



Australian Not for Profit Network Inc.

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Mr Jorge del Busto
Secretary
Financial Reporting Council
c/- The Commonwealth Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr del Busto

Thank you for the opportunity provided by the Financial Reporting Council to respond to the Consultation Issues which have arisen from the Simpkins Report.

The Australian Not for Profit Network is a network of qualified accountants and accounting firms specializing in the not for profit sector in Australia. Members operate in all Australian states, sharing expertise, technical training, personnel and developing resources relevant to sector. In addition to its focus on governance, compliance and financial reporting issues in larger organisations, the Network assists a large number of small volunteer-based community groups, churches and mission agencies in relation to their statutory reporting obligations and financial affairs generally.

Our comments relate mainly to entities in the 'private' not for profit sector, although they may be relevant to the public sector as well. Our responses follow the order of the questions asked –

1. In your view, how well are the needs of all users of general purpose financial reports, including users of public sector and other not-for-profit entities in Australia, being met?

Not very well at all.

As we understand it, no authoritative study has been made of the needs of users of financial reports of not for profit entities in Australia. This could be seen to be a failure on the part of the FRC and/or the AASB, although the commissioning of the Simpkins Report is a significant step forward in this regard. The Woodward report (University of Melbourne) a few years ago highlighted some important *governance* issues, but did not address the *financial reporting* needs of users.

We believe that in the not for profit sector, in reality, there are extremely few users of general purpose financial reports. This is a cause for concern, and the FRC needs to know why.

We suggest two reasons –

- (i) we estimate that less than 10% of the 700,000 not for profit entities in Australia prepare general purpose financial reports – this means that the users of most NFP financial reports never get to see a GPFR; and
- (ii) for users who do receive general purpose financial reports, those reports do not contain much of the critical information that users need

Most users of GPFR reports are looking for (financial) information regarding the stewardship of resources of the organisation and the delivery of its services to the community. A *Statement of Service Performance* is sadly an optional accounting standard only in New Zealand.

We are convinced that the information needs of users of financial reports of not for profit organisations are not being met.

2. Will the current approach of the AASB enable the standard-setter to respond to the more challenging environment of the future and ensure the needs of public sector and other not-for-profit users are appropriately met?

No. However, we commend the current approach of the AASB which has become more visible during the last couple of years. The board and its staff have displayed a particular concern for and attention to, the not for profit sector.

We answer “No” to this question because the directive provided by FRC to the AASB to work towards the adoption in Australia of accounting standards that are the same as those issued by the IASB is in conflict with the need to take into account the needs of the not for profit sector.

Specifically, addressing the financial reporting needs of the not for profit sector is a mandate of the Financial Reporting Council, but it is not in the mandate of the International Accounting Standards Board.

Clearly this conflict needs to be addressed by the FRC sooner than later. (see Q.10 following).

3. Do you consider that having a conceptual framework that is applicable and appropriate to all entities is a necessary element in Australian standard-setting for all sectors? What approach to establishing a conceptual framework(s) do you consider appropriate?

Yes, ideally.

But we do not live in an ideal world. Thus we find differing frameworks emerging to address the special needs of the not for profit sector in Australia. For example –

- (a) the *Australian Council for International Development* prescribes a ‘cost of fundraising’ reporting framework for Australia’s overseas aid agencies
- (b) various States prescribe differing frameworks for incorporated clubs and associations;

The most appropriate financial reporting framework for all entities in Australia is one where like transactions are treated in the same way, irrespective of the sector. Not ‘sector neutral’ but rather ‘transaction neutral’.

The reason why different frameworks are emerging for the not for profit sector – not only in Australia, but around the world – is because the IASB framework is inadequate to meet the needs of the not for profit sector.

We believe this trend could be arrested if the FRC adopted our recommendation in Q.10 following.

4. Different approaches could be used to set standards in Australia. Which approach do you consider the most appropriate:

- *to continue to develop a single set of standards;*
- *to develop two separate sets of standards: one for profit-oriented entities and the other for not-for-profit entities; or*
- *another approach e.g. three sets of standards (profit-oriented, public sector not-for-profit and other not-for-profit sets) or two sets of standards with other not-for-profit entities being addressed together with profit-oriented entities? (If you prefer this option please describe the approach you prefer)*

A single set of standards is the most appropriate.

But, if this cannot be achieved within the next two years, then we would prefer the FRC to provide a direction to the AASB for the development of two separate sets of standards, with the second set only applicable to specific circumstances not covered in the entities covered by the for-profit standards.

5. If, in response to Consultation Issue 4, you considered standards different from those applying to the for-profit sector should be developed for one or more sectors please indicate, for each such sector, what the primary base should be for those standards:

- Government Finance Statistics (GFS);***
- International Public Sector Accounting Standards (IPSAS); or***
- a range of sources, including International Financial Reporting Standards, IPSAS and GFS, depending on the particular issue being considered?***

Because we do not believe that it will be possible, within this decade, for the AASB to develop a single set of standards which will be acceptable to the public and other not for profit sectors, we strongly favour the primary base for the development of relevant standards for those entities being the *International Public Sector Accounting Standards* (IPSAS).

