feedback on the IFRS experience of the NFP sector. Additionally, the AASB has regular meetings with stakeholders. Indeed, of the example issues raised below, a number of the current reporting arrangements have been developed as a result of sector interest as seen by the standard setter and all have been subject to external consultation. These consultations are programmed to continue into 2017 with NFP-specific events being planned for CPA and CAANZ members.[9] The AASB's work program will continue to include NFP issues.[10]

The gap may be the result of:

- The complex nature of modern accounting and the technical decisions that must be made by those charged with governance (and who may not have an accounting background) may mean that external financial reporting is approached as a regulatory requirement rather than a communication opportunity;

- Taking a regulatory view may mean that those charged with governance are more concerned with getting the reports into the appropriate format in order to comply rather than with the inherent information quality;

- The process of changing an accounting standard involves considerable opportunity for input by stakeholders. However, the prospects for identifying stakeholders that operate outside of the accounting profession, the general accounting networks or the large NFPs are poor given the difficulty in identifying and communicating with these people; and

[9] Information regarding future events can be found at: aasb.gov.au
[10] Information regarding the AASB's future work program is available at: http://www.aasb.gov.au/Work-In-Progress/AASB-Work-Program.aspx

- The process of change usually means an Exposure Draft (or some similar document) is published focusing on the standard to be changed. Such a document can also include references and commentary related to how other standards impact the proposed arrangement or vice versa. However, many accountants and others embedded in the sector do not know the standards with sufficient depth to be able to assess the impact as well as the merits or otherwise of the proposal. This is not a deficiency in terms of their capacity or interest but a fact of the considerable workloads of these individuals and the priorities they must adopt.

This apparent information gap suggests that new ways of communicating both the importance of this process and the AASB's genuine interest in the broader sector's financial reporting interests and concerns are necessary in order to get broader feedback as well as to explain measures being taken. Such methods may include increased collaboration with regulators and with NFP networks themselves. Of course, not all people react in the same way to these stimuli—some people are more interested and some are less interested. However, it is clear that the information gap exists and impacts the AASB's communications outcomes.

What impacts NFP Financial Reporting in Australia?

The current reporting environment for NFPs in Australia is complex and challenging—this is especially so in the case of Charities which may have multiple reporting requirements. This complex and challenging environment arises because:

- NFPs are not homogeneous: they have different purposes. Their missions are also complex and their stakeholders, including members and service recipients, have differing interests which are not always related to financial reporting.

- Finances are important for NFPs but as a resource for pursuing their mission as opposed to necessarily achieving a financial outcome for its own sake, as a commercial entity quite properly may want to.

- Many NFPs (particularly those providing human services) have operated in an environment where government funders have traditionally set reporting requirements, including to the extent of mandating how money might be spent. These organisations have responded to the regulatory and funding requirements as these have been set by government policy. Indeed, these organisations have become fit-for-purpose in the context of government policy as government procurers have set it from time to time. However, the funding rationing systems are changing so that many governments are establishing faux-market arrangements. These arrangements change the relationship between government funders and the Sector. NFPs impacted by these changes are now required to respond in terms of reporting arrangements (amongst other changes) in order to become fit-for-purpose under the new funding arrangements. However, often they do not have the resources to do this effectively.

- As discussed above, increasing interest is being focused upon non-financial reporting arrangements. Outputs reporting has been superseded in the national discussion by outcomes reporting, emphasising increasing interest in the performance of the organisation in the context of its mission—has it achieved what it has been established to achieve?

- The Standards are currently established in a Transaction-Neutral paradigm, which means that the requirements of the Standards may be seen to be insensitive to the requirements of Users. This may also require the preparation and presentation of information to be undertaken in a way that results in Financial Reports that may be seen to be unfit-for-purpose. It also means that often the nomenclature used in the standards is very different to the nomenclature used within the Sector, thus reducing understandability and utility.

- Capacity challenges faced by Australia's NFPs restrict their ability to respond to reporting requirements, especially in relation to performance reporting. While most would agree that performance reporting is a sound concept, the creation of the systems needed, the training of staff and the collection of non-financial data can be costly and complex. The measurement of human services outcomes, for instance, is a very complex process and it is notoriously difficult for organisations to maintain a "line of sight" between individual client outcomes and corporate achievements in the context of a mission. It is also an expensive process, while the systems available to undertake these measurement processes are imperfect. The challenges here do not result from NFPs being incompetent or inattentive, but from them needing to be fit-for-purpose in the context of changing policy settings, and with very limited resources to reset their structures and skills base to respond to new policy settings.

