Collins & Co
Audit Pty Ltd

ISSUE 19 | AUGUST | WINTER 2022

NFP NEWSLETTER

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Governance

Guidance on risk released

A new guide has been released by the Governance Institute of Australia outlining the importance of an integrated approach to risk management. It is designed to be a practical resource to assist Australian directors in any sector.

Risk management for directors: A guide revises its 2016 risk publication, addressing the challenges boards and directors can expect in coming years and how to address best some of the current ones.

It examines risks associated with digital technology, environmental, social and governance considerations, issues uncovered by the aged-care royal commission, and recovery from the pandemic.

It is intended to help boards to integrate their surveillance of governance and risk-management. This should assist organisations to achieve strategic foci by providing boards with the information they need and ensuring risk ownership by employees.

The guide covers:

- An integrated approach to risk management
- The regulatory environment
- Shareholder and member interest in board overseeing of risk management
- Distribution of responsibility
- Board committees — audits and risks
- Culture
- Tools, processes, and improvements
- Non-financial and emerging risks, and
- When risk management fails.

The guide may be accessed at the institute's website.

Guide maps the road towards net-zero emissions

The Governance Institute of Australia has launched a new guide designed as a roadmap towards net-zero emissions.

Aimed at boards and management, *Guide for boards and management on the path to net zero* responds to recent major international climate-policy developments.

It addresses significant shifts in expectations about organisations' actions – including disclosing climate risks – and concerns about inaction at a federal level.

The guide will help organisations big and small 'to act on climate change', said the institute's CEO Megan Motto.

'Many organisations still do not see climate change as an immediate threat,' Ms. Motto said.

'But recent extreme weather [...] has confirmed that climate and climate-risk management need to be front of mind for every organisation. And this mindset shift needs to happen immediately.'

Ms. Motto said the guide was designed for senior managers' and directors' use as they built climate initiatives into their organisations' strategies.

'Engaging the board is the first step in setting up effective climate governance,' she said.

'You will need a business case, and this must follow a review of how the organisation's priorities and risks may be impacted by climate change. Individual business units who will be tasked with carrying out the board's plan must be educated as the next step.'

The institute believes that key steps towards net zero are:

- Governance – orchestrating the climate-change conversation. How do you embed climate into the core of an organisation?
- Strategy – planning for net zero. How do you deal with transitioning to net zero?
- Expectations – managing legal and stakeholder expectations. How do you manage expectations on climate disclosure and action among evolving legal expectations? and
- Reporting – selecting a framework. How do you select a reporting framework that addresses stakeholder needs?

'Do not put this off,' said Ms. Motto. 'Organisations need to recognise that the time to act is now. There can be no delay.'

Minimum wage increases announced

The Fair Work Commission has reminded employers that new national minimum-wage increases announced on 15 June have come into effect.

From 1 July, wages will increase as follows:

- The minimum wage for award-free employees will be $21.38 an hour or
- $812.60 a week (an increase of 5.2 per cent), and
- Minimum award rates for award-covered employees will increase by 4.6 per cent for individuals who earn at least $869.60 a week. Those who earn below this will increase their wage by $40 a week.

The commission reminds employers to update their pay practices, including those affecting employees on annualised salaries. With such a significant award increase, annualised salaries might no longer cover award entitlements.

Super guarantee changes

From 1 July, employees have been eligible for super guarantee regardless of how much they earn. The $450 a month eligibility threshold for super-guarantee payments has been removed.

Workers under 18 who do more than 30 hours a week need to be paid super. The super-guarantee rate increased from 10 per cent to 10.5 per cent on 1 July. You'll need to use the new rate even if some or all the pay period is for work done before 1 July.

The super-guarantee rate is legislated to increase to 12 per cent by 2025. Payroll and accounting systems must be updated to pay correct super amounts.

Director ID deadlines loom

Directors of charities that are companies or Aboriginal and Torres Strait Islander corporations must apply for director identification numbers. A director ID is a unique 15-digit identifier that is acquired once and kept forever. Deadlines are:

- Intending new directors under the *Corporations Act* must apply before appointment
- New directors appointed for the first time between 1 November last year and 4 April should have applied already – they had 28 days from their appointment to apply, and
- While those appointed on or before 31 October last year have until 30 November this year to apply, they are strongly encouraged to do it now.

Directors of an Aboriginal or Torres Strait Islander corporation registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* have longer to apply.

Application involves several steps, including verifying your identity, which requires a myGovID.

