



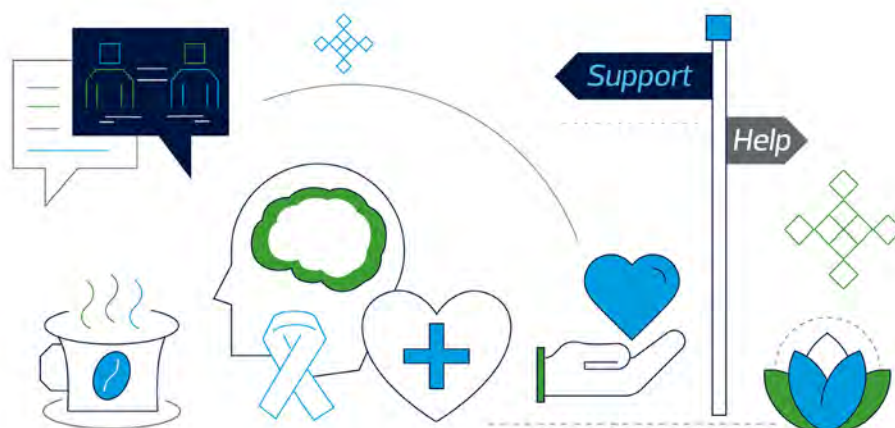
Mergers and acquisitions in the not-for-profit sector

A guide for board directors



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Introduction

For mission-driven not-for-profit (NFP) organisations, mergers and acquisitions provide an opportunity to expand their reach, build capability and drive efficiencies in both service delivery and internal functions, with the objective of maximising their impact.

In recent years the sector has seen a notable rise in merger activity, driven largely by the need to remain financially sustainable amid mounting pressures including funding constraints, growing demand for services, wage inflation, and the increasing costs of regulatory compliance and investment in technology.

Within the disability sector for example, changes to National Disability Insurance Scheme (NDIS) funding have made it increasingly difficult for providers to sustain operations without scaling. As a recent [RSM report on NDIS insolvencies](#)¹ highlighted, there has been a sharp increase in insolvency appointments and formal restructurings of NDIS providers in the last few years.

Despite this trend, not all mergers take place due to financial distress. Rather, forward-looking boards are increasingly taking a strategic approach to mergers and acquisitions in order to strengthen capability and extend their impact, as well as ensuring their long term resilience.

In this report, we discuss the key drivers of NFP mergers and acquisitions, along with important considerations for boards across the merger lifecycle – from identifying and evaluating potential merger partners, to due diligence, legal and regulatory considerations, integration and change management. We address matters such as alignment of mission and values, governance and culture, which are so fundamental to a successful merger. Additionally, we explore the nuances of mergers and acquisitions involving Aboriginal organisations, NFPs acquiring for-profit entities, and mergers pursued as a survival strategy.

This report brings together insights from experts in corporate finance, restructuring and recovery, NDIS advisory, indigenous governance and the legal aspects of NFP transactions, reinforced by real-world case studies.

Whether you are a board member or a C-suite executive of an NFP organisation, this report provides practical guidance for navigating mergers and acquisitions from early discussions to the realities of the process, enabling you to move forward confidently with a clearer view of what lies ahead.

¹ rsmcom.au/reports/insolvency-report-non-profits-and-ndis-providers

The case for not-for-profit mergers and acquisitions

Across the not-for-profit (NFP) sector, boards and management are under constant pressure to deliver greater impact and meet stakeholder expectations while facing increasing financial, operational and regulatory challenges. This is changing the way boards think about mergers and acquisitions – viewing such opportunities as a strategic response to achieving scale and sustainability, rather than only as a last resort when the organisation may no longer be financially viable.

According to a recent study by the Australian Institute of Company Directors (AICD)², 5% of all NFP organisations surveyed are currently undertaking a merger, with a further 20% giving active consideration to pursuing a merger within the next 12 months. In total, the Australian Charities and Not-for-profits Commission (ACNC) recorded 171 NFP mergers in 2025 – an increase of 16% on the prior year.

A combination of factors is driving this increased merger and acquisition activity within the NFP sector:

Funding pressures – The funding environment across many segments continues to tighten, driven by changes to government funding models and growing competition for grants, philanthropic and other donor funds. Shorter funding cycles, the widespread replacement of upfront block funding and, frequently, the reliance on a single primary source of income are all increasing risk and uncertainty as to the continuity of funding. Mergers are enabling organisations to diversify income streams, improve competitiveness for grants, and become more resilient to funding cycles through a strengthened balance sheet.

Rising cost of service delivery – Wage pressures, increased compliance requirements, and technology costs are making it more expensive to deliver services. Many organisations are absorbing these rising costs without a matching increase in revenue. Smaller NFPs in particular, as well as those operating in regional areas, are struggling to absorb these increases without adversely impacting service quality. Mergers can facilitate efficiencies and cost savings, helping to create a more sustainable model by spreading fixed costs and allowing for investment in shared systems.

Investment in technology – Increasing the efficiency of service delivery frequently requires significant investment in new technology platforms, for example, to optimise workforce planning and rostering, or automate back-office functions and processes. Larger organisations are significantly better placed to make such investments, having regard to both the cost and ability to gain benefits over a larger cohort of clients. Small NFPs unable to make such investments are likely to be higher cost providers and may struggle to remain viable as standalone organisations.

Governance and regulatory requirements – Governance, accountability and transparency expectations are increasing, accompanied by stringent regulatory compliance and reporting obligations – especially in health, aged care, disability, childcare and other human services. Maintaining the required level of capability and resourcing can be difficult and expensive, particularly for smaller NFPs, and boards are increasingly aware of the risks of non-compliance. A merger can strengthen governance and add specialist expertise without duplication of roles or compliance and reporting systems.

Management – Attracting and retaining a management team of well-qualified and experienced individuals in key roles can be challenging. High calibre candidates will often favour larger organisations, while smaller NFPs with limited resources may have to rely on part-time employees or outsourcing for some key functions. A merger often enables the combined organisation to strengthen its management team and may also enable cost savings by avoiding the duplication of roles.

Mergers as a logical option – In some cases, a merger may simply be a logical step to bring together two or more similar organisations operating across a geographic area. For example, we see consolidation frequently in community health where individual entities combine operations to form a larger, more integrated organisation. These models aim to preserve community connection while building stronger central capability in areas such as finance, governance, workforce planning, and digital systems. The result is a move from fragmented service delivery towards a more robust and resilient organisation.