- Outcomes measurement can also be difficult because the timing of outcomes does not always conform to traditional annual financial years. Some outcomes take more than a year to manifest and so the idea of annual reporting is impacted by these realities.

- Given the capacity challenges, both financial and experiential, NFPs need to consider reporting priorities and User expectations. However, it is important to note that this capacity challenge, in terms of financial and experiential capacity, also extends to the government agencies that fund service delivery. In effect, government agencies have developed to be fit-for-purpose in the context of earlier policy settings and so they also need investment to change effectively too. Importantly though, governments' changing capacity needs impact on policy formulation, sometimes to the detriment of the funded Not-for-profit and Charitable Sector.[11]

- Having said this, research clearly identifies that government/funder information demands impact the information collected, the information strategies and the investments made by charities and NFPs as well as the nature of disclosures made.[12]

What constitutes high quality financial information?

The primary purpose of Financial Reporting is to communicate. Therefore, to be successful in this endeavour, the information contained in any report needs to be useful and of a high quality. The AASB has identified the key components of information quality in the Conceptual Framework[13] as including:

Relevance:	The information provided must be pertinent to the Users' needs for decision making. Qualitative and Quantitative Materiality are also considerations here.
Faithful Representation:	The information provided must not only be complete but it must be "complete, neutral, and free from error".[14]
Reliability of Measurement:	The items reported must be able to be reported in dollars at values that are representative of the true position and/or performance of the organisation.

[11] For example, see: Gilchrist, D. J., (2016), "Partnerships between Government and the Third Sector at a Sub-National Level: Experience of an Australian Sub- National Government", in Butcher, J. R. and D. J. Gilchrist (eds), The Three Sector Solution: Delivering Public Policy in Collaboration with Not-for-profits and Business, Australian University Press, Canberra.

[12] Gilchrist, D. J., and P. A. Knight, (2017), *Outcomes Research into Practice: Working Paper No. 2*, A Report to Grant Thornton Australia.

[13] See: http://www.aasb.gov.au/admin/file/content105/c9/Framework_07-04_COMPjun14_07-14.pdf

[14] Conceptual Framework, paragraph QC12, page 38.

Understandability:	The presentation of information should be made in such a form as to allow Users to understand the content of the Financial Report. This includes being clear and concise.
Timeliness:	Ensuring Financial Reports are produced within a timeframe that allows Users to react to the information.

The standards are intended to support the creation of financial information that meets these qualitative criteria.

What constitutes effective Financial Reporting?

For effective Financial Reporting then, the following general principles should be maximised:

- Financial Reports should meet the quality criteria set out above;
- The preparation of the Financial Reports should be as simple as possible;
- The preparation of the Financial Reports should be as economical as possible;
- The presentation of the Financial Reports should be undertaken in an accessible manner suitable for the audience;
- As such, the Financial Reports should be fit-for-purpose in the context of a sector made up of heterogeneous organisations; and
- The content of the Financial Reports should include only that financial information that will assist the Users to understand the Financial Position and Financial Performance of the organisation in the context of the organisation's purpose. That is, a charitable human services organisation may report such things as asset values in a simplistic form (say, using historical cost) as compared to a member-based financial deposit-accepting institution that would likely need to report in a much more complex way due to the nature of its activities. As such, purpose may impact what should be reported as opposed to size by turnover. Of course, this may be an issue for regulators when considering broader reporting objectives.

Ultimately though, the Financial Reports need to meet the requirements of the Users who are the intended audience. Therefore, in this context, questions raised are:

Question 3:	***Do the current Standards support the provision of high quality financial information to the Users of NFP Financial Reports?***
Question 4:	***Do the current Financial Reporting arrangements allow NFPs and Charities to meet their Financial Reporting obligations in a cost-effective manner?***

These questions raise a number of sub-questions which are identified in the remainder of this document.

Examples of Reporting Issues

To this point, this Issues Paper has reviewed the core principles relating to Financial Reporting and asked a set of pertinent questions in relation to the extent to which these principles are fulfilled in the context of the current Standards. However, there is also a need to consider some specific issues that have been highlighted anecdotally or otherwise, and which may be used to demonstrate some prospective problems.