For more information about who needs to apply and when, including a list of key dates, visit the Australian Business Registry Services website.

Audit committees need plans

The Institute of Internal Auditors in Australia has issued a timely *Factsheet: Audit Committee Work Plan*.

Work plans amount to what audit committees do over a period – usually a year.

Without one, an audit committee:

- Is operating in an ad hoc way and does not have a structured approach to its work
- Will not know if it has covered the range of governance and assurance activities required to do its job properly, and
- Will generally have its agenda determined by management – an audit committee should be setting its own agenda.

The guide can be accessed at the institute's web site.

Superannuation AGM proposals

The federal government is consulting on proposed changes to disclosure requirements for superannuation annual members' meeting notices.

Providing members with simple, clear information is expected to help them to engage with trustees and improve their outcomes.

The draft regulations propose changes to:

- Streamline disclosure requirements by preventing double-counting of political-donation expenditure
- Align the definition of 'related party' with that used in Australian accounting standards, and
- Remove the requirement for itemised disclosure of certain categories of expenses.

Compliance

Silver Chain underpaid workers more than $17m

National community health-and-aged-services organisation Silver Chain Group Limited has back-paid staff in Western Australia more than $17 million and entered into an enforceable undertaking with the Fair Work Ombudsman.

The not-for-profit organisation self-reported its non-compliance to the FWO in 2020 after becoming aware of underpayments. A review followed employee concerns.

Between 2013 and 2021, Silver Chain's WA employees were underpaid entitlements set out in the Silver Chain Group Limited National (Non-Nursing) Enterprise Agreement 2017 (and its 2014 and 2009 predecessor enterprise agreements).

Employees worked at various WA locations, servicing Silver Chain clients throughout Perth and in regional areas, including Albany, Bunbury, Busselton, Carnarvon, Geraldton, Kalgoorlie, Karratha, Mandurah, Margaret River, Narrogin, and Port Hedland.

Most of the underpaid employees were engaged part-time in care aide, home help, and therapy-assistant positions. Some casual and full-time employees were also underpaid.

The underpayments were a result of systematic failures specific to Silver Chain's WA operations.

When changes were continually made to employees' scheduled shifts, Silver Chain failed to adjust employees' pay and entitlements accordingly.

The majority of underpayments resulted from Silver Chain's failing to pay overtime entitlements that were due after employees weren't provided with unpaid meal breaks, they became entitled to as work schedules and shift durations changed.

Silver Chain also failed to provide paid tea breaks, and unlawfully treated some gaps between client appointments as unpaid breaks for which employees should have been paid. The organisation also underpaid employees' superannuation entitlements.

Silver Chain has back-paid more than $17 million to more than 2300 current and former employees, including superannuation and interest. Individual back-payments ranged from small amounts to more than $50,000.

Fair Work Ombudsman Sandra Parker said that an EU was appropriate because Silver Chain had cooperated and demonstrated a strong commitment to rectifying underpayments.

'Under the [EU], Silver Chain has committed to implementing stringent measures to ensure workers are being paid correctly. These measures include engaging, at the company's own cost, audits of its compliance with workplace laws over the next two years,' Ms. Parker said.

'This matter demonstrates how important it is for employers to place a high priority on workplace compliance and ensure that their systems and processes support full compliance with awards or agreements. In this matter, the limitations in how Silver Chain had set up its rostering system and its scheduling practices led to breaches of its enterprise agreements and a substantial back-payment bill.'

Under the EU, Silver Chain is also required to publish social media and website notices detailing its workplace law breaches, provide evidence of improvements made to its payroll and rostering systems, and implement a staff education-and-training campaign

Home nursing company in court

The FWO has begun legal action against the operators of a business that provides home-nursing and care services at various Victorian locations.

Facing court are Angels Care (Australia) Pty Ltd and company director Geoffrey David Harrison.

The regulator began an investigation after receiving requests for assistance from two workers who had been employed as managers by the company.

A fair-work inspector issued a compliance notice to the company in May 2021 after deciding that the company had failed to pay the workers' accrued but untaken annual-leave entitlements when their employment ended in early 2021.

The inspector decided that the workers were owed 299 and 123 hours of annual-leave entitlements under national employment standards.

The FWO alleges that the company, without reasonable excuse, failed to comply with the notice, which required it to back-pay the workers' entitlements. It is alleged that Mr. Harrison was involved in the contravention.