“While financial distress continues to drive a large proportion of mergers, we are increasingly seeing NFP boards proactively pursue mergers and acquisitions as a strategy to achieve greater scale and ensure the long term sustainability and success of their organisation. Boards of smaller NFPs which fail to consider a merger will be at significantly greater risk of becoming unviable.”

Justin Audcent – Partner, Corporate Finance, RSM

² Source: AICD Not-for-Profit Governance and Performance Study 2025–26

Why boards are exploring mergers earlier

Boards across the NFP sector are evaluating merger opportunities earlier, rather than waiting for financial or operational pressures to force action. This highlights a growing understanding that timing plays a critical role in whether a merger strengthens mission delivery or simply stabilises a struggling organisation.

Approaching a merger proactively allows you to:

- Select the right partner based on strategic alignment, not urgency.

- Negotiate the structure and terms of the merger from a position of strength.
- Manage service integration and capability uplift over time.
- Give staff and stakeholders time to adapt, plan and transition.

It also enables early discussions with funding bodies to understand any impacts to funding and ensure agreements can be novated in an appropriate and timely manner.

Taken together, acting early to explore a potential merger can be an effective strategy to strengthen impact and resilience, rather than being used as a last-minute fix.

Case study: Merging two NDIS disability service providers

With NDIS funding constraints and increasing employment and compliance costs, the board of Westcare knew scale was critical to its long term future. They also recognised organic growth would be slow and require transformational change that the organisation was not well-equipped to deliver, with the management team already stretched in managing day-to-day operations.

An Australian Disability Enterprise (ADE) with a 75 year history, Westcare provides employment, training and development to adults with disability, as well as housing 40 residents at its accommodation village. While Westcare was forecasting a loss for the first time in years, it had a strong balance sheet with substantial property assets and cash, and no debt.

After deciding to pursue a merger, Westcare adopted a disciplined approach to identifying and assessing potential partners, with the board agreeing on key evaluation criteria and engaging a consultant to undertake an initial review. A list of 25 organisations was reduced to six, and the consultant met with the shortlisted parties to provide an in-depth assessment for Westcare's board to consider.

Westcare invited two parties to submit a merger proposal, and reciprocal site visits and meetings between both board members and management were undertaken. The Westcare board saw merit in both proposals, ultimately deciding to proceed with Mosaic Community Care, a provider of disability accommodation, support programmes and therapy services.

Mosaic was operating with a strong balance sheet and no debt, but was facing the same industry-wide challenges. Both boards recognised the benefits of being able to provide a broader range of disability services, with a strong financial position enabling the combined organisation to invest in extending and enhancing the

range of programs available to clients, creating a more robust and sustainable organisation. In addition, whereas Westcare relied on outsourced support for some key functions, Mosaic had an established corporate services team including finance, IT, people and culture, and marketing.

The parties engaged lawyers to provide legal and regulatory advice and prepare the transaction documentation. Due diligence was undertaken by management over several months, in parallel with initial integration planning and the preparation of a detailed communications plan, with oversight from both boards. Having signed the merger agreement, Westcare and Mosaic are now working through the regulatory approvals and consents required before formal completion of the merger.

"We engaged a consultant to facilitate a board strategy session and realised the only viable way to achieve scale and be financially sustainable long term was to merge with a like-minded organisation. Whilst we could have invested in a growth strategy this would have come with considerable cost, risk and uncertainty, potentially depleting funds intended to support those with a disability. We had previously rebuffed approaches from other organisations – most of which were not in a strong financial position, or values aligned – and wanted to ensure we were in the driving seat in selecting a suitable merger partner."

"We considered the fit between the organisations, including alignment of culture and values, as well as their financial position and likely integration benefits including potential cost synergies, but importantly also focused on the opportunities they could offer our supported employees and residents."

Westcare President, Amanda Paton

Key considerations for a successful merger

For many NFP board members, the prospect of a merger or acquisition is loaded with apprehension. How do we choose the right partner? How do we know what is going on behind the curtain of the other organisation? How do we integrate without losing our identity? How do we retain our staff and clients throughout the journey?

Staying true to your mission

Mission alignment is the most fundamental consideration in any NFP merger or acquisition. While benefits to financial sustainability, scale or operational efficiency may spark initial conversations, it is shared purpose and aligned values that ultimately determine whether a combined organisation can deliver enduring public benefit and lead to long term success.

Many recent mergers have involved similar organisations coming together to become a larger, more efficient service provider. However, in other cases, a key strategic driver has been to expand and diversify the range of services, such as an aged care provider expanding into disability services, or a specialist accommodation organisation merging with a provider of services.

When considering a merger or acquisition, boards often begin by identifying a shortlist of potential partners. This list can then be refined by looking beyond high-level mission statements to how each organisation defines and delivers impact in practice. Key considerations include:

- target communities
- nature of services
- service philosophy and delivery model
- client outcomes
- approaches to equity and access

Differences across these areas can lead to significant post-merger tension if they are not identified and addressed early.

Board members should engage in open and honest conversations with potential partners about mission priorities and capabilities from the outset. These early discussions help each organisation assess how a merger could strengthen purpose and extend impact, facilitate efficiencies and cost savings, and provide a more secure financial base. They also make it easier to navigate difficult decisions and inevitable trade-offs in relation to structure, board and management roles, retrenchments and service delivery models.

When two worlds collide

In the corporate world, mergers and acquisitions almost always involve a bidder and a target. It is rare to see a true 'merger of equals', even in the case of similar-sized companies, and a key driver of the deal will be the value for shareholders.

The reality is very different for NFPs where personalities and relationships play a larger role. It's not uncommon for strategically sound deals to fall apart simply because executives fear losing their role or board members are reluctant to give up their seat at the table.

If the merger does proceed, NFPs can also be more reluctant than their corporate counterparts to make uncomfortable staffing decisions around duplicate roles, which can quickly put financial stability at risk.

Staying ahead of these cultural issues requires a firm plan to be developed, agreed and communicated at the outset. Cultural integration is not easy, and it's important to remain objective and focussed on the best interests of the combined organisation and the people it is serving and will serve into the future.

This includes resisting the temptation to keep entities operationally separate post-merger, simply because it seems easier. Often, this leads to missed opportunities for a level of efficiency, governance and service consistency that is only achievable through effective integration.



Case study: Bringing state-based entities into a national structure

Australia was among the first countries to develop national dementia policy responses, driven by an ageing population and rising demand for coordinated support.