Specifically, the following issues relate to Financial Reporting by NFPs and Charities and are presented in no particular order:

Issue	Description
The Consumption of Volunteer Time and Donated Assets	A perennial issue for NFPs in Financial Reports relates to the complexity involved in accounting for volunteer time and donated goods. While there may be some concern as to the necessity for considering these items, the comprehensive cost of service delivery for any NFP includes the volunteer time and donated assets consumed. The lack of reporting of these consumptions means that our collective knowledge regarding the cost of service delivery is deficient and this, in turn, impacts pricing set by governments in faux-market rationing systems such as the NDIS. Amongst other things, this standard requires reporting entities to recognise donated assets at fair value with associated income as performance obligations are satisfied and allows reporting entities to recognise income and an associated

Issue	Description
	expense from volunteer time but only if these services can be reliably fair valued. In addition it encourages voluntary disclosure of volunteer services where they are not recognised. At all times, the AASB encourages Reporting Entities to make appropriate disclosures. However, the recognition of such income may well impact an organisation's position regarding such elements as tiered reporting requirements—the provision of donated goods or volunteer time does not necessarily equate to administrative capacity to meet increased reporting and regulatory requirements. Further, the standard does not mandate the reporting of volunteer services and so inconsistent reporting may also transpire as some organisations may undertake such reporting while others do not. Additionally, the inclusion of such reporting options may also see an increased opportunity for earnings management to be undertaken, especially as the valuation of such resources is often very difficult. Finally, there may be audit impacts with respect to this Standard as auditors need to examine the data collected, how it is collected and concern themselves with respect to the efficacy of systems and controls, all adding to cost. Of course, the issue of materiality also needs to be considered here. Key questions are: ***Question 5: Should volunteer time be allowed and donated assets be required to be reported in Financial Reports as in AASB1058, in some different way or not at all?*** ***Question 6: If volunteer time and donated assets should be reported, how should these items be valued and reported in the Financial Report?***

Issue	Description
Asset Classes in NFP Reporting – Restricted and Unrestricted assets	NFPs and Charities are often provided assets directly, or funding to purchase and replace assets, by philanthropists and government funding agencies. This is a critical process which allows these organisations to replace existing assets as needed and to grow. However, these resources (variously described as gifts, grants, donations) can be provided such that they are encumbered with significant restrictions required to be met by providers. Such restrictions can prevent the asset's resale within a certain period or even restrict how the asset might be used. These resources still meet the definition of an asset as their use, even in the context of the restrictions applied, will be available to the organisation in undertaking its operations. An asset that is able to be used without reference to any restrictions may be termed an "unrestricted asset" while an asset that meets the description above might be called an "restricted asset". Current reporting arrangements ensure that there is no delineation between these two types of assets, other than a requirement to disclose in note form restrictions on use and contingent liabilities. In the case of the latter this can represent an issue for the unwary. For instance, restricted assets may not be demarcated in the Balance Sheet and so, while there may be the appearance of net wealth held by the organisation, the restrictions applied to the use and/or realisation of administrative assets may mean there is actually a deficiency in assets versus liabilities in solvency terms. As such, this is a governance issue as well as a financial reporting issue. By way of a practical example, the current implementation of the NDIS has also shown up considerable dangers in this regard. In order to meet the NDIS, the predominantly NFP disability service providers need to restructure. This requires investment in infrastructure and staff. While recent research has identified that the aggregate balance sheets of the Disability Sector suggest apparent capacity for investment (either directly or via financing arrangements) close examination of the asset types shows that the assets are likely to be operational and/or subject to restrictions on their

Issue	Description
	fungibility—they are administered assets and so are unable to be sold or swapped for other assets or for resources to be applied to the restructure process.[15] There are impacts in this situation for directors of NFPs, for Users and for Regulators all of whom may inadvertently take away a false sense of security in relation to the financial position of an organisation or who may seek to introduce policy directions which cause destruction of Sector capacity. In the case of restricted funds, AASB1058 encourages Reporting Entities to disclose information pertaining to restrictions. The AASB has indicated that it will review this issue as part of their board meeting in May 2017. ***Question 7: Should restricted assets be separated from unrestricted assets in the Statement of Financial Position for NFPs?*** ***Question 8: Regardless of the answer to question 7, how should restricted assets be valued?***
Income Recognition in NFPs – Grant Income (AASB1058)	Income recognition relates to the point in time when an organisation can report income—usually, we say it can do so when the income is earned as a result of the organisation completing the service/activity for which the income is provided. In this case, grant is defined as a capital amount provided in cash or in-kind in order to facilitate the acquisition of an asset for operational use by an NFP. Such a grant may be restricted or unrestricted. Current reporting arrangements mean that the grant must be recognised as income once it is controlled by the Reporting Entity. A major issue for many NFPs is the requirement to report

[15] Gilchrist, D. J., and P. A. Knight (2016), Australia's Disability Services Sector 2016: Financial Sustainability—Summary of Findings, A Report for the Research and Data Working Group, Sydney, Australia.

