

19 March 2021

Thresholds Working Group  
C/- Not-for-profit Unit  
Individuals and Indirect Tax Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

By email: [Thresholds@treasury.gov.au](mailto:Thresholds@treasury.gov.au)

### **Treasury consultation paper – Increasing financial reporting thresholds for ACNC-registered charities**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on the above consultation paper setting out proposals to increase the financial reporting thresholds applicable to Australian Charities and Not-for-profits Commission (ACNC) registered charities.

CA ANZ and CPA Australia have been longstanding advocates for legislative reform to achieve consistent and coordinated reporting requirements for the Australian not-for-profit (NFP) sector, including charities. Many of our members are involved with the sector as advisors, employees or volunteers and are therefore keenly aware of the current challenges associated with inconsistencies in the statutory financial reporting requirements of relevant Commonwealth and State/Territory laws and regulations applicable to the NFP sector. We are strong supporters of regulatory reform that promotes transparency about the sector and its activities, to stakeholders and the public, in a way that minimises complexity and cost for the charities and the broader NFP sector.

#### **Proposed increase to ACNC financial reporting thresholds**

We support the proposed increase in ACNC financial reporting thresholds set out in the consultation paper as it is a step in the right direction to address many of our members' concerns around regulatory burden, especially on smaller charities.

While we note that the Consultation Paper proposes an increase in thresholds will lead to a reduction in professional service expenses, it is important to not lose sight of the fact that professional service providers are essential to supporting and maintaining the integrity, accountability and transparency of the sector. Therefore, we also recommend that medium charities should continue to have the option, currently in the ACNC legislation, to have either an audit or a review of their financial reports, as best suits their individual circumstances.

#### **The broader reform agenda**

We appreciate the prompt action of the Council for Federal Financial Relations (CFFR) in establishing its Thresholds Working Group as one part of its efforts to support and promote ongoing wider State and Territory reform in this area. This broader reform is critical to the effective management of the sector's resources. Our members have greatly appreciated the red

tape reduction initiatives already achieved by the ACNC in conjunction with its counterparts in the Commonwealth and the States/Territories.

The consultation paper acknowledges that if reporting thresholds are increased solely for ACNC-registered incorporated associations, this may raise issues of consistency and equity across the larger group of incorporated associations. However, we suggest that these same issues of consistency and equity also exist with other common types of ACNC registered charities. That is, ACNC registered charities, which are companies limited by guarantee and unincorporated associations will also be treated differently to other companies limited by guarantee and unincorporated associations that are not registered charities.

To address these wider issues of equity and consistency in reporting, we recommend that the CFFR requires the development of a roadmap towards a consistent and streamlined reporting, and associated assurance, framework for all NFPs across Australia. The proposed increase to reporting thresholds for ACNC registered charities can only be an initial step in this ongoing reform agenda, which should then be subject to further consideration once the range of broader reforms identified in the consultation paper are completed. This is important, because all of these projects are interlinked and are likely to better inform the number of, and the basis underlying, appropriate thresholds for both charities and the NFP sector as a whole, in the future.

We welcome the reference in the consultation paper to the Australian Accounting Standards Board's (AASB) project to develop a fit-for-purpose NFP financial reporting framework. The availability of such a high quality and fit for purpose financial reporting framework supports the government's key objective of cost effectively providing reporting reform to both the charities addressed by this consultation paper and the wider NFP sector. Therefore, we recommend that the CFFR encourages all State and Territory regulators to work with the AASB to provide it with the relevant regulator feedback and the assistance it needs. This will assist that project to produce an effective new reporting framework for the sector; that balances the needs of the preparers of financial reports with the needs of the users of such financial reports in a cost-effective manner.

Our response to the detailed questions posed in the consultation paper are included in the **Attachment** to this letter. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) [amir.ghandar@charteredaccountantsanz.com](mailto:amir.ghandar@charteredaccountantsanz.com), or Ram Subramanian (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Your sincerely

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## Attachment

### 1. Do you consider the proposed new thresholds are suitable? If no, why? If no, what thresholds do you consider appropriate to balance regulatory red tape and the need for accountability and transparency?

Yes, we consider the proposed new thresholds are suitable and represent a significant and necessary step forward in reforming the reporting requirements for the sector. Increasing the threshold for small charities from \$250,000 to \$500,000 and for medium charities from \$1 million to \$3 million will greatly benefit smaller charities, reducing their reporting requirements to better reflect their size.

However, it is our view that any thresholds for reporting should be based on objective and clear criteria based on the economic significance of entities and the need to protect the public interest. While the consultation paper does not identify the criteria that was applied in arriving at the increased thresholds, we recommend that this be explained in the Explanatory Memorandum to the draft legislation that will follow.

We acknowledge that these threshold reforms will achieve cost savings by eliminating certain financial reporting and assurance requirements for charities that will be reclassified from medium to small, and by reducing the required level of assurance on financial reports for charities that will be reclassified from large to medium. However, as stated in our cover letter, the availability of a high quality and fit for purpose financial reporting framework is also critically important to supporting and maintaining the integrity, accountability and transparency of the NFP sector whilst keeping compliance costs to a minimum. Since the AASB NFP financial reporting project is underway, we anticipate this will lead to a financial reporting solution that meets the information needs of the NFP sector and all its stakeholders more cost effectively than is currently the case.

In light of this threshold and reporting reform, we also recommend that the ACNC legislation retains the option for medium-sized charities to have either a review or an audit of their financial reports. We are aware that many medium-sized charities currently choose an audit, either because of certain non-statutory requirements (e.g. required by the charity's constitution, required by a grant provider) or because they value the higher level of assurance that an audit provides. In the longer term, the government also needs to reconsider what the appropriate assurance requirements should be for each threshold level, but in a way that does not preclude entities from seeking a higher level of assurance than that which is specified in the legislation if they so desire. We refer you to both the [CA ANZ](#) and [CPA Australia](#) submissions to the ACNC Legislative Review in 2018 that identified a need for improvement in both the reporting and assurance framework. We therefore recommend that assurance reform also be included as part of the regulatory reporting reform roadmap we refer to in our cover letter and discussed further in our response to Question 2 below.