Prior to 2018, Dementia Australia had operated as a federation of state-based organisations with each structured independently as a company limited by guarantee or an incorporated association.

Following a series of special general meetings and extensive consultation, the state-based entities voted to establish a single national organisation. At the same time as the state-based boards retired and recognised a single governing board, this then allowed for all assets and liabilities to be transferred to the new governing body.

Throughout the pre- and post-transition phases, the board and senior management engaged closely with state committees to clarify the purpose, vision and strategic direction of the national entity and support alignment across jurisdictions. A new national constitution was adopted, replacing individual constitutions and formalising a unified governance framework.

The merger also required significant financial integration. All former entities were migrated onto a single

accounting platform to support consistent reporting, grant tracking and expenditure allocation. Differences in accounting policies across states further complicated the merger.

RSM supported the organisation with technical accounting advice, financial statement impact assessments, and harmonisation of revenue recognition policies. Since establishing its national structure, Dementia Australia has strengthened its role as the national peak body advocating for people impacted by dementia, while remaining grounded in its original purpose.

"The merger demonstrated the importance of strong and empathetic leadership. Clear direction, transparent communication, and sustained patience were critical throughout both the pre-merger and post-merger phases. Strong internal support and collaboration – particularly the national finance team providing extensive guidance to the various state finance teams – was key to a successful system migration and ongoing cultural integration."

Jessica Lau – RSM Director, Audit and Assurance



Due diligence matters

Effective due diligence is as essential in an NFP merger as in a corporate transaction. While an NFP merger is not driven by considerations of financial return and shareholder value, due diligence is critical to safeguarding mission integrity and ensuring the operational and financial sustainability of the combined organisation.

From a board perspective, robust due diligence provides directors with clear visibility of the key risks and benefits of the merger, as well as highlighting transaction issues which may need to be addressed. Early identification of risks supports informed decision making and reduces exposure to financial, legal and reputational harm, enabling the board to fulfil its fiduciary duties and position the merged entity for long-term success.

In a 'merger of equals' it is usual for the parties to conduct reciprocal due diligence on each other. Typically they will agree a common approach, including with respect to timeframes, information to be shared and access to management. On the other hand, where an entity is effectively being 'acquired' by a larger NFP organisation, the latter will generally conduct due diligence on the target. However, it remains important for the board of the target to ensure that the transaction is in the best interests of its stakeholders, which requires a certain level of due diligence to be undertaken on the 'acquirer', including with respect to its governance, financial position, and alignment of mission and values.

While information may be less commercially sensitive than in a corporate transaction, boards should ensure a reciprocal non-disclosure agreement is executed, and need to have regard to privacy requirements, particularly as NFPs often hold sensitive personal information on their clients.

Typically, due diligence will be undertaken by the CEOs and management teams of the two organisations, in which case the board should maintain close oversight and governance over the process, including reviewing and approving the scope of due diligence (and use of any external advisers), and provide clear guidance as to the delegated authority of the CEO and the role of the board in dealings with the potential merger partner.

The process should extend beyond a checklist approach and apply professional scepticism – maintaining an enquiring mind and remaining alert to potential red flags.

A due diligence program will typically focus on:

Ensuring and protecting mission alignment – Are the missions and values of the two organisations genuinely aligned? Do the legal objects in their respective constitutions present any issues? Will the merged organisation retain a clear purpose?

Operational and program effectiveness – Are programs effective and sustainable? Have targets and KPIs set by funders been met? Are there any issues with service capability, resourcing or infrastructure? Are there any current or recent complaints or investigations?

Reputation and stakeholder trust – What is the reputation of the organisation and its leadership in the community? Do the outcomes of recent regulatory audits and assessments give any cause for concern?

People and culture – Are the cultures of the two organisations aligned? Will the proposed organisational structure work? Are there any significant differences in remuneration and benefits which may need to be addressed? Is there any history of workplace issues and/or high staff turnover?

Financial position – Are there any concerns around the organisation's financial position, cash flow and ongoing financial sustainability?

Governance and compliance risks – What is the organisation's legal and regulatory compliance record? Is there a strong governance framework in place? Will the merger put at risk any existing tax concessions or breach any accreditation requirements?

Validating strategic benefits – Will the merger deliver expected benefits in service delivery or reach within the community? Are expected cost savings and other synergy benefits achievable?

There is sometimes a misconception that, because NFPs are driven by purpose over profit, financial risk or fraud is less of a concern. This is simply not the case. Financial risks are present in all organisations, and may even have a greater effect on an NFP due to the regulatory oversight involved.

With respect to financial risks, consideration should be given to the following areas:

Revenue and funding sources – Undertake enhanced due diligence on major funding bodies, donors and key clients, extending beyond routine director or entity searches. Assess revenue concentration risk to determine whether a material proportion of income is dependent on a limited number of sources, and independently verify the sustainability of grants, contracts or funding arrangements – especially whether they are contingent on existing leadership, relationships or specific performance conditions.

Forecasts – Review forecasts and projections carefully, including underlying assumptions, and consider key risks and uncertainties, including sensitivity to changes in funding models, employment costs and other key expenses.

Asset constraints – Identify any restrictions that limit how assets can be used or transferred. This includes restricted or quarantined funds, land tenure arrangements, service agreements, contractual commitments and workforce obligations.

Cash reserves and liabilities – Verify all debts and obligations, with particular attention to overdue amounts, employee liabilities, income received in advance and the potential for unused funds to be clawed back by funders, and consider the impact on projected cash flows. Assess the risk that available reserves may be absorbed to satisfy these or other undisclosed or legacy liabilities, thereby constraining ongoing operational capacity.

Bank reconciliations – If concerned about the reliability of financial information, reconcile accounting records with bank statements. Accounting records may not show the full picture, whereas bank statements are a source of truth.

Check suspense, clearing or holding accounts – These accounts can be used to conceal large sums and unusual ledger entries. They should be scrutinised, as transactions sitting in these accounts for extended periods may indicate risk, while backdated journals or disabled audit logs can be a sign of manipulation.

Suppliers and expenditures – Scrutinise payments to suppliers, particularly large or unexplained transactions, and determine if they have been undertaken at arm's length.

When undertaking due diligence, it is prudent to ensure that key advisers – including accountants and legal counsel – work in a coordinated and integrated manner rather than in isolation. A collaborative approach reduces the risk of material issues being overlooked and supports a more holistic assessment of risk.

