

21 March 2021

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

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

Dear Sir/Madam,

**Re Increasing Financial Reporting Thresholds for ACNC Registered Charities  
Consultation Paper Response**

Thank you for the opportunity to respond to the consultation paper cited above and dated February 2021. I provide my comments in response to the specific questions in the order that they appear in the consultation paper. However, before doing so, I wish to make a number of contextual comments that I think should be taken into consideration when balancing the need to raise the tiers, which I fundamentally agree with, and the prospects of making more appropriate, effective, substantial and enduring changes with regard both to the tiers themselves and broader reporting requirements.

I would also add that I believe that a change in the tier cut-off points does need to occur with the tier cut offs being lifted. As such, the direction of the consultation paper is appropriate in my view. However, the following key points confirm to me that it is not timely to reconsider the tier structure until other aspects of policy are decided, and that further work is required in order to ensure the options being considered are the best outcome in the context of an arbitrary system.

Specifically, I make the following points:

- 1) The Australian Accounting Standards Board is currently undertaking a Not-for-profit Private Sector Financial Reporting Framework project. This project is intended to address issues of regulatory complexity and develop a financial reporting framework that is proportionate and consistently applied, amongst other things. I suggest that the examination of the tiers in relation to reporting thresholds of registered charities is premature given we are considering tiering without an understanding of the reporting framework that may apply to each tier after this project and subsequent amendment to the accounting standards as they apply to the charitable and nonprofit sector are developed. Once the framework is adopted, the tiers can be reviewed with a reporting

framework in mind that then contextualises the tiers themselves. At the moment, we are reviewing tiers with the likelihood that the process will need to be undertaken again in the not-too-distant future. Revisiting these tiers potentially adds considerable reporting complexity as the states and territories have, largely, come to work within the ACNC framework and making adjustments to the Commonwealth's legislation and regulation will also likely see an unintended consequence of multiple tiers systems operating while the states and territories consider amendment of their systems.

- 2) The retention of three tiers is also a matter for consideration as an increase in the number of tiers may better support effective risk management. This comment particularly applies to the “Large” tier group where there is a significant difference in the sustainability and governance attributes of charities with a turnover of, say, \$10m as compared to a charity with a turnover of, say, \$60m. My research highlights this in the context of disability services charities. However, I suspect that similar disparities exist in the broader charities' population. I know that these tiers are arbitrary—and have to be—however, we can be more targeted and effective if we consider more tiers based on an analytical review of the population of charities.
- 3) It is also a matter of concern that the intent seems to be to retain the use of income as an indicator of governance and sustainability risk. That is, the tiers are arbitrarily designated depending on income. Alternative tiering categories do not appear to be considered when it may be that such alternatives consider governance and sustainability risk more appropriately. For instance, the value of assets held may be a more useful indicator and, therefore, a better method of judging reporting requirements than income for some charities.
- 4) Additionally, limited analysis seems to have been undertaken examining the impact of the proposed tiers. Rather than considering the risk, and reporting arrangements required to mitigate those risks, the analysis seems more concerned with how many charities would be impacted by the change. The key issue here is that our focus should be on the proportionality and governance value of the proposed structure as opposed to how many charities will be impacted—if the change is for the better in the context of establishing a proportional regulatory, supervisory and governance framework the number of charities impacted is not an important consideration. Of course, this point is reinforced by my first point above, without an understanding of the reporting framework, it is difficult to analyse the proportionality and likely effectiveness of the proposed tier changes.

I would like to turn to the specific question put in the consultation paper:

### **Question 1:**

I consider that the revision of the thresholds is very much required but in the context of the prevailing reporting framework yet to be developed. I also consider that the tiers need to be raised in order that the reporting requirements are proportionate to the risk being faced and in the context of grouping charities by size in such a way that analysis will afford more effective supervision and regulation. Finally, I think that the tiers proposed do not adequately address the efficiency issues raised in the ACNC Act review.

Specifically, I think the following tiers, based on turnover, are more reflective of the risk attributes in terms of sustainability and governance in Australia's charities:

Small	\$0 to \$999,999
Medium	\$1m to \$4,999,999
Large	\$5m to \$14,999,999
Extra Large	\$15m and upwards

Like all tiering systems, these are arbitrary but I think more adequately reflect the risk being faced in the context of turnover. As stated above, I would prefer to see more analytical work undertaken in order to better understand the risk attributes of Australia's charities and to test alternative methods of allocating registered charities to tiers, including the value of net assets held.

**Question 2:**

It is critical that thresholds are increased simultaneously across all jurisdictions once the reporting framework is better understood going forward.

**Question 3:**

The lead time would need to be joined with the application of change in the reporting framework lead times and so this is a difficult question to answer. However, clarity of reporting requirements is absolutely critical before charities can make changes. Additionally, if change is to be made, awaiting the establishment of a new reporting framework will prevent charities having to re-visit their systems and processes to meet new reporting requirements.

**Question 4:**

My answer to this question would require me to understand the nature of the financial reporting framework in place. However, generally I think that this would be the case.

**Question 5:**

The thresholds should be established based on risk and so reporting thresholds for non-charity Not-for-profits may be different as the level of risk may be different.

**Question 6:**

Again, the development of tiers in the context of a not-yet-understood financial reporting framework potentially impacts charities that have responsibilities in relation to fund raising. For the same reasons already cited, the evaluation and change to the tier structure should be undertaken after the reporting framework has been settled.

Thank you again for the opportunity to participate in this consultation. Please email or call in relation to any queries or comments you may have.

Yours sincerely,



**Professor David Gilchrist**  
**UWA Business School**