

FUNDRAISING INSTITUTE AUSTRALIA

SUBMISSION IN RESPONSE TO THE AUSTRALIAN TREASURY'S CONSULTATION PAPER:

AUSTRALIAN CHARITIES AND NOT-FOR-PROFITS COMMISSION: IMPLEMENTATION DESIGN

SUBMISSION COVER SHEET

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FUNDRAISING INSTITUTE AUSTRALIA
SUBMISSION

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ABOUT FUNDRAISING INSTITUTE AUSTRALIA (FIA)

Established in 1968, FIA's purpose is to make the world a better place by advancing professional fundraising through promotion of standards, professional development pathways and measurable credentials so that our members achieve best practice.

The FIA has developed the Principles & Standards of Fundraising Practice as the professional fundraiser's guide to ethical, accountable and transparent fundraising. The Principles & Standards are vital to how the fundraising profession is viewed by donors, government, the community and fundraisers.

In order to achieve its mission, FIA conducts the following activities:

- Promote and enhance education, training and professional development of fundraisers.
- Provide a resource of fundraising information.
- Advocate for fundraising practice to Government, industry and the community.
- Support and promote certification of fundraisers.
- Develop standards and codes of practice.
- Promote and enhance fundraising as a profession.
- Promote and encourage research into fundraising and philanthropic giving.

EXECUTIVE SUMMARY

FIA makes the following recommendations:

Recommendation Q1

FIA recommends that:

- Disclosure requirements relate to the size of the NFP, so that smaller NFPs are not burdened by excessive administration.
- The Australian Charities and Not for Profit Commission adopts the Standard Chart of Accounts as agreed by COAG.

Recommendation Q2:

FIA supports:

- the inclusion of risk management guidance in the ACNC information portal; and
- the application of Standard of Risk Management AU NZ ISO 31000:2009 to NFPs.

Recommendation Q3:

FIA recommends that the following information be collected:

- Identify the standard to which the annual financial statement has been prepared;

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- State the cost of audit services;
- Disclose the number of members in the NFP.

Recommendation Q4:

FIA recommends the inclusion in reports to the ACNC of measures of output, outcome and impact of an NFP's activities in order to show the public what the funding achieves, rather than how it is spent.

Recommendation Q5:

FIA recommends that the SBR taxonomy not be relied for reporting of financial items to ACNC on as it is unsuitable for NFPs.

Recommendation Q6:

FIA suggests that the Corporations Act rules for companies limited by guarantee are to be preferred, in particular the requirement that companies with revenues between \$250,000 and \$1 million must prepare a financial report, but are not required to be audited.

Recommendation Q7:

FIA recommends that ACNC continue the current practice of NFPs being able to choose their own financial year for the purposes of accounting to assist cost reduction of audits and ease of administration

Recommendation Q14:

The ACNC include in the information portal:

- Access to research on information useful to charities and other NFPs, including but not limited to donor behaviour in Australia, the effectiveness of various methods of fundraising and how funds raised are distributed.
- Risk management guidance, in particular for smaller NFPs

Recommendation Q15:

The ACNC endorse education and guidance material provided by other entities including peak bodies such as Fundraising Institute Australia.

FIA responds to the discussion questions in detail overleaf.

DISCUSSION QUESTIONS

1. Do you think that the introduction of the Charity Passport would reduce reporting obligations to government? What are the obstacles to achieving one-stop shop reporting on the basis of the data being collected by ACNC?

The Charity Passport should not be limited to charities, as at present all NFPs are required to report to their relevant government authority. All NFPs would benefit from reduction of red tape and costs by improved and streamlined reporting.

The Australian Accounting Standards set by the Australian Accounting Standards Board (ASAB) do not provide a standard for accounting for NFPs, as indicated by a perusal of its Table of Standards. It cannot be assumed that non-NFP accounting standards can be applied successfully to NFPs, simply because of the fundamental difference between NFPs and organisations which operate for profit. QUT's Standard Chart of Accounts for NFPs resolves this by specifically formulating an accounting standard for NFPs. It is supported by Queensland Treasury. It provides a common approach to the capture of accounting information by community organisations across Australia.

