



Australian Government
**Australian Accounting
Standards Board**

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Philanthropy Inquiry
Productivity Commission
GPO Box 1428
Canberra, ACT 2601
(submitted via the Productivity Commission website)

25 January 2024

Dear Productivity Commission,

‘Future foundations for giving’ draft report

The Australian Accounting Standards Board (AASB) appreciates the opportunity to provide comments to the Productivity Commission (the Commission) relating to matters relevant to the ‘Future foundations for giving’ draft report (the report).

The AASB is an Australian Government agency under the *Australian Securities and Investments Commission Act 2001*. The AASB develops, issues and maintains principles-based Australian accounting and reporting standards and guidance that meet the needs of external report users (including financial reports) and are capable of being assured and enforced.

The mission of the AASB also includes contributing to developing a single set of accounting and external reporting standards for worldwide use. In support of this, the Australian Accounting Standards (AAS) promulgated by the AASB incorporate the IFRS Accounting Standards issued by the independent International Accounting Standards Board (IASB). The AASB develops one set of accounting standards to cover all sectors. However, modifications are made for the not-for-profit (NFP) private sector and the public sector when warranted, for example to address Australian-specific legislation, user needs or public-interest issues relevant to financial or other external reporting, and undue cost or effort considerations.

In this context, we would like to take this opportunity to provide the following comments on the report for your consideration.

Service performance reporting including effectiveness reporting

Section 9.4 of the report provides an analysis of the reporting on ‘effectiveness’ by charities. On page 299 it notes that the Commission is not proposing major changes to the public information available to improve donors’ ability to assess and compare charities based on effectiveness. The report also notes on page 296 that the AASB is proceeding with its Service Performance Reporting project.¹

Our main comment is that the analysis in the report does not include several considerations that

1 The Service Performance Reporting [project summary](#) contains the decisions made by the Board to date.

may affect the overall recommendation on the issue. The report has identified some arguments for and against a pronouncement on service performance reporting including effectiveness reporting that the AASB has yet to address as part of its project. However, there are other substantive factors that could justify major changes to the public information available regarding effectiveness that have not been adequately acknowledged in the report. For example:

- although the report refers to the AASB's exposure draft on the topic (ED 270 *Reporting Service Performance Information*),² the report provides only ED 270 respondents' comments that were critical of the proposals. In fact, as noted in the December 2016 AASB meeting minutes,³ respondents to ED 270 generally agreed in principle with a standard on service performance reporting albeit disagreeing with many of the specific details perceived as being rules-based proposals;
- despite mentioning New Zealand's (NZ) experience in other contexts, the report does not mention NZ's experience with service performance reporting, including Public Benefit Entity Financial Reporting Standard PBE FRS 48 *Service Performance Reporting*,⁴ which became effective for annual financial reports covering periods beginning on or after 1 January 2022. As part of its service performance reporting project, the AASB plans to collaborate with academics to monitor NZ's implementation experience from both preparers' and users' perspectives;
- in its discussion of effectiveness reporting, the report focuses on measurement and metrics. We note that, alternatively, 'effectiveness' reporting could take the form of the reporting of information that enables users (such as donors) to make their own assessments of effectiveness rather than charities directly reporting measures of effectiveness. Furthermore, a service performance reporting pronouncement could be expressed less onerously through assurable high-level generic and proportionate principles that accommodate qualitative descriptions and narrative reporting. Such a pronouncement could be developed within the context of a robust due process and conceptual framework having regard to costs and benefits for different types and sizes of NFP entities. In this regard, we note that the International Financial Reporting for Non Profit Organisations (IFR4NPO) initiative being coordinated by Humentum and the Chartered Institute of Public Finance and Accountancy (CIPFA) has proposed performance reporting requirements to enable users to understand how the entity progressed towards its performance objectives in International Non-Profit Accounting Guidance (INPAG) Exposure Draft Part 1;⁵ and
- although we note that the draft report, appropriately (given the Inquiry's terms of reference), focuses on donors, there are potentially other general purpose users of service performance information including effectiveness information. These other users include employees, beneficiaries, other financiers and the media, who could benefit from improvements in the public information available about effectiveness of NFP organisations including charities. For completeness, we suggest that this be acknowledged in the final report.

We note finding 3.3 on page 36 of the report that, amongst others, a lack of trust in how charities will use donations is one of the common reasons people choose not to donate to those charities. The AASB recognises the usefulness of reporting service performance information, including outcomes reporting, to enable users to evaluate accountability and for other decision-making purposes. As such,

2 AASB Exposure Draft [ED 270 Reporting Service Performance Information](#), August 2015

3 [Minutes](#) of 155th meeting of the AASB, December 2016

4 [PBE FRS 48 Service Performance Reporting](#), External Reporting Board, August 2020

5 [Exposure Draft CIPFA/ED/2022/1](#) International Non-Profit Accounting Guidance, CIPFA 2022

following the feedback from its Agenda Consultation 2022-2026, the AASB reinitiated its Service Performance Reporting project with the aim to develop a nationally standardised approach. Any future pronouncements that the AASB may develop are expected to establish scalable principles to ensure NFP entities can report information about their service performance in a cost-effective way. In this effort, the AASB decided to use, at least initially, the NZ's PBE FRS 48 as the primary point of reference. We suggest that, before proposing that no major changes to public information available about the effectiveness of charities are warranted, the final report give greater consideration to this ongoing work of the AASB.

Regulatory framework

We note the observation in section 7.2 on page 212 of the report that the regulatory framework for charities in Australia is complex and charities are regulated by multiple regulators across Commonwealth, state and territory governments, each with their own institutional arrangements, responsibilities, powers, priorities and resources.

