

## Strategic Project Outline

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Project Title: Reporting Framework and Charities  
Project ID: 2017  
Team member responsible: Mark Dowling  
AUASB Sponsors: Justin Reid

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### I. Background

1. The NFP sector is a significant part of the Australian economy comprising approximately 600,000 entities, including 55,000 charities registered with the ACNC. Whilst the sector is significant, the vast majority of these entities are small and unsophisticated, resulting in significant issues relating to maintaining compliance with a multitude of legislation and regulation. Given that the focus of this project is audit and assurance issues relating to proposed changes to the reporting framework for charities, this project is directed at ACNC entities only.
2. The AUASB has been engaged with the ACNC for over 5 years, dating back to the ACNC Taskforce and has been involved with a number of submissions in relation to the founding legislation as well as ongoing issues impacting audit and assurance matters. Projects have included the preparation of pro forma audit and review reports, transitional arrangements and compliance frameworks as well as an update to ASAE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*. The ACNC has been a regular attendee at AUASB roundtables and research forums.
3. The AASB is working closely with the ACNC on reporting issues impacting on the charity sector. The AASB are currently working on a reporting framework project that is expected to provide input to the ACNC in relation to the current use of general and special purpose reporting frameworks with a view to expanding the number of reporting tiers available for smaller and less sophisticated charities (who should report and what should be reported). The AUASB are providing input to this project from the auditing and assurance perspective in relation to the framework (what level of assurance is appropriate and who should provide the assurance).
4. Research has recently shown that there is a range of audit or review requirements for charities across various regulators and legislation, which has led to significant red tape costs. Research has also shown that there are variations in the assurance provider credentials across these various regulations. A recent report published by the CA ANZ and the University of Adelaide on *The Demand for Registered Company Audit Services in Australia* identified difficulties in finding a local auditor, forcing entities to pay a premium for services as well as increasing workloads for registered company auditors, with a potential impact on audit quality.
5. Research has further recently shown that very few charities that have a choice of audit or review are currently selecting the review option. Also, the research shows there are a range of audit quality issues in the audit of charities. These findings are highlighted in upcoming research prepared by PhD student, Yitang (Jenny) Yang from the UNSW Business School - *Report Prepared for the AASB and AUASB on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Charities* which has found:
  - very low levels (around 6%) of medium sized charities opt for a review, even though there is a regulatory choice for this group of charities; and
  - variability in audit quality, based on the size of the audit firm engaged.
6. The AUASB is keen to continue with this project as well as identifying additional opportunities to continue its work with key stakeholders to support the work of the charity and NFP sectors with a primary focus on charities. Work in this area is also expected to inform the upcoming SMP/SME project.

## **II. Purpose of Session**

7. To gather input from the AUASB on the project's objectives, goals and outcomes. To facilitate an informed discussion with the AUASB members leading to recommendations as to how to move forward in order to ultimately meet the project objectives

## **III. Scope**

8. Work with the AASB and the ACNC in relation to auditing and assurance impacts resulting from proposed changes to the reporting framework.
9. Work with NZAuASB to identify common areas of interest in relation to auditing and assurance issues impacting on the charity and NFP sectors. This is particularly important given the recent progress in New Zealand on reporting tiers for NFP entities as well as the reporting of service performance information.
10. Identify any other significant gaps impacting these entities in order to provide guidance and influence where required.

## **IV. Project objectives, public interest benefits, link to corporate strategy and short, medium and long-term goals:**

### **Project Objectives**

11. The objective of this project is to obtain an understanding of the audit and assurance impacts arising from the AASB charities framework project, with a view to supporting the ACNC objectives:
  - (i) maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency; and
  - (ii) promote the reduction of unnecessary regulatory obligations on the sector.

### **Public interest benefits**

12. The public interest benefits of this proposal align with the project objective of supporting the enhancement of public trust and confidence in the charity and NFP sectors.

### **Link to Corporate Strategy**

13. This project contributes to the following strategic objectives:
  - Demonstrating thought leadership and enhancing key international relationships.
  - Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.
  - Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance.

## Short, medium and long term goals

14. The table below has a summary of the short, medium and long term goals of this proposal:

|                                    |   |
|------------------------------------|---|
| <i>Short Term (current period)</i> | <ul style="list-style-type: none"> <li>• Provide input to the AASB in relation to assurance elements of the NFP framework project.</li> <li>• Obtain a comprehensive understanding of existing domestic and international guidance on assurance for charities and NFPs.</li> <li>• Meet with key stakeholders to document issues impacting assurance in the charity and NFP sectors (including application issues impacting on audit quality).</li> <li>• Gain an overview of the current assurance requirements (which charities need an audit or review as well as who is most appropriate to provide these services.)</li> <li>• Identify gaps in existing guidance</li> <li>• Update existing guidance where minimal changes are required.</li> </ul> |
| <i>Medium term (2-3 years)</i>     | <ul style="list-style-type: none"> <li>• Continue to update existing guidance where applicable in relation to the charity and NFP sectors.</li> <li>• Identify opportunities to provide new guidance and resources for emerging issues within these sectors.</li> </ul>   |
| <i>Long term (4-5 years)</i>       | <ul style="list-style-type: none"> <li>• Continue to engage and influence.</li> </ul>   |

## V. How / Outreach:

15. The AUASB will liaise with the following key stakeholders:

- i) The ACNC
- ii) Auditors – feedback session with representatives a focus on firms involved in the charity/NFP sector.
- iii) Professional bodies (CA ANZ, CPA IPA)
- iv) The NZAuASB
- v) Other significant Commonwealth/State/Territory regulators of charities and NFP entities
- vi) Academic institutions such as the QUT Australian Centre for Philanthropy and Nonprofit Studies and the Centre for Social Impact (University of New South Wales, University of Western Australia and Swinburne University of Technology).

## VI. Outputs from project

- Provide input to the AASB on auditing and assurance matters relating to the NFP framework project.
- Updated guidance on the application of audit and assurance standards for the charity and NFP sector including the appropriate level of assurance as well as applicable guidance statements such as GS 019 *Auditing Fund Raising Revenue of Not-for-Profit Entities*.
- Provide input and influence to key stakeholders in relation to challenges impacting on auditing and assurance.

## **VII. Next Steps**

- Continue working with the AASB of the NFP framework project.
- Meet with the ACNC Director of Reporting and Red Tape Reduction to identify issues in relation to audit and assurance that are impacting on charities.

## **VIII. Liaison with other Standard Setters including Collaboration with AASB**

16. The AUASB is working directly with the AASB on the charity portion of the NFP framework.

## **IX. Education**

1. Education and guidance are key to the success of this project. In providing this, it is important to leverage off the existing work of the ACNC as well as the ongoing role of the professional bodies (CA ANZ, CPA, IPA) in this area. Consideration will also be given to using existing and alternative modes of communication such as webinars and podcasts.

## **X. Research**

17. The AUASB has currently identified some applicable research papers:
  - a. Yang Y., Simnett R and Carson E – *Report Prepared for the AASB and AUASB on the Reporting Framework Choice and Auditor Characteristics and Value among Australian Large and Medium Charities*, UNSW Australia Report
  - b. 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.
  - c. EY – *Research into Commonwealth and Reporting Burdens on the Charity Sector*
  - d. Deloitte Access Economics – *Cutting Red Tape: Options to align state, territory and Commonwealth charity regulation*
  - e. University of Adelaide – *The Demand for Registered Company Audit Services in Australia*