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Synod of NSW.ACT

43 Audit of Small Congregations Financial Statements (Proposal 38 revised)

Proposal:

That the Assembly resolve:

To authorise the Assembly Standing Committee, on the advice from the Assembly Legal Reference to amend the following regulations:

1. Regulation 3.8.7(c) – Audit through insertion after “The books of account” the words “when the gross receipts are above \$100,000”, the proposed wording of the revised Regulation being:

(c) The books of account, when the gross receipts are above \$100,000, shall be audited and certified by the auditors at least once in every year and at such other times as may be required by the chairperson of the Church Council or other body responsible as the case may require.

2. Regulation 3.8.7(e), Variations to Qualifications from 2.5 times the notional stipend to the Australian Charities and Not-for-profits Commission (ACNC) financial reporting revenue threshold for small charities, the proposed wording of the revised Regulation, subject to Assembly Legal Reference Committee advice, being:

(e) Where the gross receipts of a Congregation or body or fund in the year is below a figure that equates to ~~2.5 times the notional stipend~~ the Australian Charities and Not-for-profits Commission (ACNC) financial reporting revenue threshold for small charities, the books of account may be audited and certified by two persons who are not qualified in terms of (d) above, but who are, in the opinion of the body responsible, fit and proper persons to undertake the responsibility.

Proposer: Jane Fry, General Secretary, Synod of NSW and the ACT

Seconder: Craig Corby, Sydney Presbytery

Rationale:

This proposal replaces Proposal 38 and results from discussion with the Chair of the VicTas Audit and Risk Committee and relevant senior VicTas Synod staff.

Under current Church Regulations / Synod Standing Committee rules, all congregations, irrespective of size/revenues, must at least have an annual review performed of their accounts. For particularly small congregations, this creates a significant administrative and financial burden.



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Regulation 3.8.7(c), Audit, requires that books of account for church organisation to be audited and certified by auditors at least once per year.

Regulation 3.8.7(e), Variations to Qualifications, allows an organisation with gross receipts below 2.5 times the notional stipend to have their books of account audited and certified by two person who are not qualified auditors, but who are, in the opinion of the body responsible, fit and proper persons.

In seeking to fulfil the requirements of the Regulations, many congregations have noted challenges in finding an auditor, or even a reviewer, that could complete the work at an affordable price. The present interpretation of the threshold, within both the NSW-ACT and VicTas Synods, for the allowing two people from within the congregation to sign the accounts is \$150,000 being approx. 2.5 times the notional stipend.

Congregations historically met their audit requirements through members of their congregation, who had the appropriate qualifications or experience, volunteering or performing the work for a very low fee. As congregation membership has aged and often declined, many congregations no longer have suitably qualified persons within their membership to perform their annual audit / review, independent of the Treasurer. Many of our congregations are fortunate to have a single 'financially minded' person in their membership who generally takes on the role of Treasurer.

Congregations are therefore faced with finding a person within their local community to perform the work for a fee, often at market rates similar to what a small business would pay, and often can be much more depending on the financial context and records of the congregation. Further, for some more regional congregations, there can be a challenge in finding any suitably qualified persons in the local community who has capacity to take on this work, even for a fee.

Clarity and achievability of rules are key 'cultural drivers' of behaviour. Increased non-compliance with internal rules/controls can be expected where those rules are unclear or inconsistent, are not well communicated, or are not designed to be practical and achievable in practice. Lack of alignment between church reporting requirements from those set by government bodies is a source of confusion and drives lack of clarity.

Current requirements on congregations require a congregation treasurer to be actively aware of and to interpret the Regulations and the ruling by the Synod Standing Committee, then calculate 2.5 times the notional stipend for that income year and then apply that to their context. Additionally, different interpretations have been taken of 'a fit and proper person' under Regulation 3.8.7 (e). This lack of clarity not only creates an administrative burden to follow but also creates barriers to persons being aware of and correctly understanding and following the requirements. Further to this, for many smaller congregations it is impractical, or even unachievable, to meet these requirements. This creates an amount of stress for those treasurers and Church Councils faced with either spending funds that may not be available (or may be better used for other purposes) or not following the rules stipulated by the Church.