The AASB has made further progress in its work on the NFP Financial Reporting Framework project,⁶ including the publication of the Discussion Paper *Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)* (DP) in September 2022 with proposals to:

- (a) develop a Tier 3 stand-alone accounting standard with simplified accounting requirements that are based on common transactions of smaller NFP private sector entities with revenue between \$500,000 to \$3 million;⁷ and
- (b) remove the ability to prepare special purpose financial statements by NFP entities.

With broad support from stakeholders based on the feedback on the DP, the Board decided to proceed with its proposal with the aim to issue an exposure draft of a Tier 3 Standard applicable to smaller NFP private sector entities in the second half of 2024. The AASB recognises the importance of the interactions between accounting requirements issued by the AASB and the reporting requirements and thresholds set by the respective regulators. Due to the importance of those interactions, the AASB suggest the Commission, in its recommendations, encourage discussion among legislatures and NFP regulators on the importance of harmonising the criteria and thresholds for a regulatory framework to enable consistent, comparable and transparent financial reporting by NFP private sector entities.

Consistent with this, we support the recommendation in section 7.4 to improve coordination and information sharing among regulators including establishing a permanent National Charity Regulators Forum. As a developer of financial and other reporting pronouncements applicable to charities and other NFP entities, we would like to participate in such forum. We also suggest that consideration is given for the terms of reference to include matters relating to the development of reporting regulations that are the subject of compliance and enforcement.

The AASB has an evidence-informed approach to obtain sufficient appropriate evidence for the AASB to make informed decisions. With several high-priority NFP projects underway, analysing NFP financial reports is crucial to understanding and promptly addressing accounting and reporting challenges of the sector. However, many NFP financial reports, particularly those of unincorporated associations not lodged with the ACNC, are generally not made available publicly. To address this matter, we

6 The NFP Financial Reporting Framework [project summary](#) contains the decisions made by the Board to date.

7 [AASB Research Report 19](#) *Common Financial Statement items: Charities with \$0.5-\$3 million in revenue* provides the findings on the common financial line items to support the development of the Tier 3 reporting requirements applicable to smaller NFP private sector entities.

suggest that the improved regulatory architecture includes consideration of enhancing the mechanisms for collecting and compiling NFP financial reports that are not lodged with the ACNC.

Standards for financial reporting aim to promote transparency

We note that the report in section 9.2 on page 290 mentions that there are no specific accounting standards setting out how businesses in Australia must report on charitable giving in their organisational reporting. Also, the report notes in section 6.3 on page 199 that, while data is available on the amount of deductible gift recipient deductions claimed by donors, it is not clear which charities receive these donations. Further, we note that the report's draft recommendation 9.4 on page 308 proposes that charities report to the ACNC their income from bequests separately in their Annual Information Statements.

We note that AAS are principle-based and aim to meet the needs of external report users. Therefore, depending on circumstances, the information noted in the paragraph above may be already reported by some entities and we suggest that the interaction of any new reporting requirements with existing requirements should be further considered. For example, in the absence of specific accounting requirements, AASB 101 *Presentation of Financial Statements* requires an entity to disclose the nature and amount of an income or expense item separately when material. That Standard also requires information to be presented in the notes to the financial statements if not presented elsewhere but is relevant to an understanding of the financial statements. Also, AAS require disclosure of disaggregated revenue and other income into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors. For example, AASB 1058 *Income of Not-for-Profit Entities* notes that an entity should consider disclosing separately grants, bequests and donations of cash, other financial assets and goods. We also suggest that the final report note that consideration needs to be given to the interaction of any additional requirements for businesses to report on charitable giving with existing and any future local legislative and regulatory requirements. These requirements include the *Corporations Act* operating and financial review (OFR) requirements, and the most recent and future developments in wider corporate reporting, such as the IASB's Exposure Draft on Management Commentary and potentially sustainability reporting.

It should also be noted that the AASB's Standard-Setting Frameworks recognise circumstances when Australian-specific disclosures may be justified, for example, in cases when users are requiring additional disclosures regarding Australian-specific issues that are not likely to be provided voluntarily. Assessment of such circumstances requires consideration of several factors, including the cost of such a disclosure relative to its benefits, through a robust due process.

We also note recommendation 9.5 on page 311 regarding the improvement of the usefulness of public information sources on volunteering. We note that AASB 1058 encourages disclosures of volunteer services an NFP entity receives, including those that are not recognised in the financial statements.

The AASB is currently assessing feedback received on several post-implementation reviews (PIR) of NFP pronouncements including income and revenue accounting requirements (ITC 50).⁸ Stakeholders have also provided comments on how to improve the accounting requirements for grants and donations that many NFP private sector stakeholders consider complex, noting the variety of the grant and donor agreements in the sector. The AASB will consider the next steps it may take in 2024 and we would welcome the opportunity to discuss with the Commission how the stakeholder feedback on

8 AASB Invitation to Comment [ITC 50 Post-implementation Review – Income of Not-for-Profit Entities](#), November 2022

ITC 50 could be considered when assessing how to improve the NFP income and revenue accounting requirements including disclosures.

Other comments

We note two matters that require editorial correction:

- the list of consultations in Table A.2 of the report includes the AASB as a consulted organisation. This reference should be changed to more accurately refer to the AASB staff; and
- page 379 of the report includes the citation “AASB (The Australian Accounting Standards Board) 2015, The Australian Accounting Standards Board exposure draft - reporting service performance information, International Federation of Accountants, Melbourne.” This should change to “AASB (Australian Accounting Standards Board) 2015, Exposure Draft ED 270 *Reporting Service Performance Information*, Melbourne.”

We look forward to engaging with the Commission on these matters. If you have any questions regarding this letter, please contact Fridrich Housa, Director (), or myself ().

Yours faithfully,

Keith Kendall
AASB Chair