

20 March 2021

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Thresholds Working Group Secretariat
Not-for-profit Unit
Individuals and Indirect Taxes Division
Treasury
Langton Cres
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By email: Thresholds@treasury.gov.au

Dear Sir,

Increasing financial reporting thresholds for ACNC-registered charities

Who we are

Governance Institute of Australia is a national membership association, advocating for our network of 40,000 governance and risk management professionals from the listed, unlisted and not-for-profit sectors.

As the only Australian provider of chartered governance accreditation, we offer a range of short courses, certificates and postgraduate study. Our mission is to drive better governance in all organisations, which will in turn create a stronger, better society.

Our members have primary responsibility for developing and implementing governance frameworks in charities and not-for-profit organisations, public listed, unlisted and private companies, as well as the public sector. They have a thorough working knowledge of the operations of the markets and the needs of investors. We regularly contribute to the formation of public policy through our interactions with Treasury, ACNC, ASIC, APRA, ACCC, ASX and the ATO.

Our activities in the charitable sector

Governance Institute members are involved in governance, corporate administration and compliance with the Corporations Act 2001 (Corporations Act). Many of our members serve as officers of charities, or work for, or are involved with charities and are therefore involved in compliance with the requirements of the Australian Charities and Not-for-profits Commission (ACNC).

Governance Institute is itself a charity operating in the legal form of a company limited by guarantee, established to promote and advance the efficient governance, management and administration of commerce, industry and public affairs and the development of secretaryship of organisations through education and the dissemination of information.

Executive summary

- Governance Institute members welcome the Government's ongoing commitment to reducing the regulatory burden on the charitable and not-for-profit sector.
- We acknowledge the importance of financial accountability and transparency to good governance in the charitable and not-for-profit sector. It is important for boards of ACNC

registered entities, supported by company secretaries, to report appropriate information to stakeholders about their performance and financial position. Nothing in this submission should be read as detracting from this principle. Governance Institute members consider that reducing the financial reporting requirements can be achieved while maintaining accountability, transparency and public trust in the sector.

- The new proposed thresholds will achieve modest reductions in regulatory burden. It would be preferable if more charities were able to reduce the amount of time and financial resources diverted to audits and other administrative functions.
- Our members consider that reporting thresholds should be increased across all jurisdictions simultaneously, given that the thresholds issue is part of a broader harmonisation agenda, including a cross-border recognition model for fundraising.

Our submission concentrates on those topics of most concern to our members.

Answers to consultation questions

Question 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?

Governance Institute members support the recommendations of the ACNC Act Legislative Review: *Strengthening for Purpose: Australian Charities and Not-for-profits Commission Legislative Review 2018*. It would be preferable to increase the 'small' threshold to under \$1 million annual revenue, 'medium' to under \$5 million annual revenue, and 'large' to over \$5 million annual revenue, as the review recommended.

The proposed smaller increases to the thresholds will have relatively modest benefits for the sector. The largest cost savings will be realised by an estimated 3,500 registered entities moving from the large to medium reporting tier. The Consultation Paper estimates the cost savings from not having to prepare a full audit report to be around \$3,000. In the experience of our members, the cost savings are likely to be in the more modest range of \$1,000 to \$1,500. However, increased thresholds also represent for charities a saving of time spent on compliance. Our members would prefer to see more charities able to access these savings so as to increase the amount of time and financial resources available to the sector to fulfill their charitable purposes.

With that said, Governance Institute's members fully support charities who may voluntarily choose to go above and beyond their reporting requirements by auditing their accounts, even when not required to do so, to promote transparency, accountability, and public trust in their organisations.

Question 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?

While our members consider these reforms are long overdue they are concerned to ensure that there are no unintended consequences for the wider harmonisation agenda announced in December 2020. The preference of our members is for the thresholds to be increased simultaneously in a coordinated fashion, so as not to put at risk the wider harmonisation agenda. If this cannot be achieved in the short term, the Commonwealth should take the lead and legislate to increase the thresholds as a catalyst for the states and territories to follow.

After years of advocacy by Governance Institute and the wider sector, harmonisation is now on the national agenda and we understand the state and territory governments are currently working to implement deemed fundraising authorisation under a cross-border recognition

model. The Consultation Paper identifies various challenges to maintaining and progressing this wider harmonisation agenda.

Our members consider that the increase to reporting thresholds should be seen in the context of the wider harmonisation agenda, including cross-border recognition. This is because cross-border recognition for fundraising will achieve more significant red tape reductions than the new proposed reporting thresholds. It would be a lost opportunity if cross-border recognition were to be delayed because of misaligned reporting thresholds.

However, if the Commonwealth, state and territory governments cannot reach agreement within a short period of time, then the Commonwealth should proceed with legislating the new thresholds to encourage the other jurisdictions to follow.

Further matters

Measure of annual revenue

The ACNC review in 2018 recommended that the size of a charity for reporting purposes be determined on a three-year rolling average measure of revenue. The Consultation Paper recommends instead that the current measure of annual revenue be retained.

Governance Institute members consider that using an annual revenue measure has drawbacks. For example, registered charities with large assets but relatively small revenue may have a lower requirement for financial transparency than their asset valuation may suggest, while charities with highly variable revenue, such as those subject to the highly variable nature of bequest giving, may be required to produce audited statements in one year but not another. This means that charities may find it difficult to predict their financial reporting requirements from one year to the next.

However, the sector has become familiar with an annual measure of revenue. For most registered entities, revenue will be a relatively accurate measure of the resources the entity has on hand to divert to administrative functions such as audit costs. Our members therefore recommend no change.

If you wish to discuss any of the issues raised in this letter, please contact Catherine Maxwell.

Yours faithfully,



Megan Motto
CEO