

ACNC financial reporting changes for charities

June 2022



Summary

The reporting thresholds for Australian registered charities have been increased, effective from the reporting period covered by the 2022 Annual Information Statement (AIS).

Large charities with more than one key management personnel (KMP) that prepare special purpose financial statements (SPFS), are required to disclose KMP remuneration, effective from the 2022 AIS reporting period.

Charities preparing SPFS can reduce the disclosures by choosing to disclose the equivalent simplified disclosures included in AASB 1060, effective from the 2023 AIS reporting period.

Large and medium charities preparing SPFS will be required to disclose related party transactions in their SPFS, effective from the 2023 AIS reporting period.

Increase in reporting thresholds

The Australian Charities and Not-for-profits Commission (ACNC) has revised the reporting thresholds for Australian registered charities, with effect from the reporting period covered by the 2022 AIS¹. The amendments increase the size thresholds at which charities² are required to prepare and have audited financial reports, as follows:

Annual reporting thresholds

Category	Previous threshold	Revised threshold	Reporting requirements
Small	Less than \$250,000	Less than \$500,000	AIS
Medium	\$250,000 or more and less than \$1 million	\$500,000 or more and less than \$3 million	AIS, and audited or reviewed financial report
Large	\$1 million or more	\$3 million or more	AIS, and audited financial report

¹ For most charities, this will be for financial reporting period ending 30 June 2022.

² A Basic Religious Charity, regardless of size, does not have to submit a financial report. However, if it chooses to do so, it must follow the guidance applicable to their size.

NFP financial reporting framework and the reporting entity concept

The revision to the *Conceptual Framework for Financial Reporting* for for-profit private sector entities has led to the removal of the reporting entity concept and the ability of certain for-profit private sector entities to prepare SPFS.

However, not-for-profit (NFP) entities which are required to prepare financial statements in accordance with Australian Accounting Standards are still able to apply the reporting entity concept outlined in SAC 1 *Definition of Reporting Entity*. This means NFPs can choose to prepare SPFS if they self-assess as a non-reporting entity and do not opt to prepare general purpose financial statements (GPFS).

Currently, charities preparing SPFS must comply with the requirements of the "Compulsory Standards for SPFS" including:

- ▶ AASB 101 *Presentation of Financial Statements*
- ▶ AASB 107 *Statement of Cash Flows*
- ▶ AASB 108 *Accounting Policies, Changes in Estimates and Errors*
- ▶ AASB 1048 *Interpretation of Standards*
- ▶ AASB 1054 *Australian Additional Disclosures*

Disclosure of KMP remuneration - large charities preparing SPFS

Historically, only large and medium charities that prepared GPFS were required to disclose KMP remuneration.

The revised ACNC Regulations require the SPFS of a large charity, that has more than one remunerated KMP at any point during the reporting period, to disclose KMP remuneration, in addition to the disclosures required under the above Compulsory Standards for SPFS³. Such disclosures:

- ▶ Can be provided:
 - ▶ On an aggregated basis (i.e. total remuneration only) consistent with the requirements of AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2* (AASB 1060) or
 - ▶ On a disaggregated basis (i.e. by category of remuneration) consistent with AASB 124 *Related Party Disclosures* (AASB 124)
- ▶ Do not require comparatives in the first year of application⁴
- ▶ Apply from the reporting period covered by the 2022 AIS

Determining KMP

Charities will be required to determine who are their KMP. A KMP is defined as "... those persons having authority and responsibility for planning, directing, and controlling the activities of the entity...".

According to ACNC guidance, KMP are "... the senior decision makers of a charity and do not include team leaders or operational managers...". They include Responsible Persons, being those persons responsible for governing the charity (such as the members of the board, committee members, trustees) and senior staff (such as the CEO, CFO and COO)⁵.

Who are KMP?

Charities will need to identify their KMP, being those persons who are responsible for governance of the charity, which will require judgement. While this assessment is performed on an individual basis, disclosures can be provided on an aggregate basis.

What is included in remuneration?