6. If a single set of standards continues to be developed in Australia, do you prefer:

- the current approach of the AASB;***
- a matrix approach, retaining specific standards for types of public sector and possibly also other not-for-profit entities while maintaining a general set of topic based standards applicable to all entities; or***
- an approach involving a single set of standards but with non-standard level guidance (such as the Statements of Recommended Practice in the United Kingdom) applicable to particular sectors or groups of entities in sectors?***

We favour the matrix approach, retaining specific standards for differing types of not for profit entities while maintaining a general set of topic based standards applicable to all entities.

However, we acknowledge the significant value of the Statements of Recommended Practice (SORP) used in the United Kingdom and urge the FRC to consider whether it would be more practical, and helpful to the sector, if they were adapted to be applicable to particular sectors or groups of entities within the not for profit sector in Australia.

Of importance here is the recent debate concerning ‘large’ and ‘small’ entities which we consider to be an unsatisfactory ‘temporary fix’ of the problems facing smaller not for profit entities.

7. Would developing a Statement of User Needs for the public sector and other not-for-profit sectors, based on research, and including an analysis of how any different needs impact financial reporting be useful? If so, please suggest how that Statement of User Needs could be developed and maintained. Do you have any other views on how user input could be enhanced?

Yes, we believe a *Statement of User Needs* would be extremely useful to the FRC, the AASB and the not for profit sector, assuming it would be developed along the lines referred to in the Simpkins Report.

8. Do you consider that there is enough clarity on the direction that the AASB is taking in establishing requirements for the public sector and other not-for-profit sector, including identifying the base set or sets of standards which will be adopted?

No we do not.

We recommend that the FRC ask the AASB to provide a separate segment on their web site for the not for profit sector. This could be organised along similar lines to the NFP section on the web site of the Australian Taxation Office. Anyone sceptical of this suggestion should try and find the extremely useful guidance on the AASB web site in relation to the impact of IFRS on accounting standards applicable to the not for profit sector. [hint – see “Staff Papers”]. The preparers of NFP financial reports badly need this sort of guidance and resource.

9. A number of options to enhance the recognition of different environments and issues in sectors have been identified in the Report. Do you consider any of the options, including those relating to board membership, sub-boards or committees, expectations of board members, staffing or explicit board sign-offs would enhance the ability of the standard-setting process to meet user needs?

We would like to see the establishment of a new section within the AASB, jointly funded by the Australian government and the IASB, specifically devoted to the needs of financial reporting in the not for profit sector in Australia. Ideally this section would work closely with the IASB, provided they were amenable to participate in this initiative.

We make this suggestion to a large extent because we believe that little has been done to date by the FRC or the AASB to take or encourage initiatives for the enhancement of meaningful financial reports for not for profit entities in Australia.

There have been calls from many quarters for the establishment of a *Charities Commission* because of the unsatisfactory state of affairs in NFP financial reporting in Australia. These calls will grow much louder if the FRC do not act decisively to require the standard setting processes to more adequately address the needs of users of financial reports of not for profit entities in Australia.

10. Are there any other matters that you would like to suggest for consideration by the FRC?

We have noted that the FRC has only provided two directives to the AASB concerning the making of accounting standards since 2002. We believe that this has been to the detriment of the not for profit sector in Australia.

We therefore propose that two further directives be provided to the AASB –

- That the AASB work towards the adoption in Australia of accounting standards applicable to the not for profit sector that are equivalent to or complement those issued by standard setting authorities in other countries - to enable their applicability to both incorporated and non-incorporated entities for accounting periods beginning on or after 1 January 2008 – and that this work be undertaken in consultation with the International Accounting Standards Board.
- That the AASB provide the not for profit sector in Australia financial reporting options and statement presentation options (such as columnar reports favoured overseas) which enhance their usefulness to users yet remain consistent with a relevant conceptual framework and Australian accounting standards

Because the primary focus of accounting standards issued by the IASB has been, and will continue to be, on for-profit entities, we believe these proposed directives have become an urgent priority.

It could be argued that the initial IFRS directive of the FRC covered many not for profit entities by virtue of its applicability to entities incorporated under the Corporations Act. However, a recent survey of 650 nonprofit organisations in Queensland found that the majority of NFPs consider themselves to be ‘non reporting entities’ and thus exempt from the full impact of Australian Accounting Standards.

We believe that the FRC and the AASB have a unique opportunity to redress the confusion and financial reporting inconsistencies which have developed in recent years in the not for profit sector in Australia (and internationally). Members of our Network would be pleased to assist in any way we can to assist you in this process.

Yours faithfully

Lawrence R Green, Secretary

Kimberly C Smith, Chairman

Australian Not for Profit Network Inc