



29 May 2009

Not for Profit Sector  
Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601

Dear Commissioners

### **Contribution of the Not for Profit Sector – Productivity Commission Issues Paper**

The Institute of Chartered Accountants in Australia (Institute) welcomes the opportunity to make a submission to the Productivity Commission as it performs further research on the not for profit (NFP) sector.

We represent over 50,000 Chartered Accountants in Australia. Many of our members are involved in the not for profit sector in a paid capacity or as volunteers and are passionately interested in the topic from the perspective of both preparers and users of the financial and other reports prepared by these NFPs. They regularly struggle with the disparity of requirements and obligations that are imposed on them by the various disclosure frameworks under which these types of entities operate.

Sections 3 and 4 of the Issues paper are the areas we have focused on in the letter, more specifically governance, accountability and regulation of the sector.

#### *Overall comments*

We strongly encourage that an action plan be produced as an outcome of this review, in order for changes in legislation to be enabled in a timely manner. The Institute and its members would be disappointed to see this review result in a need for further research rather than the issue of draft legislative improvements.

#### *Regulatory environment*

It is clear from the submissions made on various enquiries held over a ten year period that the NFP regulatory environment is overly complex and that action must be taken to reduce the regulatory burden on this sector in order to enable efficiencies and more effective operations.

We recently updated our guidance available to NFPs, entitled *Enhancing not for profit annual and financial reporting*, updating it for changes to accounting standards, legislation requirements, best practice in annual reporting and findings of the PwC Transparency Awards, of which the Institute is a sponsor. This guidance, which highlights the complexity of legislative requirements, has been attached to this submission.

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Ultimately the tax system should be used to mirror the policy objectives set by the Government in respect of the broader NFP sector and concessions afforded to that sector. Questions as to whether public support by way of the tax system is warranted in the form of:

- deductions for contributions to NFPs; and
- concessions to attract labour, such as fringe benefits tax concessions;

should be guided by broader government policy in the NFP area, and should be considered in the context of the Review of Australia's Future Tax System currently being undertaken by Dr Ken Henry (the Henry Review).

#### *Governance and accountability*

Many submissions to the Senate Economics Committee also identified the complexity of financial reporting obligations on many NFPs. Our submissions have supported in a tiered regulatory structure for reporting and lodgement. Further we have encouraged further consideration of NFP issues in current accounting standards. Copies of these submissions have been included with this letter. The relevant submissions are:

- Enquiry into the disclosure regimes for charities and not for profit organisations August 2008
- The Commonwealth Treasury paper *Financial Reporting by Unlisted Public Companies* August 2007

The Institute has actively supported transparent reporting for the NFP sector through its best practice reporting guide, noted above and attached to this submission. The changes made to the current edition reflect the increasing momentum for reporting that provides stakeholders with an understanding of the key drivers of an organisation, through the use of key performance indicators and increasing disclosure on strategy and key risks including environmental and social reporting.

Further, we note that the objective of the Federal Government project *Standard Business Reporting (SBR)*, currently underway for all corporates, aims to reduce the regulatory burden on businesses reporting to government. NFPs should be encouraged to take advantage of the benefits offered through this project from its implementation date, 1 July 2010. Further the *SBR* team should be considering, as a further step in the project, applying the *SBR* principles to the area of grant reporting between NFPs and various government agencies.

If you have any queries on our comments please contact Ms Kerry Hicks, the Institute's Head of Reporting via email at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au).

Yours sincerely



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