Revising the Australian reporting framework PwC views

9 November 2018

Tiered reporting - For-profit

PwC's view is a three-tiered reporting framework is needed for corporates, as follows:

IFRS

Tier 1: Publicly accountable entities (eg. listed entities)

PwC supports the AASB's view that publicly accountable entities should continue to prepare accounts that are fully IFRS compliant.

RDR

Tier 2: Large private companies>$100m revenue

With reference to the threshold identified for increased accountability in recent Tax Transparency and Modern Slavery legislation, our view is entities with greater than $100m in revenue would prepare accounts that comply with the existing RDR regime.

SDR

Tier 3: Medium private companies $25-$100m revenue

To reflect the differing needs of users of medium private company financial statements, PwC propose a third reporting tier is introduced for those entities with revenue of between $25m and $100m. This reporting tier could follow the proposed SDR.

Tiered reporting - Not-for-profits

PwC's view is a three-tier reporting framework for not-for-profits is needed, as done in the UK and NZ.

The focus on not-for profit reporting needs to shift to improving trust and transparency, and reducing the regulatory burden nationally. NFPs need to tell their story: explain their purpose, achievements and funds used directly for that purpose, and detail more transparently their fundraising and organisational costs. The ACNC together with the AASB are best placed to create the change needed for NFPs.

Not-for-profit reporting on purpose, fundraising, administration

RDR

SDR

Simplified

Tier 1: Large not-for-profits>$5m

For large not-for-profit entities, accounts could be prepared using the existing RDR. We support the ACNC review proposal of >$5m (top 5% of charities). This might be based on annual receipts/funds under management as some donations with specific obligations on their use are no longer accounted for as revenue.

Tier 2: Medium not-for-profits

For medium-sized not-for-profit entities, accounts could be prepared using SDR or a NZ-NFP equivalent, SFR. We support the ACNC review proposal of $5m-$1m revenue averaged over 3 years.

Tier 3: Small not-for-profits<$1m

PwC supports a third tier for 80% of NFPs, these are small not-for-profits<$1m. A simplified GAAP could be introduced, perhaps with a cash accounting basis (eg. based on NZ SFR-C).

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Tiered approach and removal of SPFS

The AASB is proposing to remove the ability of entities to lodge Special Purpose Financial Statements (SPFS) with ASIC, which we support. It will align us with global practice and community expectations. While the AASB proposes to continue with a two-tiered reporting framework, entities will no longer be able to opt out of disclosures by self-assessing as non-reporting entities. Tier 1 of the reporting framework will continue to be fully IFRS compliant. The AASB is looking for feedback on the form of Tier 2. They propose to keep the current Reduced Disclosure Regime (RDR) or introduce a revised Special Disclosure Regime (SDR) that requires a base level of disclosures and then allows choice on additional disclosures.

PwC Views

- PwC’s view is a three-tiered rather than two-tiered system may better align to other government legislation where more reporting is being required for large private companies of $100m or more, reducing the risk of two reports being required for different regulators. SDR is a great idea for medium-sized corporates where the focus is on liquidity, solvency and creditors reporting.
- PwC’s view is not-for-profits need different tiers of reporting for large, medium and small entities, and simpler reporting coupled with better transparency on the use of funds. Donors want to know the split of fundraising and administration costs versus funds spent directly on purpose.

Revising the Australian reporting framework

Other relevant considerations

PwC view the following as key matters to be considered in conjunction with any revision to the Australian reporting framework:

- In revising the reporting frameworks available for not-for-profits, the ACNC and AASB should work together to improve the relevance and transparency of NFP reporting to donors/grantors. Donors want to understand the NFPs' actions during the year, the funds used for purpose, fundraising costs and administration costs.
- Any new reporting framework should clarify when consolidation and equity accounting are required.
- Private companies often seek fairness in regulation of reporting between them and their peers. The most common feedback we hear is:

  1) whether revenue reported to the ATO is cross checked with those entities self-determined as small proprietary to ASIC, and

  2) the inconsistency in reporting requirements for private companies versus other structures.

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