



**Centre for Public Value
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**THE UNIVERSITY OF
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Using turnover size to determine charities' reporting requirements: should turnover size metrics drive reporting regimes?

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1. Motivations

The charity sector employed
1.42 million people.

This equates to **10.5%**
of all employees in
Australia.



Revenue that charities received
from donations and bequests
increased to **\$13.4** billion in
the 2021 reporting period.



- Charity has distinct objectives, financial needs, and reporting obligations compared with commercial sector, thereby raises questions about utility of financial reports (Gilchrist & Simnett, 2019).
- The current tiering categories are established via subjective decision making rather than objective principles.
- The effectiveness of these new thresholds is unclear given their recent implementation and limited research in this area.



1. Motivations

- Compared with other countries, Australian charities have a lower reporting burden (Gilchrist & Simnett, 2019).
- The Australian Accounting Standards Board (AASB) has proposed Tier 3 simplified accounting requirements (AASB, 2023).



Country	Measurement	Threshold	Financial reporting obligation
United States	Annual Gross Receipts and Total Assets	<i>Form 990</i> : Gross Receipts > USD 200,000 or Total Assets > USD 500,000; <i>Form 990 - EZ</i> : Gross Receipts < USD 200,000 or Total Assets < USD 500,000; <i>Form 990 - N</i> : Gross Receipts <= USD 50,000	Form 990: Full set of form; Form 990 - EZ: Shorter version of form; Form 990 - N: Simplest form
United Kingdom	Total Income and Total Assets	<i>Full Trustees' annual report</i> : Income > £ 500,000 and Total assets > £ 3.26 million; <i>Simplified reporting</i> : Income < £ 500,000 and total asset <£ 3,26 million	For the charity with income under £ 10,000, they do not have obligation to prepare the financial reporting.
Canada	Income	<i>NO obligation</i> : Income < CAD 10,000; <i>Encourage audit</i> : Income > CAD 250,000	All charities must file the T3010.
Singapore	Gross Annual Income	<i>Small</i> : Income < SGD 500,000; <i>Medium</i> : SGD 500,000 < income < \$ 10 million; <i>Large</i> : Income > SGD 10 million	All charities are mandatorily required to prepare financial reports, and medium and large charities must have their accounts audited.
New Zealand	Operating Expenses	<i>Tier 1</i> : Expenses > NZD 30 million; <i>Tier 2</i> : NZD 2 million < Expenses < \$ 30 million; <i>Tier 3</i> : NZD 140,000 < Expenses < \$ 2 million; <i>Tier 4</i> : Expenses < NZD 140,000	Tiers 1 and 2: full financial statements and must audited. Tier 3: Tier 3 PBE Accounting Standards. If operating expenses exceed \$ 500,000, need to review or audit financial statements. Tier 4: Tier 4 PBE Accounting standards. No obligations to audit or review financial statements.



2. Research Questions

To the best of our knowledge, the extant literature provides little or no evidence on charity financial reporting frameworks, particularly regarding their utility and suitability.

Our study aims to address following questions, from the preparers' perspective:

1. How preparers perceive the utility of the current financial reporting requirements of Australian charities; and
2. Whether the current charity tiered system is perceived by preparers as appropriate for determining Australian charities' financial reporting requirements.





3. Data

- We conducted semi-structured interviews with eight preparers.
- The role of preparers including CEOs, CFOs, Executive director, and Senior accountants.
- Four different charities located in Perth, Western Australia.
- All these charities are subject to annual audits and are registered with the ACNC.
- Three participants from a small charity, three from medium charities, and two from a large charity.
- The interview took place via Microsoft Teams. Each last around 30 minutes.





4. Methodology

- The interview data was transcribed using MS Teams for the initial transcription. All transcription was subsequently reviewed and corrections were made.
- The transcriptions were shared with participants to verify the accuracy of quoted remarks.
- We reach the saturation point after eight interviewees.
- The initial coding from coding scheme, categorising participants' response and subsequently identify themes. These themes, such as *'performance aspects'*, *'comparability'*, and *'resource constraints'*, emerged organically from data.
- We then analysed recurring patterns/themes within the codes, focusing on the frequency of specific codes across multiple interviews and common experiences shared by the interviewees.





5. Findings (RQ1)

- *The utility of Australia charities' financial reports is limited due to three key factors:*
 1. Stakeholders' demand for more than just basic financial information, seeking detailed insights into spending, ethical compliance, operational efficiency, and comparative metrics, causing some preparers to voluntarily report more than just statutory reporting requirements.
 2. The use of unsuitable accounting standards and regulations in charities poses challenges (e.g. accounting for leases; grant recognition) and was responded to with a call for sector-specific accounting standards.
 3. Irrelevant or confusing disclosures (e.g., leasing disclosure, right-of-use assets disclosure) increase the sense of irrelevance of standards.

As such, preparers believe current regulatory financial obligations are inadequate in meeting the diverse and complex needs of stakeholders.





5. Findings (RQ2)

- *Suitability of financial reporting thresholds based on size-by-turnover metrics :*
 1. While large charities see benefits in the current system, there was a uniform dissatisfaction with the tiered system among small and medium-sized charities.
 2. The reporting threshold are viewed as outdated and need revision to reflect inflation and rising operational costs.
 3. Opinions vary in the use of tiers to determine charity, there is a consensus supporting the tier reporting system for practicality.

Overall, the use of turnover (revenue) is appropriate, most preparers advocate for multiple criteria and need to consider other factors.





6. Conclusions

- This is the first study to provide evidence supporting the proposition that newly modified financial thresholds may not be as effective as intended.
- This study help to explain why charities choose to report more fully than the requirements of regulatory regime.
- This study extend our knowledge of charity accountability, in relation to identifying the information needed by stakeholders.
- The ACNC may find these results useful to bridge the gap between legal mandated and stakeholders' expectations.





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Thanks for your time!

All feedbacks and comments are
appreciated



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