Fair Work Ombudsman Sandra Parker said the regulator would continue to enforce workplace laws and take businesses to court where lawful requests were not complied with.

'Where employers do not comply, we will take appropriate action to protect employees. A court can order a business to pay penalties in addition to back-paying workers. Any employees with concerns about their pay or entitlements should contact the Fair Work Ombudsman for free assistance,' said Ms. Parker.

The FWO is seeking penalties against the company and Mr. Harrison for allegedly failing to comply with a compliance notice.

The company faces a maximum penalty of up to $33,300 and Mr. Harrison a maximum penalty of up to $6600.

The regulator is also seeking an order for the company to comply with the notice, which includes rectifying any underpayments in full, plus interest and superannuation.

ACNC

Adhering to governance standards

The Australian Charities and Not-for-profits Commission governance standards is a set of core principles dealing with how a charity should be run.

Charities must meet the standards to be registered and remain registered with the ACNC. The principles do not apply to basic religious charities. They require charities to remain charitable, operate lawfully, and be run in an accountable and responsible way. They help to maintain public trust in charities.

The principles are high-level, not precise rules, and charities must determine what they need to do to comply with them.

Standard	Explanation
1 Purposes and not-for-profit nature	A charity must be not-for-profit and work towards its charitable purpose. It must be able to demonstrate this and provide information about its purposes to the public.
2 Accountability to members	A charity that has members must take reasonable steps to be accountable to its members and provide them with adequate opportunity to raise concerns about how the charity is governed.
3 Compliance with Australian laws	A charity must not commit a serious offence (such as fraud) under any Australian law or breach a law that may result in a penalty of 60 penalty units or more. The current value of a Commonwealth penalty unit is $222.
4 Suitability of responsible people	A charity must take reasonable steps to: • Be satisfied that its responsible people (such as the board or committee members or trustees) are not disqualified from managing a corporation under the *Corporations Act 2001* or disqualified from being a responsible person of a registered charity by the ACNC Commissioner, and • Remove any responsible person who does not meet these requirements.
5 Duties of responsible people	A charity must take reasonable steps to make sure that its responsible people are subject to, understand, and carry out the duties set out in standard 5.
6 Maintaining and enhancing public trust and confidence in the Australian not-for-profit sector	A charity must take reasonable steps to become a participating non-government institution if the charity is, or is likely to be, identified as being involved in the abuse of a person either: • In an application for redress made under section 19 of the *National Redress Scheme for Institutional Child Sexual Abuse Act 2018*, or • In information given in response to a request from the National Redress Scheme Operator (Secretary of the Department of Social Services) under section 24 or 25 of the Redress Act.

The ACNC's self-evaluation tool aims to help charities assess if they are meeting their obligations. It also helps to identify issues that might prevent them from doing so.

It poses questions and prompts charities to describe both the practical steps they are taking to meet their obligations, and to list the relevant policies or procedures.

A charity that conducts activities overseas – including sending funds overseas from Australia – must also comply with external-conduct and governance standards.

Four external-conduct standards cover certain aspects of a charity's overseas operations.

Standard	Explanation
1 Activities and control of resources (including funds)	The way a charity manages its activities overseas and how it is required to control the finances and other resources it uses overseas.
2 Annual review of overseas activities and record-keeping	The requirements for a charity to obtain and keep sufficient records for its overseas activities.
3 Anti-fraud and anti-corruption	The requirements for a charity to have processes and procedures that work to combat fraud and corruption in its overseas operations.
4 Protection of vulnerable individuals	The requirement for a charity to protect the vulnerable people that it works with when conducting its overseas operations.

An ACNC self-evaluation tool for charities operating overseas aims to help charities assess if they are meeting their obligations and identify issues that might prevent them from doing so.

The tool poses questions and prompts charities to describe both the practical steps they are taking to meet their obligations.

Charity-sector insights

The latest *Australian Charities Report* details Australian charities' contribution to the economy and communities.

In the 2020 reporting period:

Employment

- Charities employed 10.5 per cent of Australian employees – 1.38 million people
- There was a rise in the proportion of full-time and part-time staff
- Education charities employed the most staff – more than 330,000
- Volunteer contribution was high at 3.4 million, but decreased by 220,000 on the previous period
- 51 per cent of charities reported no paid staff
- Environment charities reported the most volunteers – 810,000, and
- About half of the sector's expenses were employee expenses

Revenue

- Charities' revenue rose to $176 billion – up by more than $10 billion on the previous period
- Donations rose by 8 per cent to $12.7 billion
- Revenue from government rose to $88.8 billion – up $10.7 billion on the previous period, accounting for 50.4 per cent of total revenue
- Other major revenue sources were goods and services (32.5 per cent) and donations or bequests (7.2 per cent), and
- The 50 largest charities by revenue accounted for 33 per cent of total sector revenue

Expenses

- Expenses increased by $10.2 billion.