Issue	Description
	grants and major philanthropic donations as income because it has the effect of misrepresenting the financial performance (i.e. profit or loss) of the organisation. While the AASB has finalised a new Standard in relation to this aspect of Financial Reporting,[16] the fundamental issue of the potential for mis-reporting income is not dealt with. For instance, regulators' revenue tiers are potentially impacted here, and reporting becomes more complex as Users must consider the performance of an organisation versus its apparent growth in wealth. Preparers are able to give consideration to AASB15 which provides conditions pertaining to the deferral of revenue. Concern was raised by some that the inclusion of grant income in the Profit and Loss also added volatility to the year on year reporting. Alternate arrangements, such as taking such donations directly to Equity, bypassing the Income Statement, may well better reflect the financial performance of the entity. ***Question 9: Should capital grant income be reported in the Statement of Financial Performance?***
Income Recognition in NFPs – Revenue from Contracts with Customers (AASB15)[17]	Increasingly, the funding of human services in Australia is moving toward Individualised Funding and Person-Centred Care arrangements. These changes are being accompanied by additional shifts away from government agencies undertaking outputs procurement and moving to outcomes procurement. That is, over time governments are purchasing outcomes (such as improved health outcomes, improved educational outcomes) rather than outputs (such as the provision of a therapy session). This is a widely-supported move intended to provide better services to people in the way that they want them. However, there are some unintended consequences that may

[16] See: AASB1058 Income For Not-for-profit Entities.
[17] This Standard applies to reporting periods beginning on or after 1 January 2018. See: http://www.aasb.gov.au/Pronouncements/Current-standards.aspx

Issue	Description
	arise out of this process in the context of income recognition. Outcomes relating to human services can take more than one financial year to be realised. AASB15 requires that income can only be recognised when the purchased output has been delivered—that is, once the income has been earned. This makes sense when the income is received and earned in the same period. However, where the income is received by instalment over several periods but the outcomes purchased is not realised for several accounting periods, this arrangement will mean that NFPs may need to report successive losses before making a windfall profit in the year that the outcomes are achieved. The alternative may be to report Work In Progress (WIP) and defer expenses to be matched at a later date. However, it is likely that considerable training would be required to ensure funders understood the accounting treatment and its impact on the Financial Statements. Further, the achievement of outcomes in human services can also be a risky process as there are no guarantees that purchased outcomes will ever be achieved. If the income is retained by the NFP regardless of the result achieved, the treatment described here is more anomalous. On the other hand, if the income is truly at risk, this treatment appears to be most appropriate. Stakeholders raised concerns regarding income volatility resulting from mis-matched income and expenditure as well as the prospects of reporting losses and then windfall profits. Stakeholders also identified that, while it may be possible to identify partial delivery of some outcomes in some cases, the cost of doing so may not be sufficiently offset by the value derived by Users. In both eventualities, NFPs will report misleading Financial Performance results in the interim periods. ***Question 10: Should income relating to contracts for outcomes delivery over more than one financial period be matched to expenses incurred, on an annual basis, if the income is not at risk?***
Control for	Consolidated Financial Reports are intended to ensure that

Issue	Description
Consolidation Purposes (AASB10)[18]	an economic entity provides Financial Reports, notwithstanding that it might not be constituted as a single corporation. The purpose then, is to ensure Financial Reports are presented that represent the economic reality rather than simply the legal position of a group of organisations. The decision as to whether to consolidate or not relies principally upon the extent that one entity (the parent) controls another entity/ies (the subsidiary/ies). Control is based upon three essential criteria: (i) The parent has power over the subsidiary; (ii) The parent has exposure to variable returns from the subsidiary; and (iii) The parent has the ability to use its power over the subsidiary in order to affect the parent's returns from the subsidiary. Stakeholders have raised concerns with regard to apparently unintended consequences associated with the application of AASB10. For instance, sovereign NFPs and Charities that have historically-based governance structures (such as those related to churches and their auspiced social service organisations) may imply control has been achieved and consolidation is required.[19] However, while there may well be a relationship and shared objectives between a church and its auspiced entities, it does not necessarily follow that consolidation will result in a better Financial Reporting outcome, especially if there is no shared financial liability or some other financial impact. Indeed, the performance of the charity may be lost in this process, making the report less useful to the user—viability and solvency of individual organisations may not be discernible