It is primarily designed for small to medium NFP organisations that may not have an accounting department or a sophisticated accounting system. For consistency purposes, larger NFPs may comply with the Standard Chart of Accounts requirements by adopting the data dictionary component.

In April 2010, the Council of Australian Governments (COAG) agreed that all jurisdictions would adopt the standard chart of accounts, where possible, by 1 July 2010. Government Department use of standardised terminology for account codes (and costs to be included in those codes) in their application/acquittals processes will significantly streamline current reporting requirements and reduce the administrative burden for non-profit service providers, particularly those receiving grants from a number of Departments.

<http://www.treasury.qld.gov.au/office/knowledge/docs/nonprofit-organisations/index.shtml>

Recommendation Q1

FIA recommends that:

- Disclosure requirements relate to the size of the NFP, so that smaller NFPs are not burdened by excessive administration; and
 - The Australian Charities and Not for Profit Commission adopts the Standard Chart of Accounts as agreed by COAG.
- 2. Will the information collected by the annual information statement be adequate for the purpose of achieving the appropriate level of transparency and accountability to the public?**

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The information to be collected for Tier 1 is adequate, given the low resources of NFPs below \$250,000. Lowering the bar for compliance for such NFPs will encourage compliance, and potentially assist them to grow into a higher tier category. The risk to the public is small as potential losses from such NFPs are small.

FIA supports the principle of proportionality expressed in the discussion paper (para 35). The most recent research shows that the majority of NFPs are aware of risk management practices and actively implement them. Where lack of compliance occurs, it is because of budgetary constraints ie smaller NFPs may not be able to afford the level of administration necessary for compliance.

In 2010, FIA and national Roundtable of Nonprofit Organisations sponsored the PPB not for profit risk survey 2010 <http://www.appichar.com.au/pages/risksurvey.html>. The survey is the most recent survey of risk management practice available. PPB surveyed the risk management practices of not for profit organisations and compared them to the key components of the recently introduced authoritative Standard of Risk Management AU NZ ISO 31000:2009, as there were several significant differences between the 2009 standard and its predecessor.

The outcome was encouraging; over 70% of respondents indicated they placed a high level of importance on risk management practices and understood the link between risk management and the organisation's ability to achieve its outcomes. Larger NFPs had a more corporate structure with more sophisticated and mature systems in place to identify and manage risk, which is to be expected, especially in view of the survey finding that implementation of risk management practices had a significant relationship to a NFP's budget; smaller organisations did not have sufficient capacity to devote resources to risk management policy and practice.

Less than half the survey participants have had risk management identification and training. This fact indicates an area where the ACNC has the opportunity to provide practical guidance and assistance, in particular to smaller, under-resourced NFPs, who would benefit from risk management guidance being included in the ACNC information portal and possibly other education programs as well. An educational focus is more appropriate than an enforcement focus, as smaller NFPs pay less attention to formal risk management policy and practices because of budgetary constraints, rather than ignorance of compliance issues.

Recommendation Q2:

FIA supports:

- the inclusion of risk management guidance in the ACNC information portal; and

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- the application of Standard of Risk Management AU NZ ISO 31000:2009 to NFPs.

3. Is there any additional information that should be collected and provided to the public?

FIA shares the conclusion of the Institute of Chartered Accountants of Australia (ICAA) that NFPs devise and include in their annual reports process KPIs that are relevant to their mission, objectives, and activities. (ICAA, *Not-for-profit sector reporting: a research project*, 2006, para 1.4.4). However, FIA disagrees with ICAA that fundraising ratios should be included as KPIs because FIA's own research shows that such ratios do not accurately reflect the costs of fundraising or reflect the effectiveness of investment in fundraising.