“Due diligence should not be treated as a perfunctory or cost-minimisation exercise. Engaging experienced advisers who are trusted to conduct a rigorous and independent review is a critical investment. A thorough process is often the most effective safeguard against inadvertently assuming financial, legal or operational risk.” **Andrew Connelly – Director, Fraud & Forensics, RSM**

Case study: Undetected fraud leads to scrutiny

The following case study, drawn from an engagement undertaken by RSM's forensic and advisory specialists, illustrates the practical risks that can remain concealed beneath the surface of a merger – and the importance of rigorous pre-transaction due diligence.

When a not-for-profit organisation providing affordable housing to low-income families merged with another entity, the incoming organisation had limited visibility over operational risks embedded within the legacy structure. Only limited pre-merger due diligence had been performed, and as a result, significant control weaknesses went undetected.

Post-merger enquiries uncovered entrenched fraudulent conduct within the procurement function. A senior and long-trusted employee, operating with substantial autonomy over trade contracts, had been directing work to close associates at inflated rates. In return, the individual received substantial kickbacks.

The scheme persisted for an extended period, largely because assets appeared well maintained, service complaints were minimal, and the employee's authority went largely unchallenged.

Once exposed, the consequences extended well beyond financial loss. The merged entity faced material reputational damage and heightened scrutiny from government stakeholders, requiring the implementation of strengthened governance and procurement controls. The remediation process proved resource-intensive and disruptive – a situation that could have been significantly mitigated had more comprehensive due diligence been undertaken at the outset.

Compliance and legal essentials

There are two fundamental questions that set the tone for the legal process once a decision is made to progress a merger or acquisition. They are:

1. **Why are you merging or acquiring?**
2. **What are the most important outcomes? What key principles should guide our decision making?**

Together, the answers drive the choice of mechanism or legal structure, and then key decisions in relation to risk allocation and process.

For example, two large NFPs merging purely for scale will have different drivers to a merger where one of the parties is in (or approaching) financial distress. For the former, an important outcome might be public perception that it is a merger of equals. In the latter, an important outcome may be a takeover and solvent winding up for the distressed entity. In each case, these principles will drive the decision-making around process and risk allocation.

In more typical mergers where one party takes the lead, mechanisms might include a simple asset transfer or a board and member takeover. A hybrid approach is also possible, with new entities interposed depending on how quickly the merger needs to proceed.

Legal advisors experienced in NFP mergers will be able to evaluate the pros and cons of alternative structures, having regard to both legal and practical considerations, such as the potential need to transfer accreditations, funding agreements, clients and employees. While most NFP mergers are undertaken without any tax implications, it is also important to obtain advice to ensure the transaction does not crystallise any tax liabilities, including stamp duty on the transfer of real property.

Time constraints do limit your structuring options and may change the risk profile, cost, and effect on operations down the track. The more time a board has to plan an orderly merger, the more likely members and other stakeholders will be satisfied with the outcome.

"For NFPs, it's important to move quickly to a term sheet that sets clear guardrails and allows executives in each organisation to make decisions within them. Often, we start the term sheet process and parties realise there are things they are not prepared for or ready to do. It asks them to consider issues they hadn't thought about before. So the sooner we reach that point, the sooner expectations can be aligned."

Amber Crosthwaite – Partner, Lavan

Registrations and other regulatory matters

Regulatory registrations will also affect transaction structure. Many not-for-profits have registration requirements, such as those existing in aged care, childcare, and disability services. If an NFP is merging with or acquiring an NFP that operates in a segment it doesn't have registration for, those registrations will need to be acquired. This ultimately affects the timing, as any assets and funding tied to those registrations cannot be transferred until this has taken place. The same applies to any grant funding agreements and assets sitting on Crown land or conditional tenure land, with government consent likely to be required.

Another important consideration is the sensitive information merging entities hold on vulnerable people. From the outset, questions around privacy preservation and service continuity must be addressed.

New laws have increased transparency around mergers, with the Australian Competition and Consumer Commission (ACCC) having introduced a new [merger control regime](#)³ from 1 January 2026. Historically, organisations were not required to seek ACCC approval or notify the regulator before merging. Under the new framework, notification is mandatory for businesses and certain charities that meet specified revenue or asset thresholds. These will almost certainly affect mergers involving larger NFPs.

Early engagement with a legal advisor – who can clearly explain how these risks influence the structure and guiding principles of a merger – is key to ensuring the board can make informed decisions on how best to proceed.

"Boards and executives carry responsibility for each of these issues and must understand the associated risks. This is particularly important in sectors such as aged care (and soon, disability services), where "Responsible Persons" (including directors and executives) have duties which extend beyond finances to governance and quality of care, and where any breaches carry potential civil penalties both personally and for the NFP."

Amber Crosthwaite – Partner, Lavan



³ www.accc.gov.au/business/mergers-and-acquisitions

Case study: Merging non-profits across state lines

When the Albury Base Hospital and Wodonga Regional Health Service merged to form Albury Wodonga Health, it created Australia's only cross-border public health provider under a joint state agreement.

However, the merger was easier said than done. With the two services sitting on either side of a state border, early questions included:

- Which state would fund which services?
- Who would own which assets?
- How would differing certifications/registrations be recognised across states?
- What pay structures would apply in each jurisdiction?

While the community and most stakeholders were keen for the merger to proceed, many did not understand the complex issues at play. The boards and CEOs of both organisations had spectators from as far afield as Canada, UK and USA (who faced similar issues) while they worked with high-level lawyers and Crown solicitors to determine how the arrangement would work. They also engaged heavily with unions, media, and interest

groups to minimise disruption and maintain confidence among employees and the community.

The result was a successful cross-border agreement with shared funding and asset management provisions, which now provides a comprehensive range of health services to a catchment of around 300,000 people across north-east Victoria and southern NSW.

"The key lessons from this merger were engagement and flexibility. People fear the unknown, so you must take them on the journey or risk operational and reputational impacts. Especially in NFPs, emotion can run high during a merger. Try to keep a level head and focus on the best interests of the organisation. If it's clear something isn't working, don't be afraid to pivot or take the time you need instead of rushing. A considered, well-planned merger has the best chance of success."

Andrew Bowcher – Partner, Restructuring & Recovery, RSM and AICD Fellow (FAICD). Also past board member, past Chairperson of Audit Committee, past Member of Expenditure and Review Committee for Greater Murray Area Health Service, and past Joint Ministerial Committee NSW & Victoria – merging Albury Base and Wodonga Regional Hospital

Managing financial reporting complexity

Mergers and acquisitions in the NFP sector are inherently complex and affect every part of an organisation – services, programs, people, assets, funding and financial reporting. However the transaction is structured, financial reporting complexity is a critical governance consideration for directors.