### 2. In your view, is it more important for the ACNC to increase reporting thresholds as soon as Commonwealth legislative priorities allow, or for the increased thresholds to be increased simultaneously across all jurisdictions consistent with a longer timeframe?

We believe that the benefits of reducing the regulatory burden on the charities sector through these proposals are significant and should be actioned as soon as possible.

However, our support for this action does not diminish our call for an ongoing regulatory effort to ensure there is harmonisation of legislative thresholds in the NFP sector and a clear understanding of the reporting and assurance obligations that are appropriate for those

thresholds. We therefore recommend that the CFFR develops a roadmap that clearly sets out the milestones and objectives for achieving national harmonisation of NFP reporting requirements, and that any changes made now through these proposals be subject to review when all various pieces of regulatory reform are completed. This will ensure that the entire NFP sector benefits from necessary and consistent reform.

**3. What lead in time would you consider suitable for charities to make the necessary changes to their reporting processes?**

We believe a lead time of one year should be sufficient for most charities to adjust, especially given that reporting requirements are, for the most part, being simplified and reduced from their current levels and are being implemented with appropriate recognition of the needs and resources of the sector.

**4. In your view, if non-ACNC-registered incorporated associations were required to report similar financial information to that which ACNC-registered incorporated associations provide to the ACNC, would this provide sufficient accountability and transparency, including for the purposes of members, donors and the interested public?**

Yes. As stated in our cover letter and in our response to Question 1 above, the AASB is currently engaged in a significant project to reform financial reporting by the NFP sector. It is currently seeking input from all State and Territory regulators to ensure that the general-purpose financial reporting framework it is developing can meet the information needs of a wide range of users. We can see no reason why the financial reports prepared in accordance with the proposed AASB framework will not effectively meet the needs of users of all types of NFP entities, in the same way that these financial reports serve the transparency and accountability needs of ACNC registered charities.

**5. What, if any, issues do you consider potential differences in reporting thresholds for charity and non-charity incorporated associations will cause? Why?**

The current differences in reporting thresholds and reporting requirements that are driven by State/Territory requirements and entity type are already recognised as a source of significant complexity for our members and the charities and NFPs with which they are involved. As a result, we have strongly supported the red tape reduction agenda of the ACNC under its 'report once use often' regime, where charities lodge the appropriate information with the ACNC and the other regulators who require that information obtain it from the ACNC. This initiative has made significant progress over the ACNC's life and we encourage a continued expansion of this work due to the significant benefits being achieved for the entire sector.

As noted in our cover letter and acknowledged in the consultation paper, the proposed increase in thresholds does not resolve the reporting burden faced by the wider NFP sector, including incorporated associations that are not registered charities. The consultation paper highlights the separate consultations that will be held in respect of incorporated association legislation in Queensland, Western Australia and South Australia later this year, which will provide an opportunity for expanding reporting reforms to these jurisdictions. However, there appears to be no current expectation that other States/Territories will commence similar reforms that would be necessary to ensure complete alignment between all State/Territory incorporated associations legislation and the ACNC legislation in respect of reporting requirements. We are concerned that continued misalignment between State/Territory requirements and the ACNC reporting requirements will undermine the significant efforts that have been devoted to this reform

process over the last decade. We therefore recommend that the CFFR continues engaging with all States/Territories to ensure aligned and seamless reporting requirements are established for both incorporated associations and charities.

We also recognise that the ultimate success of the reform process depends on the quality, consistency and transparency of the financial information being lodged; an area of which we are aware of regulatory concerns. We believe that these concerns are best addressed by ensuring clear and enforceable reporting requirements, and appropriate assurance requirements, exist, and which can be readily and consistently applied. The development of a revised reporting framework is a major current project of the AASB, which when completed will ensure greater consistency and a higher quality of financial information on the public record. It will also promote more effective regulation for both charities and other NFPs. This in turn should promote the effective necessary standardisation of reporting requirements across the entire NFP sector.

We also draw your attention to the Consultation Paper's lack of reference to the interaction between the reporting thresholds for companies limited by guarantee and charities. While the current thresholds for companies limited by guarantee under the Corporations Act 2001 and charities under the ACNC legislation are aligned, the proposed increase in reporting thresholds for ACNC-registered charities will result in different reporting thresholds for companies limited by guarantee that are charities, and those that are not. Since both types of entities are regulated under Commonwealth legislation achieving consistency should be readily possible. Accordingly, we recommend that the proposed increase in reporting thresholds for ACNC registered charities be extended to companies limited by guarantee under the Corporations Act 2001, as part of these reforms.

Another group of NFP entities governed by Commonwealth legislation are indigenous corporations regulated by the Office of the Registrar of Indigenous Corporations (ORIC) under the Corporations (Aboriginal and Torres Strait Islander) Act 2006. Similar consideration to alignment of reporting requirements should be given to indigenous corporations.

**6. In your opinion, is the Thresholds Working Group overlooking any issues concerning the nexus between fundraising reporting requirements and financial reporting requirements for ACNC-registered charities?**

The Consultation Paper notes the announcement made in December 2020 that the Commonwealth and States/Territories have agreed to establish a cross-border recognition model to harmonise charitable fundraising regulation. We strongly support this work but consider that, unless the cross-border harmonisation of financial reporting requirements referred to in our cover letter is also pursued, key potential benefits of this necessary and important reform will not be realised.