[18] Available at: http://www.aasb.gov.au/admin/file/content105/c9/AASB10_07-15_COMPdec15_01-18.pdf

[19] This is a complex discussion pertaining to the idea that the church (being the parent) has invested in a subsidiary by providing its religious ethos and values to a NFP or Charity (the subsidiary) and that those charged with governance of the subsidiary may also be officers of the church (power), the returns being the social outcomes resulting from the work of the subsidiary and being an objective of the church. Under this construction there is an argument that these entities should be consolidated.

Issue	Description
	and funders and others may be misinformed. This is especially an issue in the case of many church-based organisations where the auspicing church has no responsibility for the financial outcomes of auspiced entities. Stakeholders argued that, if philanthropists and donors could not discern the financial performance and financial position of a recipient NFP, the donations may well be at risk. While a counter argument might be applied that such philanthropists and donors can command the production of financial information, it is inherent in this argument that the production of consolidated financial reports does not serve the needs of Users. Stakeholders also considered that the cost of consolidation was not outweighed by the apparent advantages. They argued that consolidation decreases transparency while adding cost. ***Question 11: Should a different test be applied to NFP and Charitable organisations for the purpose of determining whether consolidation should be undertaken?***
Related Party Disclosures (AASB124)[20]	Many sub-sectors of the NFP and Charitable Sector rely on strong communications in order to drive mission-centred work. Amongst other ways, they do this by establishing formalised (sometimes incorporated) links between sub-sectors as well as between jurisdictions.[21] This reporting element expresses the need for Financial Reports to include disclosure of information pertaining to transactions between related parties. Stakeholders commented that this disclosure arrangement was preferable to the idea of consolidated financial reports. The disclosure of related party transactions provides a clear link between the parties, discloses the nature and quantum of the transaction but is less costly and more transparent than consolidation.
Reduce Disclosure Regime (RDR)	The RDR is available to NFP and Charitable organisations. However, concern is evident that the regime does not

[20] Available at: http://www.aasb.gov.au/Pronouncements/Current-standards.aspx
[21] This includes the establishment of peak bodies and federated organisations of religious-based human services organisations.

Issue	Description
	necessarily make reductions in reporting requirements that are relevant to NFPs and Charities. The AASB has released an Exposure Draft (ED277) related to the disclosure requirements of Tier 2 entities (those that can apply the RDR) and this is open for comment until 26 May 2017.
Reporting Tiers	As a response to the need to introduce proportionality—that is, trying to ensure the cost of financial reporting is offset by the risks it mitigates—to financial reporting requirements, many regulators have introduced the idea of establishing tiers, based on income, to differentiate the reporting requirements faced by organisations. For instance, the ACNC legislation establishes three reporting tiers based on annual revenue, Small (income less than $250,000), Medium (annual revenue from $250,000 but less than $1m), and Large (annual revenue $1m or more). Each tier has a differing reporting and assurance structure. The implication of this system is two-fold: 1) It suggests that larger organisations have the capacity to resource greater administrative burdens; and 2) It also suggests that the most important driver for financial reporting is turnover. While this is important, other drivers may include risks that may manifest to service recipients should an organisation collapse. Further, given the majority of Charities fall into the Small tier, it may also be that an additional tier should be added that reduces further the financial reporting requirements of what might be termed “micro” Charities and NFPs in the context of regulatory reporting requirements as opposed to the requirements of accounting standards. An additional tier may also be considered in the context of the reporting requirements of very large organisations.

Issue	Description
	Question 12: Are the income levels appropriate segregation points for differentiating Financial Reporting requirements? ***Question 13: Should there be more tiers added? If so, how should those tiers be segregated and what should they be required to report?***

Prospective Next Steps

There is no doubt that all parties related to this discussion want to see better, more effective and more efficient Financial Reporting. There is goodwill and intent shared across the Sector, with regulators and also with the standard setters and key accounting bodies.