Poorly managed mergers or acquisitions can undermine service continuity and increase the risk of non-compliance with funders and regulators, with a flow-through impact on financial governance and reporting risk.

Given this complexity, early engagement with auditors and/or external accounting advisers is an essential step in the process. This allows boards to understand the financial implications of different transaction structures, anticipate timing and compliance challenges, and make informed decisions before issues become difficult or costly to remediate.

While not exhaustive, the following five areas should be considered by boards in connection with NFP mergers and acquisitions:

1 Novation of grant funding agreements

Delay in novating grant funding agreements is one of the most common financial challenges in NFP mergers and acquisitions. Where agreements do not transfer on the effective transaction date, issues can arise relating to:

- backdating of agreements or variations
- revenue recognition and acquittal obligations
- employee expenditure incurred to meet funding requirements

Early engagement with funding bodies is critical to ensure agreements transfer on the merger or acquisition date. This is particularly important when dealing with large government departments, where novation processes can take significantly longer than expected.

2 Employee transition and related provisions

Secondment arrangements are sometimes used during a merger or acquisition. For example, employees may transfer to the new entity but continue working on funding agreements that remain with the original entity due to novation delays.

In these circumstances, employees may be seconded back to the original entity, resulting in inter-entity transactions and secondment expenses. It is essential that these arrangements are clearly documented and agreed to ensure transparency and accurate recognition of employee-related expenses.

3 Net asset transfers and accounting treatment

NFP entities commonly hold assets such as financial investments and property, plant and equipment. Where legal title does not transfer at the merger or acquisition date, delays can arise in winding up the original entity.

Boards must also consider the appropriate accounting treatment for net asset transfers, which can differ depending on whether the perspective is that of the acquired / merged entity or the newly established entity. Valuation of assets and liabilities being transferred is critical and may require independent external valuations or accounting advice.

Differences in accounting policies between the entities – for example, cost versus fair value measurement of property, plant and equipment – may also need to be considered from a financial reporting perspective.

4 Basis of preparing financial reports

If a merger or acquisition transaction spans a financial reporting period, directors must determine whether the financial statements of the merged or acquired entity should be prepared on a going concern basis or another basis, such as liquidation.

Directors should also consider whether remaining assets and liabilities should be classified as current, given the expectation that the entity will be wound up and any remaining balances transferred within the next 12 months.

5 Changes to tax or charitable status

Generally, if a public benevolent institution (PBI) is taken over by an entity without PBI status, key employee tax concessions may be lost, including:

- Fringe benefits tax (FBT) exemptions up to \$30,000 per employee per FBT year. If this no longer applies, all fringe benefits become fully subject to FBT at 47% (2025–26 rate).
- Payroll tax exemptions on wages paid in connection with benevolent activities. The employer then becomes liable for full payroll tax liability under state legislation.

There is no immediate change to PAYG withholding or superannuation guarantee obligations if you lose PBI status.

On the flip side, if a PBI acquires a non-PBI entity, there may be tax advantages including access to FBT and, in some cases, payroll tax exemptions – if the merged structure satisfies the legal requirements for PBI status. This will depend on how the transaction is structured and whether the relevant activities meet the definition of a PBI.

Case study: Mid-year merger creates funding and reporting challenges

Two mid-sized NFP entities providing community health services merged part way through a financial year. While employees transferred to the new entity on day one, not all grant funding agreements were novated at the merger date, with some funding agreements later requiring backdating.

Following the merger, employees of the new entity continued delivering services under funding agreements that had not been novated, creating uncertainty around revenue recognition and the treatment of employee costs. At the same time, property assets remained in the legal name of the original entity, with different valuation approaches applied across the two organisations.

As the original entity continued to recognise some financial reporting balances at year-end, it was required to prepare financial statements. Directors therefore

had to determine whether those statements should be prepared and signed off on a going concern or liquidation basis, given the expectation that the remaining assets and liabilities would transfer in the next 12 months and the entity would be wound up.

“From my experience, it is critical that directors understand the financial reporting requirements and the basis for preparing financial statements – both from the perspective of the entity being merged or acquired and the new entity. Early engagement with funding bodies is crucial to minimise delays in novating grant funding agreements. Directors need to consider the above areas to ensure they can confidently manage governance risks and financial reporting requirements under Australian Accounting Standards.”

Robyn Eade – Director, Audit & Assurance, RSM



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Clarity and leadership during transition

When people, culture and systems get left behind during a merger or acquisition, it creates a myriad of issues that may be difficult to recover from.

For example, key staff may become disgruntled or resign, which impacts capability and organisational stability. Or they may stay and spread rumours which affects culture. If changes to systems are not managed properly, employees start to optimise in isolation and service delivery becomes inefficient and inconsistent.

Coherence is vital and it is something you can plan for ahead of time, noting there are particular confidentiality issues related to every merger or acquisition. Key aspects of change management to consider during a merger or acquisition include:

1 Strategic alignment

Leadership from both organisations should be on the same page about vision, values, roles and ways of working. Pre-planning accountability and decision frameworks will help to prevent confusion and conflict.

2 Communication and feedback

Keep staff, volunteers, clients and other stakeholders informed early and often. Explain what is changing, what isn't and why. Provide channels for feedback to address concerns and maintain clarity. This is especially important as most NFPs work with vulnerable people who may be particularly unsettled by change.

3 Staff engagement and support

Give employees time and guidance to adapt to new roles, processes, and reporting lines. Consult with them in designing the merged organisation to encourage buy-in and reduce uncertainty.

4 Systems integration

Where practical, align IT, finance, HR and operational processes so the organisation functions as one, not two silos. Identify critical workflows and dependencies early to prevent disrupting operations.

5 Risk management and contingency planning

Anticipate potential challenges (financial, operational, cultural) and plan how to respond. Have fallback options for critical processes, suppliers, or staff to maintain continuity.

6 Ongoing monitoring and adjustment

Track progress and make iterative improvements. Change management needs continuous attention to ensure the merger sticks even after you have crossed the finish line.

"An effective strategy is to hold regular retrospectives and reflect on what's working and what could improve. Do this once or twice every six months, and this will also serve to embed continual improvement and lessons learned into the new culture."