The report is based on data that 49,000 charities submitted in their 2020 annual information statements – most reporting on the 2020 calendar year or the 2019 –20 financial year.

JobKeeper payments to ACNC-registered charities supported an estimated 331,000 individuals between April and September 2020. This reduced to about 128,000 individuals between October and December 2020, and 86,000 between January and March 2021.

For the first time, the report has collected 'program' data, giving an insight into the work of the sector across 75,000 programs. About 7 per cent of charities reported that they operated overseas. Some 217 countries or regions were named. The five most common were Cambodia, the Philippines, Indonesia, Kenya, and Papua New Guinea.

Charities under the microscope

The ACNC has reviewed registered charities to ensure that their records are accurate and only eligible charities are listed.

The initiative began in 2020-21 by examining 303 charities that were also public benevolent institutions and were missing information on their charity-register record – such as governing documents and responsible people.

The commission examined these charities to assess their eligibility to remain registered as PBIs and, where necessary, provided guidance to assist them to meet their obligations.

Where this was not possible, the ACNC revoked registration or access to specific charity subtypes. Most of the charities whose registrations were revoked (52 per cent did so voluntarily) were found to be no longer operating or government entities.

Sometimes new case law might have affected registration. Sometimes a charity's purpose was not charitable.

Of the initial 577 higher-risk charities reviewed the commission found that:

- 13 per cent required no follow up
- 15 per cent had administrative concerns about registration obligations, the ACNC following up by sending them guidance, and
- 72 per cent had potential entitlement concerns and either had been or would be subject to a more detailed review.

Other administrative reviews, which covered all registered charities, identified:

- 248 charities with cancelled Australian business numbers
- 125 incorrectly reporting as basic religious charities
- 2470 without an appropriate governing document, and
- 2513 with information withheld from the charity register.

The commission also identified charities that did not have any responsible people listed on the register or did not appear to have an appropriate number listed.

Managing risks of vulnerable overseas children

The ACNC is providing charities that support vulnerable children overseas useful resources that aim to help them manage risks and remind them of their obligations.

The eighth edition of the *Australian Charities Report* shows that about 7 per cent of charities reported that they operated overseas.

ACNC commissioner Gary Johns said that the ACNC focused on education to support charities to strengthen governance and improve practices.

'Charities that work with vulnerable children overseas have to be especially aware of their obligations,' Dr Johns said.

'In addition to standard obligations, a charity that works overseas or funds work overseas must meet the external-conduct standards […] introduced in 2019.

'Standard 4 covers the obligation to protect vulnerable individuals and standard 1 covers the requirement to control resources overseas, including funds that a charity sends overseas.'

The ACNC is advising these charities to:

- Recognise the risks that come with operating overseas and the need for higher levels of governance
- Make sure activities and projects they support are in the best interests of children and meet their needs
- Have oversight of the activities and projects they support and make sure that they are in line with its charitable purpose
- Make sure any partner organisations overseas have comprehensive policies and procedures to protect children and manage funds responsibly
- Have their own comprehensive policies and procedures that protect children and manage funds overseas, and
- Act on concerns, suspicions, or complaints quickly and thoroughly.

The ACNC has developed case studies and other resources to provide comprehensive guidance and education.

The resources, available on the ACNC website, include:

- Case study 1 *Developing policies to protect vulnerable individuals*
- Case study 2 *Taking reasonable steps when providing funds overseas*
- *Self-evaluation tool for charities operating overseas*, and
- Webinar *Protecting Young People and Vulnerable Beneficiaries*

Seeking comment on PBI and HPC

The ACNC is seeking public comment on two updated commissioner's interpretation statements, aiming to ensure that they are clear and accurately reflect the law.

They are:

- Commissioner's statement on public benevolent institutions, and
- Commissioner's statement on health-promotion charities.

Public comment is allowed until *30 August*.

Hundreds of charities lose registration

Almost 400 charities that have failed to submit two or more annual information statements have lost registration.