However, there are a number of questions raised in this document but there are limited resources available to address them. The resources that exist, in terms of time and money, must be deployed in order to address the most significant questions, the answers to which are likely to result in the most substantial improvements.

It would seem that the most significant questions here are those focused on identifying the Users of NFP and Charity Financial Reports and what those Users' needs are.

Once the Users and their needs are identified, the balance of questions remaining become relatively easier to respond to. That is not to say that answering the key questions will be easy in the short term. Such an exercise will likely be an iterative process. However, prioritising User needs will add value by:

- Allowing the AASB to increase the relevance of Standards;
- Helping to ensure Financial Reporting is efficient and meets the criteria for quality information as set out in the Conceptual Framework;
- Building legitimacy in the Australian Accounting Standards and increasing confidence in Users relating to their understanding and appreciation of the financial performance and financial position of Reporting Entities; and
- Helping to influence Reporting Entities such that GPFR will likely become the reporting framework of choice if it is accepted as a means to meet User needs and to effect transparency and accountability, and is able to be used to attract and retain financial resources.

To be sure, this is an ambitious objective but a logical one. The regulatory infrastructure relating to this Sector is becoming progressively more mature and our collective understanding of the Sector is increasing as a result. Therefore, arguably, this is the next logical step toward building a resilient, efficient and effective sector in which the Australian community has great trust.

There is also an opportunity for the AASB, the ACNC and the Sector to drive a project that has buy-in from all and which will result in the identification of Users of these reports and their needs.

Summary of Questions Raised

This paper is focused on raising questions regarding the current Accounting Standards arrangements and these questions are summarised here for quick reference:

Question 1:	Who are the Users of NFP and Charitable organisations' Financial Reports?
Question 2:	What are the Financial Reporting needs of those Users?
Question 3:	Do the current Standards support the provision of high quality financial information to the Users of NFP Financial Reports?
Question 4:	Do the current Financial Reporting arrangements allow NFPs and Charities to meet their Financial Reporting obligations in a cost-effective manner?
Question 5:	Should volunteer time be allowed and donated assets be required to be reported in Financial Reports as in AASB1058, in some different way or not at all?
Question 6:	If volunteer time and donated assets should be reported, how should these items be valued and reported in the Financial Report?
Question 7:	Should restricted assets be separated from unrestricted assets in the Statement of Financial Position for NFPs?
Question 8:	Regardless of the answer to question 7, how should restricted assets be valued?

Question 9:	Should grant income be reported in the Statement of Financial Performance?
Question 10:	Should income relating to contracts for outcomes delivery over more than one financial period be matched to expenses incurred, on an annual basis, if the income is not at risk?
Question 11:	Should a different test be applied to NFP and Charitable organisations for the purpose of determining whether consolidation should be undertaken?
Question 12:	Are the income levels appropriate segregation points for differentiating Financial Reporting requirements?
Question 13:	Should there be more tiers added? If so, how should those tiers be segregated and what should they be required to report?

Appendix - Key Definitions, Concepts and Players

Key Word / Phrase	Explanation
AUS Paragraphs	The Standards are based on International Financial Reporting Standards (IFRS). However, they are contextualised and amended for the Australian environment using AUS Paragraphs which are additional paragraphs incorporated into the Standards. In very general terms, these paragraphs either provide for certain arrangements for certain organisation types (e.g. they may indicate that a NFP does not need to comply with a certain element) or may increase or decrease the reporting requirements or other options (e.g. they may require a NFP to apply a certain process where other organisations may have a choice). These paragraphs are created where the AASB feels that the unamended standard does not meet the objectives of NFPs.
Australian Accounting Standards (The Standards)	The Standards are developed and pronounced by the AASB. Their purpose is to establish a framework for the preparation and presentation of financial reports. There are currently 57 Standards in operation as well as various Pronouncements.[22] They are developed via a comprehensive process that includes wide consultation. The Standards provide a set of principles relating to such issues as what to report, when to report it, how to prepare the item (e.g. in relation to valuation, timing), and how to present the information. They can be specific to an element in the financial reports (e.g. financial instruments), specific to a particular process (e.g. fair value), or specific to a sector in the economy (e.g. government). It is these Standards that are central to the discussion in this paper.