Jessica Campbell – Senior Manager, Management Consulting, RSM



Mergers for Aboriginal organisations

Certain nuances exist when a merger includes either one or two Aboriginal organisations. Aboriginal organisations are defined by a combination of legal structure, purpose, and community control. Most are incorporated under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* as Aboriginal Corporations. They are regulated by the Office of the Registrar of Indigenous Corporations (ORIC) and have specific governance, reporting and accountability rules. Others may be incorporated under state legislation as associations while maintaining an Aboriginal community focus.

In addition to formal legal governance structures, Aboriginal organisations operate with community-based cultural authority where Elders or Traditional Owners have an advisory or decision making role. This cultural authority typically centres on consensus or community protocols which may not align with formal board decision-making norms.

Aboriginal organisations generally receive specific government grants or funding tied to programs, land management or cultural services with conditions attached (i.e.: quarantined or restricted funds). They may also manage land holdings, native title rights or culturally significant property – and these will impact asset transfers and financial planning in a merger.

The most important consideration when merging Aboriginal organisations is to protect cultural activities, programs, and on-Country services. This includes intellectual property such as ownership of cultural knowledge or materials, and land ownership or land use agreements. Mergers must clarify how these rights are held, transferred, or shared to prevent disputes.

Checklist for M&A involving Aboriginal organisations

- ✓ Identify the legal structure of each organisation and how it affects governance, reporting and asset transfer.
- ✓ Understand any restrictions on assets and obligations tied to culturally significant property or quarantined funds.
- ✓ Clarify governance processes and ensure Elders, Traditional Owners and community leaders are consulted in decisions affecting programs, land and services.
- ✓ Review all funding agreements including government grants, restricted funds and program-specific allocations, and confirm financial sustainability.
- ✓ Plan for proper accounting of asset transfers, staff costs and ongoing programs.
- ✓ Safeguard cultural programs, language initiatives and on-Country services, and ensure their continuity throughout the merger.
- ✓ Respect community values and priorities in all operational and program changes

Case study: Australia's first merger of Aboriginal Corporations

The first merger in Australia between two Aboriginal corporations under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (CATSI Act) was undertaken by RSM Partner, Andrew Bowcher. While the organisations had different purposes (one managing property and the other delivering community programs), they were individually unsustainable, so the purpose was to create a stronger combined entity.

Although never done before, the CATSI Act contained provisions allowing for mergers and Andrew was appointed special administrator by ORIC. He worked with the registrar, lawyers, board members and community to develop a roadmap for the merger. This included getting one of the organisations up to speed, as it had not been functioning well before the merger.

After extensive consultation and the development of a draft rulebook to provide clarity on future operations, the board achieved the required 75% agreement for the merger to proceed. This was followed by the incorporation of a new organisation, and submission of the rulebook to the registrar for sign off.

Assets and contracts were then transferred to the new entity including land titles, public housing, commercial office space, contracts with staff and accounts with suppliers. This was a complex process involving detailed consultation with government on funding and assets, alongside careful media management to assure the community of service continuity.

"This was not a complex merger in hindsight, but at the time we had no precedent. It set the precedent for all Aboriginal Corporations moving forward. Consultation and communication were fundamental as there was a lot of fear of the unknown. We took great care to ensure everything went smoothly – from contract wording to provisions in the rulebook for experts of any background to hold up to two board seats so the organisation could access the skillsets they needed as their journey continued."

Andrew Bowcher – Partner, Restructuring & Recovery, RSM and AICD Fellow (FAICD). Andrew has acted as Administrator, Investigator, Special Administrator, Examiner, Grant Controller and Advisor to over 70 Aboriginal and Torres Strait Islander Organisations and Bodies.



Acquiring a for-profit company

Although uncommon, there are instances where an NFP will acquire a for-profit company in order to:

- expand reach
- diversify products and services
- fund operations

It can also help to reduce reliance on donations and grant funding to execute the NFP's mission.

Before committing to a for-profit acquisition, it's important to understand the unique operational and tax implications. It's also important to ensure the integrity and governance of the not-for-profit is maintained at all times.

NFPs may be introduced to acquisition opportunities where a formal sale process is being undertaken or alternatively may make a direct approach to a potential target. If both parties are open to exploring a potential transaction, the next step is a detailed assessment into the alignment of the two organisations, including consideration as to whether the likely purchase price is supported by the target's current and projected financial performance.

Prior to any acquisition, due diligence and careful contract reviews are crucial. Board members must be sure there is nothing in the contract which could jeopardise the NFP's tax exempt status or prevent it from fulfilling its duties. Furthermore, tax due diligence should also be undertaken, as the NFP acquiring shares will inherit the tax history of the for-profit target.

Post-acquisition, there should be clear delineation between the two entities. This means keeping board meetings,

strategies, and day-to-day operations separate. Any activities that could be construed as giving rise to a tax benefit (such as sharing staff) should be carefully scrutinised, with a framework and guidelines developed to keep practices and processes clear.

Income tax planning is another important consideration, as there are particular complexities when a group includes both taxable and tax-exempt entities. Advice should be sought about dividends and franking credits and their cash flow implications for the NFP, as well as management charges, staff sharing and other transactions between the for-profit and NFP entities.

"A key risk to any NFP is that it unknowingly engages in an activity that could jeopardise its charitable status and available tax concessions. It is critical that appropriate governance be implemented before and after the acquisition of a for-profit company, ensuring the NFP's character and charitable purpose remain intact. However, unlike NFPs, for-profit entities have a responsibility to make commercial decisions in the best interests of shareholders. This shift in mindset can take some adjustment but will ultimately ensure the NFP maximises its return from the investment, which can be used to serve the NFP's mission."

Rhys Fowler – Director, Business Advisory, RSM

Case study: Managing a for-profit acquisition

An NFP was approached by the shareholder of a for-profit company operating in the same sector. There were strong links between the mission and values of both organisations, and the NFP board determined that the acquisition would support the organisation's broader benevolent purpose.

Following legal, accounting and tax due diligence, the board approved the purchase, noting it represented both a sound use of funds based on expected returns and a strategic opportunity due to strong alignment. The ongoing profits would fund NFP activities and offset the risk of reduced government funding, while providing access to a large customer base and greater range of products and services.

Immediately following the acquisition, the board engaged an experienced accountant and business advisor to assist management with ongoing reporting, strategy, tax and accounting requirements. This arrangement has ensured both organisations meet their compliance obligations and are strategically positioned to maximise benefits for their customers and stakeholders.

Mergers under financial pressure

While some NFPs may face financial distress from a sudden shock – such as changes to government funding – it's more common for an NFP to drift into trouble over time. This often occurs due to factors such as delayed decisions, emotional attachment, and outdated operating models.