ACNC assistant commissioner general counsel Anna Longley said many of the 396 organisations that have had registrations revoked were likely to have stopped operating.

'Information that we publish on the register is largely provided by charities in their [statements], so timely AIS submission is very important. If a charity has ceased operating or is not meeting its reporting obligations, it loses ACNC registration and eligibility for certain Commonwealth tax concessions that are available only to registered charities,' said Ms. Longley.

'In April, the ACNC notified almost 750 organisations that they risked revocation. 'Those organisations that are still operating have been provided every opportunity to retain registration. Over the past few weeks, many have submitted their overdue statements and continue to be registered.'

ACNC extends AIS deadline for flood-affected charities

Following recent floods in parts of the New South Wales disaster zone, the ACNC is granting affected charities an automatic extension on their annual reporting deadlines.

Twenty-three local government areas have been affected by severe floods. Charities in affected postcodes with a reporting period that ends between January and April will automatically be granted an extension to 31 October to submit their 2021 information statement.

Remake of ACNC regulations

The existing *Australian Charities and Not-for-profits Commission Regulations 2013 is set to end on 1 April next year.*

A draft *Australian Charities and Not-for-profits Commission Regulations 2022* proposes minimal changes. Minor amendments reflect current drafting practices, improve clarity, and remove provisions such as transitional reporting arrangements that are no longer required. Views are sought on the draft regulations and an explanatory statement.

Changes at the top

Andrew Leigh has been sworn in as federal assistant minister for Competition, Charities and Treasury with responsibility for the charity sector and the ACNC.

The commission's head Gary Johns has announced that he will step down from the role at the end of July.

Dr Leigh has appointed Deborah Jenkins, deputy commissioner for small business with the Australian Taxation Office, as acting ACNC commissioner.

Financial reporting

SD replaces RDR

The Australian Accounting Standards Board has developed a new simplified-disclosure standard to replace reduced-disclosure requirements.

AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, a new simplified disclosure standard based on IFRS for Small and Medium-sized Entities, to replace the RDR. These simplified disclosure requirements are now collated in a single disclosure standard.

The 98-page AASB 1060 applies to reporting periods ending 30 June for the first time.

The standard sets out a separate disclosure standard to be applied by entities reporting under Tier 2 of the differential reporting framework in AASB 1053 *Application of Tiers of Australian Accounting Standards*.

Importantly, AASB 1060 does not change which entities are permitted to apply Tier 2 reporting requirements. Recognition and measurement requirements for Tier 2 are the same as for Tier 1.

Disclosures relevant to Tier 2 entities are set out in AASB 1060. Disclosure requirements in the body or appendix of other standards will no longer be shaded or unshaded in relation to Tier 2 requirements.

While entities that comply with this standard need to apply recognition and measurement requirements of other standards, they are exempt from disclosure requirements in specified paragraphs of other standards.

Tier 2 entities are also not required to comply with other standards that deal only with presentation and disclosure.

Charity thresholds change

Reporting and assurance thresholds will change in 2022 annual charity statements. For many charities, this will apply to the reporting period between 1 July last year and 30 June.

The table below compares old and new revenue thresholds for small, medium, and large charities.

Size of charity	Current revenue thresholds for the 2021 AIS	Revenue thresholds as of 2022 AIS	Audit/review requirement
Small	Less than $250,000	Less than $500,000	Must complete only an AIS online
Medium	$250,000 - $999,999	$500,000 - $2,999,999	Financial report can be either reviewed or audited
Large	$1 million or more	$3 million or more	Financial report must be audited

While thresholds have changed, the following should also be considered:

- Check governing documents to see if an audit is required. If an audit is required, then the changes to thresholds have no effect unless governance documents are amended
- If a review has become an option, consider whether this lower level of assurance provided by your auditor meets your needs and those of report users, and
- If a review is no longer required, consider how the lack of any firm assurance will affect your compliance obligations with governance standards and relationships with external stakeholders.

What is revenue?

Revenue determines reporting thresholds, and the ACNC has provided the following definition.

'Revenue is a component of total income. A simple formula to help charities understand this is: Revenue + Other Income = Total Income.'

Revenue is realised from the sale of goods and services or through the use of capital and assets. Revenue can also arise from the contribution of an asset to a charity when certain conditions have been met during *the charity's ordinary activities*.

Revenue is usually shown as the top line item in an income (profit and loss) statement.