Remuneration includes all forms of consideration paid, payable or provided by the charity, or on behalf of the charity, in exchange for services rendered to the charity. This includes:

- ▶ Short-term employee benefits, including wages, salaries, annual leave, sick leave, bonuses, non-monetary or fringe benefits such as housing, cars and free or subsidised goods or services
- ▶ Post-employment benefits
- ▶ Long-term benefits such as long-service leave and
- ▶ Termination benefits

Provision of KMP services by a separate management entity

KMP may be employed directly by the charity or KMP services may be provided by a separate management entity to the charity. In the latter case, the disclosure requirements for KMP remuneration do not apply to the remuneration paid or payable by the management entity to the management entity's employees or directors. Instead, amounts incurred by the charity for the KMP services provided by the separate management entity are to be disclosed separately.

Where the management entity provides KMP services as well as other services to the charity, judgement will be required to reasonably apportion and allocate the cost to each component.

³ [Standards and financial reporting | ACNC](#)

⁴ The ACNC Commissioner has exercised discretion in this regard.

⁵ For further ACNC guidance refer to [Responsible Persons - board or committee members | ACNC](#)

Example: KMP remuneration

Charity A has an annual revenue of \$5 million and is classified as a large charity for FY22. Management has assessed that it is a non-reporting entity and has chosen to prepare SPFS. It has also chosen to adopt AASB 1060 in the disclosure of KMP remuneration. The charity has five board members (who receive no remuneration) and a CEO (who received a salary plus super of \$250,000 and \$20,000 in non-monetary benefits including FBT). It also received CFO, company secretarial and bookkeeping services from an external accounting firm ABC Co for which it paid \$300,000. The charity determines that:

- ▶ The board members, CEO and the CFO role meet the definition of KMP. However, the company secretarial role does not meet the definition
- ▶ Of the services provided by ABC Co, \$150,000 relates to CFO services and is KMP remuneration
- ▶ A reasonable method to apportion the fees paid for the KMP and non-KMP services provided by the management entity is on an assessment of the time commitment involved for each service

In accordance with the new ACNC Regulations and Guidance, the large charity provides disclosure of KMP remuneration in aggregate accordance with AASB 1060 as follows:

	2022 \$
KMP remuneration provided by Charity A	270,000
KMP services provided by ABC Co	150,000
Total KMP remuneration	420,000

Charities preparing SPFS from the 2023 AIS reporting period

Choice to comply with AASB 1060

From the reporting period covered by the 2023 AIS⁶, charities will have the option to either comply with:

- ▶ The Compulsory Standards for SPFS as outlined above, as well as compliance with AASB 124
- or
- ▶ The recognition and measurement requirements of the above standards but only the equivalent disclosures for these standards included in AASB 1060⁷ and para 17 of AASB 1054

⁶ For most charities, this will be for financial reporting period ending 30 June 2023
⁷ This includes paragraphs 8, 11, 14-103, 106-110, 189-203) and paragraphs 1 to 6, 9, 9A, 9B

Disclosure of related party transactions

Under AASB 124/AASB 1060 a charity that has had related party transactions will be required to disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments.

Comparative disclosures for related party disclosures will not be required in the first year of application⁸.

Systems and processes

Charities will need to develop systems and processes for related party transactions to be captured for disclosure purposes.

Where a charity uses an external service provider for KMP services, the management entity would be considered a related party of the charity. Any other transactions with the management entity, for example, fees paid for non-KMP services, loans etc would be required to be disclosed by the charity, including their terms and conditions.

Related party disclosures in summary

Category	KMP remuneration	Related party transactions
Small charity	Not required to disclose	Not required to disclose
Medium charity - preparing GPFS	Must disclose as follows: Tier 1 - AASB 124 Tier 2 - AASB 1060	Must disclose as follows: Tier 1 - AASB 124 Tier 2 - AASB 1060
Medium charity - preparing SPFS	Optional to disclose	Must disclose per AASB 124/1060**
Large charity - preparing GPFS	Must disclose as follows: Tier 1 - AASB 124 Tier 2 - AASB 1060	Must disclose as follows: Tier 1 - AASB 124 Tier 2 - AASB 1060
Large charity - preparing SPFS	Must disclose per AASB 124/1060* (unless only one KMP)	Must disclose per AASB 124/1060**

* Effective from the 2022 AIS reporting period
 ** Effective from the 2023 AIS reporting period

To discuss further, please contact your local EY adviser

⁸ The ACNC Commissioner has exercised discretion in this regard

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