[22] See: http://www.aasb.gov.au/Pronouncements.aspx

Key Word / Phrase	Explanation
Australian Accounting Standards Board (AASB)	The AASB is a Commonwealth entity with responsibility for setting accounting standards in Australia. Importantly, it has no power to require or enforce the application of accounting standards. Such requirements are set by other legislation specific to particular organisation types.
Charity	An organisation that is registered by the Australian Charities and Not-for-profits Commission (ACNC) as meeting the requirements for a charity and which becomes a Registered Entity with that Agency. Charities are a subset of the Not-for-profit Sector in Australia.
Conceptual Framework	The AASB has established this framework. It forms the basis of the AASB's Standard setting work. Amongst other things, it is intended to assist the AASB in its Standard setting, assist Preparers in preparing and presenting Financial Reports, and to assist Users in their interpretation of Financial Reports. The Framework includes: - Descriptions of the elements of the Financial Statements (Statement of Position, Statement of Performance); - Definitions of the elements of accounting (e.g. Assets, Liabilities); and - Concepts related to information quality.
Financial Reports	The central issue in this paper relates to the preparation and presentation of Financial Reports. For the purposes of this paper, Financial Reports are made up of five key components: Statement of Financial Position (Balance Sheet) Statement of Financial Performance (Profit & Loss) Statement of Changes in Equity Statement of Cash Flows Notes to the Accounts It is the issue of how the content of these components is prepared and presented that is central to the discussion here.

Key Word / Phrase	Explanation
General Purpose Financial Reports (GPFR)	GPFR are a set of financial reports that are prepared and presented in full compliance with the Standards for use by users for their information needs.
Not-for-profit (NFP)	Generally an organisation that is established to pursue a certain mission and that cannot distribute its profits or assets to members either during operation or wind up. Charities are Not-for-profit organisations, but not all Not-for-profit organisations are charities.
Performance Reports	Those reports that extend the reporting arrangements of organisations to include quantitative and qualitative data pertaining to the outcomes achieved by the organisation.
Preparers	Those people within an organisation charged with the preparation and presentation of Financial Reports.
Qualitative Materiality	Qualitative Materiality is a critical element in the context of Financial Reporting for NFP and Charitable organisations. An item is Qualitatively Material not because of its size in dollar terms, but because of the nature of the item and the prospective impact that an error or omission of such an item may have on an organisation's reputation. For instance, while a Charity's cash collections may be a Quantitatively Immaterial amount compared to other income that may come from, say, government funding, the appearance of an article on the front page of a newspaper relating to the misspending of such donations will impact the reputation of the organisation and the Sector negatively.

Key Word / Phrase	Explanation
Quantitative Materiality	Materiality is an important consideration in the context of a discussion pertaining to Standards. Because Financial Reporting costs money and time, it is critical that the benefits arising out of any reports developed outweighs the cost of preparation. As such, Quantitative Materiality is an important concept because it is necessary to present reports that are materially correct but which are not over developed in the sense that the information provided is perfectly accurate but may not add value to the reporting process. Therefore, Quantitative Materiality is that level of financial value which will impact the User's interpretation of the information provided. If there is a material error or omission, the User will likely misinterpret the results perhaps to their detriment. On the other hand, if there is an immaterial error or omission, the User is unlikely to have their judgement deflected. Therefore, while the general rule is to say Quantitatively Material errors and omissions relate to size, in fact differing elements within the report may need to be considered via differing materiality levels due to their nature and the interest of the User.

Key Word / Phrase	Explanation
Red Tape	The issue of administrative burden is one that is rightly raised by many in the NFP and Charitable Sector and the national regulator for Charities, the ACNC, has a legislated obligation to seek to reduce administrative burden. Red Tape is defined here as that administrative activity that costs more to undertake than the value of the benefits provided to the organisation, its stakeholders, and/or the wider community. Therefore, an administrative activity is not Red Tape simply because it does not directly benefit the organisation undertaking the task. For instance, in the case of human services, reporting with respect to quality may not be of direct value to the reporting organisation but it does allow for supervision of the funded organisation in the interests of its clients and the broader community.
Reduced Disclosure Regime (RDR)	The RDR was established by the AASB in order to meet a demand for a reduction in reporting requirements for certain entities. Generally, NFPs and Charities are able to apply the RDR regime in fulfilment of their obligations to Regulators. The RDR has been created by removing certain disclosure requirements from the Standards.
Regulators	In this paper, Regulators are those government agencies tasked with setting the financial reporting requirements of NFPs. They include the Australian Charities and Not-for-profits Commission and State/Territory departments responsible for administering Associations Incorporation legislation. These regulators may set specific and mandatory requirements (as in the case of a number of State Associations legislation) or they may set principles (as in the case of the ACNC). The term may also be applied to those government agencies that purchase services from NFPs and Charities and which also set reporting and other requirements. While such reports are usually SPFR, they do impact the ability of many NFPs and Charities to undertake alternate reporting due to the cost and time constraints.

