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CLUB AND ALLIANCE
AUDIT SERVICES

13 July 2007

CONFIDENTIAL

The General Manager
Corporations and Financial Services Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

By Email: UPCcomments@treasury.gov.au

Dear Sir / Madam

Financial Reporting by Unlisted Public Companies

Please find below my comments in regards to the discussion paper on the above mentioned subject issued June 2007.

My comments are based my recent audit experience with clients that would be classified as "small" enterprises. The comments have been given in respect to the not-for-profit unlisted public companies limited by guarantee. My current client base for not-for-profit unlisted public companies limited by guarantee ranges as follows:

- Company holding assets used for sporting purposes with revenue of \$57,000 and gross assets of \$800,000; to
- Company (sporting club) with liquor and gaming licences, function rooms and sporting teams with revenue of \$27 million and gross assets of \$26 million.

A. Do you support the introduction of a differential reporting regime based on size for companies limited by guarantee? If so, what do you consider to be the appropriate criteria (both in terms of the indicators of size and the quantum of those indicators) for differentiating between those companies that are required to report and those companies that are exempt?

Yes I support the introduction of a differential reporting regime based on size for companies limited by guarantee. I consider that there should be three (3) tiers based on size as follows:

1. *For entities with a membership of less than fifty (50), revenue less than \$200,000 and assets less than \$500,000 (per Victoria's incorporated associations specifications) an un-audited Special Purpose Financial Report, prepared by a member of a professional accounting body or a registered company auditor and signed by the Chairman and another Director (Treasurer), should be issued to members and lodged with ASIC within four (4) months of the financial year end. I consider that all three (3) criteria should be met to be exempted from an audit.*

2. *For entities with a membership of more than fifty (50) or revenue between \$500,000 and \$25 million or assets between \$200,000 and \$12.5 million an audited General Purpose Financial Report, preferably based upon the SME standard, if and when adopted, should be prepared due to the potential impact on the services provided to the community and to the members of the entity.*
3. *For entities with revenue more than \$25 million or assets more than \$12.5 million an audited General Purpose Financial Report, applying IFRS in accordance with the AASB proposal.*

- B. Do you believe it is appropriate to differentiate between companies limited by guarantee by the nature of their operations rather than just size? If so, what nature of operations do you believe warrants greater transparency?

No I do not believe it is appropriate to differentiate between companies limited by guarantee by the nature of their operations.

- C. Do you consider that companies limited by guarantee that receive any money through grants should have financial reporting requirements? If so, can this obligation be satisfied by the company providing special purpose financial reports to the grantor rather than preparing general purpose financial reports under the Corporations Act?

Yes I consider that companies limited by guarantee that receive any money through grants should have financial reporting requirements.

I consider that the body providing the grant can stipulate the financial reporting required to acquire the grant. Given the information provided to obtain a grant the body takes a risk that it will be spent in line with the objectives outlined in the grant documentation and accordingly takes a risk in stipulating the level of financial reporting.

- D. If you support some companies limited by guarantee being exempted from financial reporting, what percentage of members should be required in order to require an exempt company limited by guarantee to prepare a financial report?

Yes I support that a percentage of members can require an exempt company to prepare a financial report.

The percentage of members should be five (5) percent. This would be consistent with the Corporations Act 2001.

- E. If you support the retention of financial reporting requirements for all companies limited by guarantee, do you consider that there is scope to reduce the amount of financial information these companies are required to report? If so, what type of financial information do users need companies limited by guarantee to report (for example, related-party disclosures)?

I support the retention of financial reporting requirements for all companies limited by guarantee and I consider that they should be required to report as follows:

1. *For entities with a membership of less than fifty (50), revenue less than \$200,000 and assets less than \$500,000 (per Victoria's incorporated associations specifications) an un-audited Special Purpose Financial Report, prepared by a member of a professional*

accounting body or a registered company auditor and signed by the Chairman and another Director (Treasurer), should be issued to members and lodged with ASIC within four (4) months of the financial year end. I consider that all three (3) criteria should be met to be exempted from an audit.

2. *For entities with a membership of more than fifty (50) or revenue between \$500,000 and \$25 million or assets between \$200,000 and \$12.5 million an audited General Purpose Financial Report, preferably based upon the SME standard, if and when adopted, should be prepared due to the potential impact on the services provided to the community and to the members of the entity.*
3. *For entities with revenue more than \$25 million or assets more than \$12.5 million an audited General Purpose Financial Report, applying IFRS in accordance with the AASB proposal.*

- F. Do you consider that there is a need to harmonise the financial reporting requirements of companies limited by guarantee and incorporated associations to provide a consistent reporting framework for not-for-profit entities in Australia?

Yes I consider that there is a need to harmonise the financial reporting requirements of companies limited by guarantee and incorporated associations to provide a consistent reporting framework for not-for-profit entities in Australia.

Harmonisation would allow entities to consider the appropriate vehicle to be incorporated.

- G. In order to assist in progressing this project, it would be useful to obtain an indication from companies limited by guarantee of the cost of preparing a directors' report and audited financial report as required by the Corporations Act.

No response provided.

- H. If some companies limited by guarantee were to be exempt from financial reporting, do you consider there is value in these companies continuing to be subject to some level of non-statutory external assurance as a means of promoting good governance? If so, what should this assurance relate to and how do you think this regime should be introduced (for example, through best practice guidelines issued by the professional accounting bodies)?

Yes I consider there is value in these companies continuing to be subject to some level of non-statutory external assurance as a means of promoting good governance.

An un-audited Special Purpose Financial Report, prepared by a member of a professional accounting body or a registered company auditor and signed by the Chairman and another Director (Treasurer), should be issued to members within three months of the financial year end. The Special Purpose Financial Report should comply with appropriate guidelines issued by the professional accounting bodies.

- I. For those companies limited by guarantee that are required to prepare financial statements, do you consider that there is a need to change the current audit requirements? If so, which aspects of the current requirements need to be reformed?

No I do not consider that there is a need to change the current audit requirements. An audit is an audit. The cost of an audit increases with the quantum of information contained within the Financial Report, be it either General Purpose or Special Purpose. The application of the proposed SME standard would require fewer disclosures as opposed to the application of the full suite of disclosures required by IFRS.


- J. Do you support amending the Corporations Act so that companies limited by guarantee are specifically prohibited from distributing profits to members in the form of dividends?

Yes I support amending the Corporations Act so that companies limited by guarantee are specifically prohibited from distributing profits to members in the form of dividends.

Companies limited by guarantee should be not-for-profit and not have the ability to disperse the income or net assets to the members. The income or net assets should be applied for the purposes that they were generated for and upon winding up the entity should be required to donate the assets to a like-minded entity or government.

I thank you for the opportunity to provide my comments in respect to the not-for-profit unlisted public companies limited by guarantee.

Yours faithfully,



**IAN W BARFOOT
REGISTERED COMPANY AUDITOR**