



Australian Government

Australian  
Charities and  
Not-for-profits  
Commission

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Chartered Institute of Public Finance and Accountancy (CIPFA)

Submitted via email to: ifr4npo@cipfa.org

Our reference: ACNCSUB2024/5

1. The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the opportunity to comment on this Exposure Draft 2 of the International Non-Profit Accounting Guidance (**INPAG**).
2. We understand the objective of CIPFA is to develop international reporting guidance for Non-Profit Organisations (**NPOs**). This will improve the quality, transparency, and credibility of NPO financial reports and their usefulness to stakeholders.
3. Exposure Draft 2 is focused on some of the key accounting transactions relevant for NPO financial reporting.

### Supporting a simple and fit-for-purpose reporting framework

4. This submission aims to provide general commentary in addition to our response<sup>1</sup> in Exposure Draft 1, rather than addressing every Specific Matter for Comment.
5. In accordance with the ACNC regulatory framework, medium and large charities<sup>2</sup> must prepare annual financial reports in compliance with the accounting standards set by the Australian Accounting Standards Board (**AASB**).
6. As a charity regulator in Australia, our administration of the *Australian Charities and Not-for-profits Commission Act 2012* (Cth) (**the ACNC Act**) does not allow us to accept a financial report prepared in accordance with INPAG (upon completion of its initial development) as meeting the legislative reporting requirements.

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<sup>1</sup> Submission to the Chartered Institute of Public Finance and Accountancy's Exposure Draft 1: <<https://www.acnc.gov.au/sites/default/files/documents/2023-05/ACNC%20submission%20CIPFA%20INPAG%20Exposure.pdf>>

<sup>2</sup> Charity size: <<https://www.acnc.gov.au/tools/topic-guides/charity-size>>



7. Approximately 3000 Australian charities operate outside Australia<sup>3</sup>. The adoption of a common financial reporting framework would assist these charities in providing financial information to other organisations or countries.
8. We acknowledge the merits and support the development of INPAG, especially for jurisdictions or countries lacking a specific not-for-profit financial reporting framework. However, more consideration is needed for countries like New Zealand or the United Kingdom, which have their own not-for-profit financial reporting standards, as to how INPAG would apply in those countries.
9. Concurrently, the AASB is going through a similar journey in developing a new tier (**Tier 3**) to set out not-for-profit financial reporting requirements for smaller not-for-profit entities in Australia<sup>4</sup>. The Exposure Draft for Tier 3 is anticipated to be released in late 2024.
10. The creation of this 'third tier' aims to address concerns about the complexity of current Australian reporting requirements for smaller not-for-profits, including charities, with an objective to develop a simple, proportionate, consistent, and transparent financial reporting framework in meeting the needs of users of their financial reports.
11. Given the mandate for charities to comply with Australian Accounting Standards under the ACNC regulatory framework, there's an opportunity for the AASB to consider insights from the INPAG development process for its domestic Tier 3 development process within the Australian jurisdiction.

### **Complexity of revenue recognition model for smaller charities**

12. Regarding key accounting transactions outlined in INPAG ED 2, the ACNC found the proposed revenue recognition model overly complex compared to the AASB's proposed Tier 3 requirements for smaller charities.
13. The key components in the revenue recognition model such as determining arrangement enforceability and measuring each district obligations, which pose challenges in practice, along with feedback from Australian constituents, are the primary driving forces behind the AASB's efforts to further simplify the revenue recognition model for Tier 3 not-for-profit entities.

### **Advocacy for a proportionate reporting framework**

14. Certain larger charities have been applying Tier 1 or Tier 2 Australian Accounting Standards to prepare their annual financial reports, incorporating the not-for-profit modifications outlined in the AASB's Conceptual Framework and within each accounting standard. The revenue recognition model is similar to proposed INPAG to differentiate Enforceable Grant

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<sup>3</sup> Australian Charities Report - 9th Edition:

<https://www.acnc.gov.au/tools/reports/australian-charities-report-9th-edition>

<sup>4</sup> AASB Not-For-Profit Financial Reporting Framework:

<https://aasb.gov.au/research-resources/hot-topics/not-for-profit-financial-reporting-framework/>



Arrangement (**EGA**) and Other Funding Arrangement (**OFA**) from applying both the AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.

15. We advocate for a proportionate reporting framework that provides smaller charities with a simple and consistent approach to financial reporting, considering that the revenue recognition model outlined in INPAG ED 2 may appear overly complex for them.

#### **New requirement for grant expenses**

16. Specific aspects of INPAG diverge from traditional financial reporting practices of Australian charities, potentially imposing additional reporting burden. For example, it introduces new requirements that currently there is no specific equivalent Australian accounting standard to detail the requirements or accounting treatment of expenses on grants and donations, as outlined in INPAG Section 24, Part I.
17. This lack of alignment with existing standards may be considered burdensome for charities to deviate from traditional reporting practices. Additionally, mirroring the revenue recognition model to apply EGA and OFA models on outgoing expenses could also pose challenges. For example, it may require grant providers to maintain regular communication with their grant recipients about the progress of satisfying each enforceable grant obligation, potentially adding administrative burdens. Moreover, the inability to expense the amount of a grant (effectively deferring the recognition of an expense while it has genuinely been incurred) and instead treating it as an advanced payment being an asset, alongside the use of estimates and determining the components for their own use, could further complicate reporting process. While these proposals may offer some benefits, they may not justify the associated costs from a cost-benefit perspective.

#### **Contact officer**

18. If you have queries about this submission, please contact Mel Yates, Director of Reporting, Red Tape Reduction and Corporate Services, at [Melville.Yates@acnc.gov.au](mailto:Melville.Yates@acnc.gov.au).

Kind regards

**Clayton Boundey**  
Assistant Commissioner  
Australian Charities and Not-for-profits Commission