

## Strategic Project Outline

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Project Title: Reporting Framework and Charities

Team member responsible: Mark Dowling

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### I. Background

1. This project is part of the broader framework project aimed at clarifying and simplifying the Australian financial reporting framework and related assurance requirements, in conjunction with government policymakers and regulators. The project seeks to develop objective criteria in order to determine which entities should be required to prepare and lodge financial reports and the financial reporting and assurance requirements that would apply.
2. The focus of this project is on the 55,000 charities registered with the ACNC, included in the NFP sector which forms a significant part of the Australian economy. 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. The AUASB contribution to this project relates to the identification of audit and assurance issues relating to proposed changes to the reporting framework for charities.
3. 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.
4. 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).
5. 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.
6. 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.

7. 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. 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.

## **III. 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 balancing the ACNC objectives of maintaining trust and confidence in the sector through increased accountability and transparency together with promoting the reduction of unnecessary regulatory obligations on the sector. Consideration will be made in relation to:
  - the identification of options relating to the type of auditing or assurance engagement conducted, including the level of assurance provided; and
  - qualifications and certification requirements for assurance practitioners and auditors.

### **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.