The requirement to have an independent external audit or review of accounts performed is a key control in managing financial risks of an entity. However, as with all risk management, the materiality of the risk should be considered when designing controls. Equally, the cost (in



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terms of both time and money) of any controls should be taken into consideration against the materiality of the risk. The current audit requirements infer that the risk of inaccurate financial reporting and/or inadequate financial oversight within any congregation is considered by the Church to be great enough to require an annual independent review performed, irrespective of the size or context of that congregation. While this may have been a reasonable position to take in the past, given the current context of congregations generally, as detailed above, and the challenges and costs related to appointing an auditor/reviewer, it is considered time to reconsider this balance.

Three potential options were considered in developing this proposal and Option 2 below is proposed:

- Option 1: Maintain the status quo – under this option there is no change the existing audit requirements.
- Option 2: Reduced audit and review requirements (Proposed option) – this option proposes to amend the audit requirements so as to increase the threshold for having a full audit performed to the ACNC small charity revenue reporting threshold of \$500K in gross revenue, and to have a lower limit for the requirement to have a reviewed performed. It is proposed this lower limit be \$100K of gross receipts, whereby if a congregation’s gross receipts fall below this threshold they are not required to have a review or audit performed. This is seen as a balanced response and is the proposed option.
- Option 3: Align to ACNC requirements - this option would amend the audit requirements to align to the requirements set by the ACNC.

A comparison of the options shows utilising Vic/Tas Synod reporting numbers shows:

Annual Gross Receipts	Congregations		Option 1 Remain unchanged	Option 2 Proposed (Reduced requirements)	Option 3 (Aligned to ACNC)
	#	%			
>\$1 million	4	2%	Audit required	Audit required	Audit required
>\$500K - \$1 million	5	2%	Audit required	Audit required	Option to audit or review
>\$250K - \$500K	29	11%	Audit required	Option to audit or review	Option to audit or review
>\$150K - \$250K	35	13%	Audit required	Option to audit or review	No audit or review required
\$100K - \$150K	42	16%	Option to audit or review	Option to audit or review	No audit or review required
Less than \$100K	149	56%	Option to audit or review	No audit or review required	No audit or review required

Note the above figures are based on annual survey data from the 264 congregations that completed the 2020 Financial Return form. This is the latest data available however was a relatively low survey return rate from the 425 congregations that participate in the survey.



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Note that based on 2020 financial return data, the number of congregations potentially able to benefit from the change are:

Gross Receipts	Number of Congregations	
	NSW/ACT Synod	Vic/TAS Synod
Current Regulation		
\$0 - \$150k	160 (39%)	191 (72%)
Proposed Regulation		
\$0 - \$100k	113 (38%)	149 (57%)
\$100k - \$500k	159 (54%)	106 (40%)
	272 (92%)	255 (97%)
Unchanged		
Greater than \$500k	23 (8%)	9 (3%)
Total entities who lodged financial returns	295 (100%)	264 (100%)
Congregations likely to benefit from the change	112 (41%)	64 (25%)

NSW and ACT Synod, supported by the Victorian and Tasmanian Synod Audit and Risk Committee Chairperson and relevant senior staff, requests modification to:

- Regulation 3.8.7(c) to exempt congregations receiving gross receipts of less than \$100,000 from the requirement to have their accounts audited and certified, and
- Regulation 3.8.7(e) to align the level of gross receipts within Regulations 3.8.7(e) from 2.5 times the notional stipend to the Australian Charities and Not-for-profits Commission (ACNC) financial reporting revenue threshold for small charities, noting the ACNC threshold is to increase to \$500,000 from 1 July 2022.