Common examples for charities include:

- Grants from government, foundations, private and any other sources
- Donations, tithes, bequests, and legacies
- Fees for provision of services
- Sale of goods
- Inflows from fundraising activities and sponsorship
- Interest earned on investments and dividends
- Royalties and licence fees, and
- In-kind donations (for example, volunteer time and goods).

Best practice disclosure for government funding

Government funds are a significant source of revenue for many charities. Reports have repeatedly shown that nearly half of the charity sector's revenue comes from government.

Whether a charity has received funds from governments and others, the amounts and sources interest donors, funders, supporters, and the public.

The ACNC has recommended three best-practice disclosures of government funding in a charity's annual financial report.

Topic	Disclosure summary
Disclose information about the sources of government revenue	For a charity that received 10 per cent or more of its total revenue from government, disclose the following information: • The total revenue it received by each level of government • The names of the government departments or agencies from which it received revenue (up to 10), as well as the total amounts it received from each, and • The revenue from providing goods and services to beneficiaries who receive related government financial assistance (for example, payments from the National Disability Insurance Agency).
Disclose economic dependency on government revenue	For a charity dependent on government for significant revenue or financial support, it should include an economic dependency note in its financial statements.
Disclose funding received from government but not yet recognised as revenue	For a charity that prepares special-purpose financial statements and does not make the disclosures required by AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*, disclose funding from government that has been received but not yet recognised as revenue.

Examples illustrate NFP amendments

AASB 2022-3 amends Australian illustrative examples for NFPs accompanying AASB 15 *Revenue from Contracts with Customers.* The amendments do not change AASB's requirements.

Example 7A illustrates how AASB 15 applies to the recognition and measurement of upfront fees charged to customers and members.

The guidance explains that where the goods or services to which the upfront fee relates are in the scope of AASB 15, the recognition of the upfront fee as revenue depends on whether the payment of the fee relates to a transfer of distinct goods or services to the customer that meets the definition of a performance obligation.

In many cases, even though a non-refundable upfront fee relates to an activity that an entity is required to undertake to fulfil a contract, the action may be an administrative task that does not necessarily result in the transfer of a promised good or service to the customer.

The basis for conclusions accompanying AASB 2022-3 documents the AASB's decision to retain the accounting-policy choice for NFP private-sector lessees who might elect to measure initially a class of right-of-use assets arising under concessionary leases at cost or at fair value.

The board has deferred consideration of accounting-policy choice for NFP public-sector lessees until it decides on any additional guidance for measuring the fair value of right-of-use assets under concessionary leases.

AASB 2022-3 applies to annual reporting periods beginning on or after 1 July.

ASIC highlights key reporting areas

The Australian Securities & Investments Commission is urging directors, report preparers, and auditors to assess whether financial reports provide useful and meaningful information.

The commission has highlighted key areas for companies to get right for the 30 June year-end. While NFPs have not been specifically mentioned, many of the focus areas are relevant to them.

Among them are asset values, provisions, solvency, and going-concern assessments. Events occurring after year-end and before completing reports will also be examined.

Companies may continue to face uncertainties about future economic and market conditions – assumptions underlying estimates and assessments for reporting purposes should be reasonable and supportable.

Directors and management should assess how current and future company performances, the value of assets, provisions, and business strategies might be affected by changing circumstances, uncertainties, and risks such as:

- COVID-19 conditions and restrictions
- Use of virtual meetings and more flexible working arrangements
- The discontinuation of financial and other support from governments, lenders, and lessors, including possible increases in insolvency levels
- The availability of skilled staff and expertise
- Restrictions to deal with COVID-19 in different jurisdictions, and
- The impact of rising interest rates on future cash-flows and on discount rates used in valuing assets and liabilities.

Uncertainties might lead to a wider range of valid judgements on asset values and other estimates. Uncertainties might also change. Disclosures in financial reports about uncertainties, key assumptions, and sensitivity analysis will be important.

Appropriate experience and expertise should be applied in reporting and auditing, particularly in more difficult and complex areas such as asset values and other estimates, ASIC says.

Directors and auditors should be given sufficient time to consider reporting issues and to challenge assumptions, estimates, and assessments.

They should make appropriate enquiries of management to ensure that key processes and internal controls have operated effectively during periods of remote work.

The circumstances in which judgements on accounting estimates and forward-looking information have been made and the basis for those judgements should be properly documented and disclosed as appropriate, the commission says.

For details about NFP-relevant areas see *Appendix: ASIC focus areas for 30 June – relevant to NFPs*.