FIA also supports the recommendation of Dr Ted Flack in his submission (Flack, para 3) that the following information be collected:

- Identify the standard to which the annual financial statement has been prepared;
- State the cost of audit services;
- Disclose the number of members in the NFP.

Recommendation Q3:

FIA recommends that the following information be collected:

- Identify the standard to which the annual financial statement has been prepared;
- State the cost of audit services;
- Disclose the number of members in the NFP.

4. Should the annual information statement give charities the option of providing narrative descriptions of the outcomes achieved?

Yes.

FIA agrees with the comments of Dr Ted Flack in his submissions (Flack, paras 4.1 – 4.3, pp 10- 11) ie that, as there is no single definition of “fundraising” or “fundraising activity” among the various Australian jurisdictions, it will be difficult for narratives based solely on “fundraising” to be meaningful.

Given that financial outcomes are not the best measure of a charity or NFP's effectiveness, a narrative would be appropriate. FIA is of the view that narratives outlining the outcomes achieved by a charity or NFP, rather than revenue raised, is more appropriate as it focuses on the work done by charities and NFPs in pursuance of their objects under their constitutions. Many charities already provide such a narrative in their annual reports. The Institute of Chartered Accountants in Australia

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(ICAA) has recognised that charities and other NFPs are good at providing information in their annual reports (ICAA, 2006, paras 1.4.6 - 1.4.7)

FIA supports the ICAA recommendation (ICAA, 2006, para 1.4.6) that NFPs of all kinds enhance the effectiveness of their annual reports by describing the following:

- what the NFP has done (its output measures)
- what it has achieved (its outcome measures)
- what difference it has made (its impact measures).

The inclusion of measures of output, outcome and impact will improve completeness of reporting by demonstrating what the funding achieves, rather than how it is spent.

Recommendation Q4:

FIA recommends the inclusion in reports to the ACNC of measures of output, outcome and impact of an NFP's activities in order to show the public what the funding achieves, rather than how it is spent.

5. Is the SBR taxonomy an appropriate basis for the reporting of financial items to ACNC?

No.

At present, the SBR taxonomy is not suited to NFPs because they do not operate in the same way as businesses. For example, many derive all or most of their income from donations, rather than from the sale of goods or services. They also receive concessions which are not available to commercial enterprises and cannot be accounted for as if they were a commercial enterprise.

Recommendation Q5:

FIA recommends that the SBR taxonomy not be relied for reporting of financial items to ACNC on as it is unsuitable for NFPs.

6. Is the proposal for information collected through the annual information statement and financial report appropriate for each tier?

Smaller NFPs find it difficult to fund the cost of annual audits, and FIA suggests that in the case of such NFPs, annual audits are unnecessary due to the smaller risk involved. The requirements under NSW and Victorian legislation for audits incur unnecessary expense to small organisations, as the limits set are unrealistically low given today's standards for revenue raising. An organisation with gross receipts of

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\$250,000 per year would barely be able to fund staff and an office, let alone auditors' fees.

Recommendation Q6:

FIA suggests that the Corporations Act rules for companies limited by guarantee are to be preferred, in particular the requirement that companies with revenues between \$250,000 and \$1 million must prepare a financial report, but are not required to be audited.

7. The ACNC Commissioner has the discretion to vary an accounting period. Under what circumstances should the Commissioner allow for an alternate accounting period?

Under current State legislation, incorporated associations may choose their own financial years and are not bound to follow the standard ATO 1 July – 30 June financial year. As Dr Ted Flack points out in his submission (Flack, para 7), this assists smaller NFPs to prepare their returns and find auditors available to provide services (often discounted or free) in non-peak periods which they would not be able to obtain in the peak return period. As the aim of the ACNC is to reduce red tape, reduction of costs would also greatly assist NFPs and one way of doing this is flexibility to choose a financial year.