Key Word / Phrase	Explanation
Reporting Entity	This is a term used by the AASB to identify an organisation that should apply the Standards when preparing and presenting financial reports. A Reporting Entity is an organisation for whom Users exist. While the AASB cannot enforce the application of the Standards, other legislation may infer that regulated entities are Reporting Entities by requiring them to meet the requirements of the Standards. For instance, some state legislation incorporating associations requires certain associations to apply the Standards and, by inference, mandates that they are Reporting Entities. Further, the directors of a NFP may decide that their organisation is a Reporting Entity regardless of the legal requirements that exist. Funders, including government funding agencies, may also require the Standards to be met as a condition of funding (for instance, in the case of aged care providers).
Special Purpose Financial Reports (SPFR)	SPFR are any financial reports that are not prepared and presented in full compliance with the Standards. In the Australian NFP context, these reports can be sophisticated. It is suspected that this is a preferred reporting method of many NFPs, though we do not know for certain.

Key Word / Phrase	Explanation
Transaction Neutrality (sometimes referred to as Sector Neutrality)	This is a fundamental concept in the context of Standard setting in Australia. In essence, unique amongst developed nations, Australian Accounting Standards are developed without reference to the sector in which an organisation operates and using IFRS as a base. That is, they facilitate the same accounting and reporting arrangements regardless of the sector in which the Reporting Entity operates. However, modifications are made for the NFP sector considering whether the For-Profit requirements work in the NFP Sector, prevalence of the issue and cost/benefit considerations as per the AASB "Process for Modifying IFRSs for PBE/NFP". This perspective can impact issues surrounding the relevance, reliability, and understandability of financial information in the context of both the NFP Sector and the Public Sector.

Key Word / Phrase	Explanation
Users	A User is a person who makes certain decisions regarding an organisation in which they have an interest. They need financial reports to assist in making such decisions. However, such a person is not in a position to command the production of information that they want, so they need to rely on the financial reports provided by that organisation. In commercial terms, a good example of a User is a shareholder. Shareholders must make decisions about whether to remain a shareholder, whether to increase their shareholding or decrease it. At the same time, a shareholder cannot force the company in which they have shares to provide information—they are only entitled to the published financial reports. In the case of a NFP, Users may include members, clients, and staff. It is these Users that are the key focus of this paper. Importantly, it is the User who is the intended audience for Financial Reporting and, as such, meeting the User's requirements is central to the development of a cost effective Financial Reporting Regime for Australia's NFPs.

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The Independent Centre for Applied Not-for-profit Research

The Independent Centre for Applied Not-for-profit Research (ICANR) was founded in 2015 with a view to enhancing industry-ready research outcomes in support of the sustainability of the Australian Not-for-profit Sector. As such, its three key aims are to:

- Support effective sector involvement in the selection and prioritisation of research projects;
- Promote, fund, facilitate and auspice the undertaking of research focused on the Australian Not-for-profit sector and its operations; and
- To disseminate the industry-ready results of research programs whether undertaken or auspiced by ICANR.

ICANR focuses on the identification of key industry-ready research topics, the execution of research of high quality and the creation of research outcomes that are applicable in the Australian NFP sector.

Anglicare Australia

Anglicare Australia is a network of 36 independent local, state, national and international organisations that are linked to the Anglican Church and are joined by values of service, innovation, leadership and the Christian faith that every individual has intrinsic value. Services are delivered to one in 26 Australians, in partnership with them, the communities in which they live, and other like-minded organisations in those areas. In all, over 13,000 staff and 9,000 volunteers work with over 940,000 vulnerable Australians every year delivering diverse services, in every region of Australia.

Anglicare Australia has as its Mission "to engage with all Australians to create communities of resilience, hope and justice". Anglicare Australia's first strategic goal charges us with reaching this by "influencing social and economic policy across Australia…informed by research and the practical experience of the Anglicare Australia network".

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