For example, asset-rich, cash-poor organisations can survive for years with flawed operating models. When the limitations of those models eventually surface, board members are presented with difficult decisions. If these decisions are delayed, financial issues tend to escalate, or a sudden crisis may push the organisation to the brink of closure.

With NFP funding models continuing to take on a more commercial nature, it's important for boards to be proactive and respond in turn. NFPs may not be profit-driven, but they do need to remain cash flow positive. Determining the strategies necessary to achieve this can be difficult when a board lacks access to specialist skills, and is reluctant to engage external advisers. Even highly capable boards may struggle, once the full extent of financial and strategic complexity is accounted for.

As alarm bells sound louder, tension between the board and executive layer may worsen. If action is further postponed, the end result might be that the NFP lacks sufficient time to merge, or is forced into a merger they never would have considered before.

For these reasons, the importance of early action cannot be overstated. Self-interest or legacy concerns should never be a cause for delay, as waiting too long ultimately leaves the organisation with fewer choices. This is especially true of seeking external advice, where appropriately skilled advisors can offer valuable insights and act as an essential sounding board for informed decision-making in a stressful situation.

A skilled restructuring and recovery specialist can help your board understand the options available to the organisation, and work with you to develop a Plan A (the board's preferred path forward) and a Plan B (practical alternatives in case Plan A becomes unworkable). This reflects good governance: acting early to seek expert advice maximises the board's options and improves the chances of successfully implementing Plan A.

"The core purpose of every NFP is to deliver on their mission, so a merger should always be on the table if that affords the opportunity to meet the mission objective in a more effective manner. Well informed enterprises in difficulty surround themselves with experts – it's all confidential and no one needs to know. Yet many NFP boards feel uneasy about having those conversations and delay them. Instead of uncovering opportunities and making proactive decisions, they're left feeling like they've failed or shown weakness. They haven't. Calling in the experts gives boards access to expertise they might not have internally, so they can explore options and improve their chances of success."

Jonathon Colbran, Partner – Partner, Restructuring & Recovery, RSM

Early warning signs of financial stress

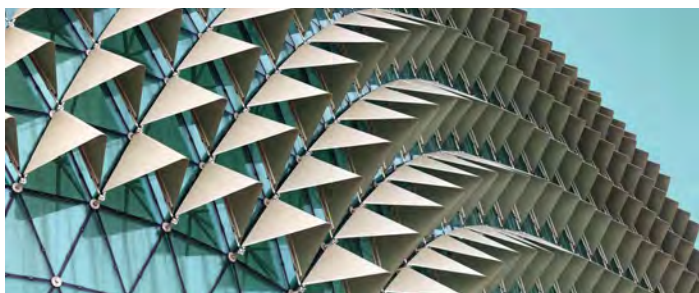
If your organisation is grappling with any of the following challenges, it's time to ask for help:

- Regular cash shortages or heavy reliance on short term grants.
- Delays in paying suppliers, staff, or tax liabilities.
- Declining donations, membership fees, or grant income.
- Loss of a major funding source without a replacement plan.
- Costs rising faster than income.
- Growing reliance on unpaid volunteers in core roles.
- Deferral of maintenance, programs, or strategic initiatives.
- Late or incomplete financial reporting.
- Limited financial transparency for the board or stakeholders.
- Staff turnover or difficulty attracting qualified personnel.
- Management avoiding discussions about finances.

Each of these signs represents a potential pathway to insolvency that may be reversible with the right turnaround plan. Especially where multiple warning signs are present, it's important to get advice quickly as mergers can take months to finalise and you will want the terms to be in your favour.

"Even when warning signs are showing, there's usually room to act. Many NFPs hold cash and assets that could be better used, but inefficiencies and outdated structures are limiting what they can achieve. Boards that focus on their purpose and mission, seek advice, ask the right questions, and make the right changes can fix these inefficiencies and redirect resources to where they matter most."

Kirsty McGovern-Hooley – Senior Manager, Business Advisory and NDIS services specialist, RSM



Case study: Limited runway takes a merger off the table

A not-for-profit in regional Australia found itself in a difficult position due to delayed government funding and challenges in attracting and retaining staff. Despite identifying the issues early on and getting professional advice, five years passed and the situation persisted.

When the board re-engaged the advisers for assistance, there simply was not enough time or resources to undertake a merger. Within a short time the organisation was insolvent, and the board resolved to enter voluntary administration.

Fortunately, the NFP's administrator was able to negotiate a licence agreement with another provider,

and the organisation remained open for vulnerable community members while more funding was secured. This outcome reopened the potential for a merger, but by that time the board had reached their limit. They decided to hand control over to the new provider and the NFP was wound up.

"When RSM's team arrived, I felt very supported for the first time. I felt like I had been all on my own, but it became easy and I realised I wasn't imagining things. I think we had the same objectives, so we worked towards that together. I just felt relief."

NFP board member

Role of Safe Harbour in distressed situations

The risk of personal liability is sometimes poorly understood by those who sit on NFP boards.

If NFP board members focus solely on client outcomes, they may lose sight of financial performance, which increases the risk of accumulating significant debt. Then if those debts cannot be paid, board members may face exposure similar to company directors. Put simply, if the organisation is trading while insolvent (unable to pay its debts as and when they fall due), board members can be held personally liable for certain debts it incurs.

Insolvency issues are a particular concern when an organisation is pursuing a merger. If the organisation is in financial distress and continues to trade while insolvent during the process, it can expose the board to personal liability and create risks for both organisations.

Often, when there are issues pertaining to the financial performance and sustainability of an NFP, a merger with another entity will include the acquired entity being placed into voluntary administration. The acquirer will then restructure the organisation through a Deed of Company Arrangement. In these scenarios, the conduct of the NFP's board members prior to the restructure – including whether incidents of insolvent trading exist – will be reviewed and reported on by the administrators.

The best safeguard against this risk is Safe Harbour: a protection mechanism against insolvent trading. If implemented correctly, it gives board members time and space to explore restructuring options and pursue a merger, rather than closing the organisation immediately.

Particularly in situations where continuity of service is critical to the community, Safe Harbour can be a valuable lifeline for NFPs in distress. This is especially beneficial given that it can

take distressed NFPs longer to complete a merger due to regulatory requirements and, in some cases, issues such as incorrect tax reporting, underpayment of wages, or other compliance problems that surface during due diligence.