Recommendation Q7:

FIA recommends that ACNC continue the current practice of NFPs being able to choose their own financial year for the purposes of accounting to assist cost reduction of audits and ease of administration.

8. Do the ATO practice statements provide an adequate guide?

FIA cannot comment on the ATO practice statements as this is outside FIA's mission.

9. Are the transitional arrangements clear for new and existing charities?

The transitional arrangements for registration are clear.

However, FIA suggests that more information is required about the suggestion in paragraph 90 of the consultation paper about opting out of the ACNC to avoid extra reporting requirements. It is FIA's understanding that the purpose of the ACNC is to reduce and streamline reporting requirements and it is unclear what ACNC means by "extra reporting requirements". The cost of reporting is a significant issue to FIA members, in particular smaller NFPs and ACNC or Treasury should clarify this as soon as possible.

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10. What assistance could the ACNC provide to support the sector's use of online engagement?

FIA supports the introduction of the one-stop shop registration process and information portal.

Larger NFPs will have no difficulty engaging online as they already have systems and qualified personnel in place. Smaller NFPs may need the assistance of a telephone hotline to assist them with navigating and managing the online system.

11. Are there barriers to online reporting or registration? How can ACNC ensure that it is effective?

Some very small community NFPs may not have access to computer facilities. However, given that computer technology is relatively inexpensive, in FIA's view, most NFPs should be able to access online reporting and registration.

12. Are there barriers to the AUSkey online authentication tool?

FIA understands from the description at paragraph 111 of the consultation paper that AUSkey will operate in a manner similar to the ASIC corporate key. FIA supports this but cannot comment on any technical issues that may arise.

13. Are these proposed principles guiding the ACNC's role in providing an education function adequate?

Yes.

FIA supports the principles guiding the ACNC role in providing an education function.

14. What should the scope be of the ACNC's educational role?

The initial scope proposed is satisfactory as a start. What is lacking is co-ordinated research on many aspects of charities and NFPs such as information about donor behaviour in Australia, the effectiveness of various types of fundraising, and how funds raised are distributed. ACNC would be well placed to gather and analyse detailed research on matters of interest to charities and NFPs, as well to members of the public. An annual snapshot of aggregated statistics, while useful, would not really provide the level of information the industry requires in order to improve efficiency and productiveness.

For the reasons stated in the answer to question 2 above, FIA supports risk management guidance being included in the ACNC information portal and possibly other education programs as well.

Recommendation Q14:

The ACNC include in the information portal:

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- Access to research on information useful to charities and other NFPs, including but not limited to donor behaviour in Australia, the effectiveness of various methods of fundraising and how funds raised are distributed; and
- Risk management guidance, in particular for smaller NFPs.

15. Is it appropriate for the ACNC to endorse education and guidance material provided by other entities (for example, peak bodies)?

Yes. This will facilitate the educational role of the ACNC by enabling it to refer to a wealth of material already created by other organisations with expertise in this field.

FIA is a peak body with both an educational and self regulatory role. It conducts a number of education courses which award industry recognised qualifications in pursuit of its mission of advancing professional fundraising. These are:

- FIA Certificate in Fundraising
- Mentoring Program
- Fundraising Management Diploma
- CFRE Certification (in partnership with CFRE International)
- Mentoring Program
- National Masterclasses
- FIA International Fundraising Conference
- Madison Down Under

In addition, FIA conducts the following programs and events for the benefit of its members. In particular, in order to maintain their standing, Executive members are required to provide FIA with evidence of minimum hours of continuing professional development activities annually. Continuing Professional Development (CPD) Points are allocated according to a combination of the number of hours and effort involved and the learning outcomes.

FIA would seek endorsement of all these courses and events as evidence of Continuing Professional Development.

Recommendation Q15:

The ACNC endorse education and guidance material provided by other entities including peak bodies such as Fundraising Institute Australia.