ASIC extends deadlines for some 30 June financial reports

ASIC extended the deadline for unlisted entities to lodge financial reports by a month for balance dates from 24 June to 7 July.

The extended deadlines are intended to help relieve pressure on resources for reporting and audits by smaller entities, considering challenges presented by COVID-19.

ASIC said it recognised that companies and audit firms might have reduced staff numbers due to varying travel restrictions and increased resignations in the past two years. Higher staff absences were also expected.

Some companies were also required to prepare consolidated financial statements for the first time, and judgements on asset values, provisions and disclosures might be more difficult given changed economic conditions.

Directors of some unlisted companies may be asked by their auditors to facilitate the spreading of deadlines for lodging audited financial reports. Directors should consider the information needs of shareholders and other users of their financial reports, as well as meeting borrowing covenants or other obligations, when deciding whether to depart from the normal statutory deadlines.

ASIC will consider relief for other entities and balance dates on a case-by-case basis.

An instrument that amends *ASIC Corporations (Extended Reporting and Lodgement Deadlines—Unlisted Entities) Instrument 2020/395* to extend the deadlines is expected to be registered on the Federal Register of Legislation by the end of July.

AASB consults on IFRS sustainability

The AASB is consulting on two of the International Sustainability Standards Board's IFRS standards.

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* might form a separate suite of Australian sustainability-reporting standards.

Exposure draft 321 on IFRS S1 and S2 will aim to get feedback on the ISSB's work and inform the AASB on an approach to sustainability-related Australian financial reporting.

The proposals contained in ED 321 are not intended to affect an entity's compliance with Australian Accounting Standards.

Any future sustainability-related reporting requirements that the AASB might develop will be independent from ISSB standards but aligned with them.

AASB staff have published *Project insights: Developing sustainability-related financial reporting standards in Australia*.

The AASB intends to use the work of the ISSB as a baseline, with modifications for Australian matters and requirements where necessary.

In particular, the AASB is taking active steps to help ensure that Australia adopts reporting requirements that meet the needs of users of financial and other related information and supports Australia's role in international sustainability reporting.

Governments

Changes for Qld incorporated associations

Law changes are being introduced to reduce red tape and improve internal governance for Queensland's 23,300 incorporated associations, including 3750 registered as charities.

The changes result from passage of the *Associations Incorporation and Other Legislation Amendment Act 2020*. They come into effect in stages, beginning with changes that started with legislative assent on 22 June 2020.

Changes beginning on 22 June include:

Clarifying duty of care and diligence: Management committee members and officers will have to carry out their functions in the best interests of the association, with due care and diligence. A maximum penalty of 60 penalty units (equivalent to $8625 from 1 July) will apply for breaches.

Duty to prevent insolvent trading: Members of management committees have a duty to prevent associations from incurring a debt if there are reasonable grounds to expect insolvency or near-insolvency if the debt is incurred. A maximum penalty of 60 penalty units applies for breaching.

Not profiting from position: A committee member or officer of an incorporated association must not use his or her position, or information obtained from the position, to gain a benefit or material advantage for himself, herself, or another person, or cause detriment to the association. Maximum penalties of up to 60 penalty units apply.

Disclosure of material personal interest: Management committee members will have to disclose when they have a material personal interest in a matter being considered at a management committee meeting, to the management committee as soon as they become aware of the interest and to members at the next general meeting of the association.

If a committee member has a personal interest in a matter being considered at a management committee meeting, the member will not be able to be present at the meeting or vote on the matter unless permitted to do so by the committee.

Maximum penalties of up to 60 penalty units will apply.

Law changes that are expected to begin in 2023 include:

Disclosure of remuneration: Associations will be required to disclose at the annual general meeting remuneration or other benefits given to management committee members, senior staff, and relatives of management committee members or staff. The details of what must be disclosed, and how, are subject to consultation before being regulated.

Internal grievance procedure in place: An incorporated association will have to follow either the grievance procedure to be developed in model rules or outline an internal-grievance procedure in its own rules.

Fundraising made easier in Qld

Casino Control and Other Legislation Amendment Bill 2022 introduces changes for charities and not-for-profits by introducing a mutual-recognition scheme for Queensland fundraising approvals.

Charities registered with the ACNC that notify the Office of Fair Trading can be deemed a Queensland registered charity and can fundraise in the state.

Charities not registered with the ACNC may still seek direct registration from the Office of Fair Trading and will no longer have to await the outcome of a 28-day objections period before their applications are finalised.