To rely on Safe Harbour, board members need to be working with a suitably qualified practitioner to develop and implement a restructuring plan, which must be reasonably likely to lead to a better outcome for the organisation's creditors. Safe Harbour cannot be used as a last-minute fallback with no genuine plan or prospect of recovery.



"Despite the increasing number of NFP insolvencies in recent years, there have been many success stories involving distressed organisations operating under Safe Harbour until a merger or acquisition is complete. The key for boards is to engage the right advisors at the first sign of trouble, and make the necessary decisions to put it into play."

Jerome Mohen – Partner, National Head of Restructuring and Recovery, RSM

Case study: Safe Harbour saves the day

A regional community services provider faced numerous issues before seeking help, including:

- Depleted capital reserves and imminent insolvency.
- Over-reliance on conditional and limited government assistance.
- Limited management and governance expertise.
- Limited financial resources to continue operating in a complex and highly regulated industry.

With assistance from RSM, the directors were able to devise a strategy to merge with a large provider

and obtain sufficient support from members and key stakeholders to approve the strategy.

Key to the success of the merger was the directors' ability to promptly identify their organisation's financial situation and engage qualified advisors to assist with the process. Safe harbour ensured that, throughout the journey, board members were protected from personal liability for insolvent trading.

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Final reflections for NFP boards

As increasing community expectations, regulatory changes, funding constraints and higher operating costs continue to place financial pressure on organisations, driving a need for greater scale, we expect to see a continuing trend of mergers and acquisitions within the not-for-profit sector.

In some cases, a merger with a larger organisation is a matter of survival – a last resort when an organisation is no longer financially viable. However, we are increasingly seeing boards of financially stable NFPs adopting a merger strategy to build a stronger organisation with greater scale, impact and resilience.

Key considerations for boards are:

1. **Be proactive in considering a merger** where there could be a strategic benefit or if you foresee financial and operational challenges ahead – you will have considerably more time and options available, rather than waiting until forced into a transaction due to financial distress.
2. Take a disciplined approach to **identifying potential merger partners** – start by setting out key suitability criteria and assess parties against those criteria, before engaging with shortlisted organisations.
3. While there may be differences in the nature of services provided, it is fundamental to a successful merger that there is **alignment of purpose, values and service philosophy** between the organisations.
4. Seek legal advice on the **optimal structure for the merger**, as there are usually a number of possible mechanisms, which may have different practical, risk allocation and regulatory implications.
5. Ensure that **regulatory aspects of the merger** are considered at an early stage – including with respect to registrations, accreditations, required consents and approvals, as well as the practical steps and associated timeframes.
6. **Robust due diligence** is as important for an NFP merger as for a corporate transaction and should be conducted with appropriate board oversight. Particular caution should be exercised in the case of an NFP in financial distress or where there is concern regarding the reliability of financial or other management information.
7. **Governance and organisational structures** should be discussed at an early stage, including composition of the board and committees, delegated authorities, CEO position and wider senior management team of the merged organisation. This is frequently a sensitive area.

8. **Cultural alignment** is critical to the success of any NFP merger and is not a given, even where the organisations share similar stated values. There is no substitute for visiting the operations and spending time with board members, senior management, other employees, volunteers and clients to gauge the culture of an organisation.
9. Jointly develop a **detailed integration plan** and ensure appropriate resources are dedicated to ensuring its timely implementation, with the plan addressing organisational structure, rationalisation of operations, convergence of systems and processes, and realisation of cost savings and other synergistic benefits.
10. Consider the **impact of the merger on all stakeholders**, including clients, funding bodies, donors, patrons, members and employees, and develop an agreed **communications plan** to ensure information is provided to them in a suitable manner and at the appropriate time.
11. Ensure the timing and content of **media releases and public announcements** are agreed by the merging entities to ensure consistency of messaging.
12. **Engage with experts** who are experienced in advising on the legal, regulatory, financial and practical aspects of NFP mergers, as they differ in many respects from corporate transactions. If your organisation is facing financial distress, seek early advice from an insolvency/restructuring specialist as to your options, which may include securing 'safe harbour' protection.

RSM's team has supported countless not-for-profits through mergers and acquisitions – conducting due diligence and forensic investigations, building financial models for the merger, providing advice on structuring matters, and assisting with post-merger integration and change management programs.

Our restructuring and recovery partners also frequently advise boards of NFP organisations on their responsibilities, liability and options when facing financial distress, working with boards and management to obtain the best outcome for all stakeholders.

Additionally, we work closely with lawyers and other professionals with proven experience in advising on mergers and acquisitions involving not-for-profit organisations.

Together, we take the guesswork and uncertainty out of a merger or acquisition, so that our clients can chart a clear and confident path forward.

If your organisation is contemplating a merger or acquisition, we are ready to help. Simply reach out to the team at your local RSM office.

The Australian not-for-profit sector: scale and consolidation



300,000+

not-for-profit entities
in Australia

Source: DSS NFP Blueprint



63,667

registered charities
(30 June 2025)

Source: ACNC



**Second-largest
employer outside
government**

Source: DSS NFP Blueprint

Mergers and consolidation are accelerating

171

charity mergers in 2025

up from 148 in 2024

Source: ACNC

5%

**of NFPs are currently
merging**

20%

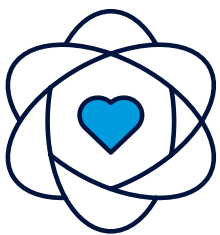
**considering merger
discussions within 12 months**

*Source: AICD Not-for-Profit Governance and
Performance Study 2025-26*



In the UK, **charity mergers increased by 90% from 2023-24**, reflecting global consolidation of NFPs.

Thousands of organisations consider
merging each year



5-6%

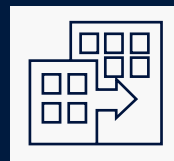
of NFPs merge annually

Extrapolated, this suggests thousands
consider mergers or acquisitions each year

Source: Institute of Community Directors Australia (ICDA)

Source: ICDA study, 2020

**Small organisations vs large
organisations comparison**



4%

**of NFPs under \$1m
revenue have merged**



12%

**of NFPs over \$10m
revenue have merged**

Sectors most likely to merge



Health



Community development



Sport and recreation

Source: ICDA study



“ We have seen continued merger and acquisition activity and NDIS provider exits. ”

Source: State of the Disability Sector Report 2024

Top drivers of NFP mergers

44%

to better
achieve the
mission

37%

to broaden
service
offerings

27%

to maintain
or increase
market share

27%

to improve
efficiency

Source: AICD Not-for-Profit Governance and Performance Study 2025-26

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