WA reporting thresholds increased

As part of *The Associations Incorporation Act 2015 review,* financial-reporting thresholds will be increased under new regulations aimed at reducing the burden on WA's incorporated associations.

Revenue bands will be increased as follows:

- Tier 1 – currently less than $250,000, will become less than $500,000

- Tier 2 – currently $250,000 to $1 million, will become $500,000 to $3 million, and
- Tier 3 – currently more than $1 million, will become more than $3 million.

Tier 1 associations need only supply an annual financial statement to members, those in tier 2 must have their financial reports reviewed, while a full audit of financial reports is required for associations in tier 3.

Commissioner for Consumer Protection Gary Newcombe said about 2000 WA incorporated associations would save time and have their compliance costs lowered.

'The alignment of state and national regulations will prevent the doubling up of financial-reporting obligations, thereby reducing the red-tape burden on the sector in WA,' Mr. Newcombe said.

More than 20,000 associations are incorporated in WA. A wider review of the *Associations Incorporation Act* is underway.

WA long-service-leave changes begin

Several important changes to WA's *Long Service Leave Act began on 20 June.*

Key changes included:

- Modernisation of the types of paid and unpaid absences that count towards long-service-leave accrual
- Provision for greater flexibility in how long-service leave is taken
- New record-keeping requirements and stronger enforcement provisions, including penalties for contraventions, and
- New 'transfer of business' provisions.

Appendix: ASIC focus areas for 30 June – relevant to NFPs

Topic	Focus area
Impairment of non-financial assets	Goodwill, indefinite useful life intangible assets and intangible assets not yet available for use must be tested annually for impairment. Entities adversely impacted in the current environment may have new or continuing indicators of impairment that require impairment testing for other non-financial assets. The appropriateness of key assumptions supporting the recoverable amount of non-financial assets. Disclosure of estimation uncertainties, changing key assumptions, and sensitivity analysis or information on probability-weighted scenarios.
Values of property assets	Factors that could adversely affect commercial and residential property values should be considered such as changes in office space requirements of tenants, on-line shopping trends, future economic or industry impacts on tenants, the financial condition of tenants and restructured lease agreements. The lease accounting requirements, the treatment of rental concessions by lessors and lessees, and the impairment of lessee right-of-use assets.
ECLs credit losses on loans and receivables	Whether key assumptions used in determining expected credit losses are reasonable and supportable. Any need for more reliable and up-to-date information about the circumstances of borrowers and debtors.

	Short-term liquidity issues, financial condition and earning capacity of borrowers and debtors. The extent to which past history of credit losses remains relevant in assessing expected credit losses. Disclosure of estimation uncertainties and key assumptions.
Value of other assets	The net realisable value of inventories, including whether all estimated costs of completion and necessary to make the sale have been considered in determining net realisable value. Whether it is probable that deferred tax assets will be realised. The value of investments in unlisted entities.
Provisions	Consideration should be given to the need for and adequacy of provisions for matters such as onerous contracts, leased property make-good, mine-site restoration, financial guarantees given and restructuring.
Subsequent events	Events occurring after year-end and before completing the financial report should be reviewed as to whether they affect assets, liabilities, income or expenses at year-end or relate to new conditions requiring disclosure.
Disclosure – general	When considering the information that should be disclosed in the financial report, directors and preparers should put themselves in the shoes of users and consider what information investors would want to know. Disclosures should be specific to the circumstances of the entity and its businesses, assets, financial position, and performance. Changes from the previous period should be considered and disclosed.
Financial report disclosures	Uncertainties may lead to a wider range of valid judgements on asset values and estimates. The financial report should disclose uncertainties, changing key assumptions and sensitivities. Explain where uncertainties have changed since the previous full-year. The appropriate classification of assets and liabilities between current and non-current categories on the statement of financial position should be considered. That may have regard to matters such as maturity dates, payment terms, and compliance with debt covenants.
Assistance and support from others	Entities should appropriately account for each type of support and assistance from government, lenders, landlords, and others during the reporting period. Material amounts should be disclosed with the duration of the support or assistance, and any impact from its discontinuation.
Other	Consideration of whether off-balance-sheet exposures should be recognised on balance sheet, such as interests in non-consolidated entities. In relation to aged-care providers, review of the treatment of aged-care bed licences following the announcement in May 2021 that the licences will be discontinued on 1 July 2024 and subsequent information from the Department of Health.

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